

Exhibit No. ____ THC (GCB-2THC)
Docket No. UT-082119
Witness: G. Clay Bailey

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

Joint Application of Embarq Corporation
and CenturyTel, Inc. for Approval of
Transfer of Control of United Telephone
Company of the Northwest d/b/a Embarq and
Embarq Communications, Inc.

DOCKET NO. UT-082119

REBUTTAL TESTIMONY OF G. CLAY BAILEY

ON BEHALF OF CENTURYTEL, INC.

REDACTED VERSION PER PROTECTIVE ORDER IN

UT-082119

MARCH 18, 2009

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1 **I. INTRODUCTION AND PURPOSE OF REBUTTAL TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME AND PROVIDE YOUR BUSINESS**
3 **ADDRESS.**

4 A. My name is G. Clay Bailey and my business address is 100 CenturyTel Drive,
5 Monroe, Louisiana, 71203.

6

7 **Q. ARE YOU THE SAME CLAY BAILEY WHO SUBMITTED DIRECT**
8 **TESTIMONY IN THIS PROCEEDING?**

9 A. Yes.

10

11 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

12 A. The purpose of my Rebuttal Testimony is to respond to the direct testimony of
13 Dr. Trevor R. Roycroft, filed on behalf of Public Counsel (“Public Counsel”), as
14 well as to the testimonies submitted by Staff (collectively or individually “Staff”)
15 witnesses William H. Weinman and Betty A. Erdahl of the Washington Utilities
16 and Transportation Commission (“Commission”). I conclude that, in light of the
17 positive record of CenturyTel and the absence of evidence or probabilities to the
18 contrary, there is no need for the specific financially-based conditions proposed
19 by Dr. Roycroft or for most of the conditions proposed by Staff.

20

21 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

1 A. The proposed merger provides demonstrable, substantial, affirmative benefits for
2 consumers and communities in the state, and any potential harms are speculative
3 in nature. As a result, the net benefits of the proposed transaction are
4 substantially greater than any potential harm. While I am not an attorney, I
5 understand that the Revised Code of Washington, Washington Administrative
6 Rules and subsequent Commission decisions establish that the appropriate
7 standard by which the Commission should approve this merger is based on a
8 determination that there is no harm to the public interest. Embarq witness
9 Barbara Young will further comment on this standard.

10 In this Rebuttal Testimony, I will respond generally to the assertions of
11 Dr. Roycroft and refute his contention that insufficient information exists to
12 demonstrate that the proposed merger will provide important benefits to
13 consumers in Washington. After generally responding to the claims of Dr.
14 Roycroft and Staff witnesses Weinman and Erdahl, I provide specific responses
15 to each of the errors, misunderstandings or speculations in the testimony of Dr.
16 Roycroft and I respond to Staff's submissions. Finally, I provide insights
17 regarding conditions proposed by Dr. Roycroft and Staff.

18 Fundamentally, I assert as I did in my direct testimony, that the
19 combination makes the combined CenturyTel-Embarq financially stronger, which
20 allows the company to respond to investment opportunities, serve our customers
21 more effectively and efficiently, and address external challenges such as
22 increased competition and weakness in the general economy. I also assert that the

1 financial strength and customer-responsive operating flexibility achieved through
2 the merger are sufficient to meet the Washington standard. These factors put the
3 combined company in a better position post-merger than the individual
4 companies today on a standalone basis. As a consequence, I believe that no
5 conditions are needed to provide incremental protections for the public from
6 speculative harms. I also believe that unnecessary limitations on the company's
7 financial and operating flexibilities could create constraints that undercut the
8 benefits of this merger—benefits that contribute to the near-term and long-term
9 welfare of consumers in the State of Washington.

10
11 **II. GENERAL RESPONSE TO THE DIRECT TESTIMONY OF WITNESS**
12 **ROYCROFT -- AFFIRMATIVE BENEFITS FROM THE PROPOSED**
13 **MERGER**

14 **Q. DO YOU AGREE WITH DR. ROYCROFT THAT THE JOINT**
15 **APPLICANTS HAVE FAILED TO PROVIDE THE COMMISSION WITH**
16 **SUFFICIENT INFORMATION TO DETERMINE WHETHER THE**
17 **PROPOSED MERGER IS IN THE PUBLIC INTEREST?¹**

18 A. No. I believe the Joint Applicants have demonstrated that the public interest
19 actually is advanced by the proposed transaction. Dr. Roycroft cites my direct
20 testimony in which I affirm that “nothing will change,” and he goes on to argue

¹ Direct Testimony of Trevor R. Roycroft, p. 9, lines 6-17.

1 that the transition and integration processes constitute changes.² By way of
2 clarification, I note that my direct testimony was intended to convey that with
3 respect to the fundamentals of customer service, the transaction will be
4 transparent, so that customers will experience a seamless transition—no changes
5 that disrupt their service. At the same time, as Dr. Roycroft points out, there will
6 be operating and financial improvements which are among the core rationales for
7 this merger.³ Additional financial strength and flexibility, coupled with enhanced
8 operating effectiveness and efficiency, by definition significantly improve the
9 company's ability to serve customers over the near-term and the long-term.

10 The most fundamental benefit of the merger, therefore, is that the
11 combination of CenturyTel and Embarq creates a financially stronger entity in
12 terms of the combined company's balance sheet, operating efficiencies, and
13 access to capital for investment. The combined CenturyTel-Embarq will become
14 the most financially sound publicly-traded company in the independent
15 incumbent local exchange carrier (ILEC) industry. I urge the Commission to
16 recognize that financial and operational strength is not a trivial benefit in today's
17 increasingly competitive and challenging communications marketplace.

18 CenturyTel and Embarq, as stand-alone companies, were industry-leading
19 telecommunications providers measured by their size, services, balance sheets
20 and access to capital, and this combination makes them more capable still to cope

² Direct Testimony of Trevor R. Roycroft, p. 9, line 14; see also Direct Testimony of G. Clay Bailey, p. 13, lines 21-23; Direct Testimony of Barbara Young, p. 5, lines 73-80.

³ See e.g., Direct Testimony of Trevor R. Roycroft, p. 17, line 21 through p. 18, line 4; p.18 lines 16-17; p. 20 line 14 through p. 21 line 5; p 22 lines 1-2,

1 with remarkable market and economic conditions. Make no mistake, the
2 challenges—competitive, technological, economic and regulatory—raised by Dr.
3 Roycroft will confront CenturyTel and Embarq on a stand-alone basis, as well as
4 all carriers across this industry. This transaction will create a company that is
5 singularly well-positioned to confront and overcome those challenges.

6
7 **Q. IS THE “NO HARM” STANDARD BEST EVALUATED IN TERMS OF**
8 **RATE REDUCTIONS, NEW CAPITAL INVESTMENT, OR NEW**
9 **CONCESSIONS, AS GENERALLY SUGGESTED BY DR. ROYCROFT?⁴**

10 A. No. I believe that neither the Staff nor Dr. Roycroft have provided substantive
11 evidence or probability that there will be harm to consumers or to the public
12 interest as a result of the proposed merger, but they do speculate about possible
13 harms. Importantly, none of these speculative harms has been experienced in the
14 past at the Washington operating companies of CenturyTel or Embarq or in
15 previous acquisitions by CenturyTel, including the acquisition of Pacific
16 Telecom, Inc. (“PTI”) properties in Washington in 1997.⁵ Turning to the more
17 fundamental issues, Dr. Roycroft dismisses as “broad concepts” the benefits of
18 economies of scale and scope and the company’s improved financial position,
19 apparently because they appear to be too general in his estimation.⁶ He may be
20 looking for specific concessions, but I contend that the most important benefit of

⁴ Direct Testimony of Trevor R. Roycroft, p. 16, lines 16 ff.

⁵ The PTI properties in Washington were Telephone Utilities of Washington, Inc. (now CenturyTel of Washington, Inc.); Inter Island Telephone Company, Inc. (now CenturyTel of Inter Island, Inc.); and Cowiche Telephone Company (now CenturyTel of Cowiche, Inc.)

⁶ Direct Testimony of Trevor R. Roycroft, p. 16, lines 5-9.

1 the merger arises from the combined company's increased capacity to remain a
2 financially-strong and focused competitor in serving customers. In this regard we
3 have identified the size of the expected operating efficiencies, the improvements
4 to our balance sheet, and the indications from third parties about our credit
5 quality. These are characteristics about which the Commission should care.

6 It is possible to view a merger, including the combination of our
7 companies, through the traditional regulatory lens of specific rates, committed
8 levels of investment, protected quality of services, and so on. I assure the
9 Commission that we expect no harm to consumers using any or all of these more
10 traditional metrics, and that the new company will provide affirmative benefits to
11 its customers. However, the major challenge in local telecommunications today
12 arises from an industry that is undergoing unprecedented transformation. To
13 meet the challenges of industry transformation, CenturyTel and Embarq through
14 the proposed merger are enhancing their financial position and their operational
15 efficiency, and rationally diversifying their geographic operating footprint. As set
16 forth in direct testimony and in the Joint Application, financial strength and
17 diversified operations with scope and scale form the foundation that maintains
18 and improves the potential for telecommunications carriers to provide reasonable
19 rates and expanded / advanced services. The regulators and other stakeholders
20 should be supportive of the logic of this merger that permits the combined
21 company to cope with new challenges and embrace opportunities, while
22 continuing to provide quality service. Ensuring the financial flexibility and

1 operational scope to succeed in an ever-changing environment, for the benefit of
2 our stakeholders, including our customers and the communities we serve, is an
3 important motive and benefit of this combination. In short, this combination is
4 designed to provide benefits to both the company's customers and to other
5 stakeholders through increased financial and operational flexibility to provide
6 high-quality operations and better compete in the current dynamic
7 telecommunications marketplace. As a result of these clear benefits and no
8 demonstration of anything other than speculative potential harms, no conditions
9 are necessary to make the combination a demonstrable and important contribution
10 to consumer welfare and the public interest in Washington.

11
12 **Q. DO YOU AGREE WITH THE GENERAL ASSERTIONS OF STAFF AND**
13 **PUBLIC COUNSEL THAT THE PROPOSED TRANSACTION ENTAILS**
14 **RISKS AND COSTS THAT WILL IMPACT SERVICE AND**
15 **INVESTMENT?**

16 A. No, I do not. It is important to remember that, with this transaction, the
17 companies are incurring no new debt, are not accelerating the maturity schedules
18 of any debt, and are expecting to realize increased cash flows through operating
19 efficiencies as well as new revenue opportunities achieved through improved
20 focus on services such as broadband and reduced losses of local customers
21 realized through superior service. Specifically, we will have moderate leverage,

1 with pro forma leverage ratios of [BEGIN HIGHLY CONFIDENTIAL
2 [END HIGHLY CONFIDENTIAL]

3 including expected synergies. The stand-alone companies' balance sheets are
4 already the best in the independent publicly-traded ILEC industry, and we are
5 confident that the credit quality will be improved as a result of this combination.
6 The CenturyTel-Embarq management intends, after the transaction is complete,
7 to maintain the financial metrics consistent with an investment grade rating,
8 which is currently higher than that of any other publicly-traded non-RBOC
9 carrier. Our intention is to generate benefits for our customers through our ability
10 to reduce debt, invest in new services, potentially repurchase shares, and
11 withstand the inevitable pressures affecting ILECs. As a result of those benefits,
12 we will have increased flexibility to respond to competitive conditions,
13 technological opportunities, and emerging financial challenges. That flexibility
14 should not be compromised by unnecessary conditions. I note that the economic
15 environment is challenging, making it more important to have access to capital.
16 The combined company will have improved access to capital and enhanced cash
17 flows when compared to the stand-alone companies, which means the post-
18 merger company will be in a better position to weather economic weakness than
19 either of the individual companies on their own. I affirm that economic
20 deterioration further reinforces the rationale for the transaction, as opposed to
21 impairing the rationale in any way.

22 **Highly Confidential per Protective Order in UTC Docket UT-082119**

REBUTTAL TESTIMONY OF
G. CLAY BAILEY

Exhibit No. ____THC (GCW-2THC)

1 **Q. DO YOU HAVE CONCERNS ABOUT DR. ROYCROFT’S VIEWS**
2 **REGARDING ANTICIPATED OPERATING EFFICIENCIES AND WHO**
3 **WILL BENEFIT?**

4 **A.** Yes. Dr. Roycroft at various points in his testimony addresses the expected
5 synergies and he postulates that “[i]t is possible that these changes could
6 negatively impact . . . ratepayers.”⁷ Nowhere does he find or present evidence
7 that any problem impacting customers has ever occurred in an acquisition
8 involving CenturyTel or Embarq. In fact, we believe that the interests of the
9 Commission and those of the company are aligned, as it is our purpose to compete
10 through providing superior service and value to our customers. The savings we
11 generate through greater efficiencies will make us more financially stable and
12 more capable to respond to market forces. Those “synergies” are expected to total
13 at least \$400 million annually on a total company basis.⁸ We provided
14 documentation in discovery to the Staff and interveners which included
15 CenturyTel’s estimate of synergies.[**BEGIN HIGHLY CONFIDENTIAL**] ■

16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]

20 **Highly Confidential per Protective Order in UTC Docket UT-082119**

⁷ See Direct Testimony of Trevor R. Roycroft, p. 19, lines 1 ff; p. 20, lines 11 ff.

⁸ CenturyTel/Embarq Merger Announcement Deck, available at http://library.corporate-ir.net/library/11/112/112635/items/312451/CTL_EQ_IRPresentation_102708.pdf

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[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] [END HIGHLY CONFIDENTIAL]

Q. ARE THE ESTIMATED “SYNERGIES” REALISTIC OR IS THERE SOME LIKELIHOOD THAT YOU HAVE BEEN EXCESSIVELY OPTIMISTIC?

A. We believe that we have been conservative in our assessment of those potential savings, which again permit us to compete more effectively. We expect to realize “synergies” of \$400 million annually, composed of approximately \$330 million in savings from the categories described above, around \$75 million in additional revenue opportunities (through increasing penetration of advanced services, such as DSL, introducing new products, slowing the loss of access lines in the Embarq service areas, and re-pricing nonregulated competitive services to market prices). CenturyTel is projecting cost savings that are approximately

[BEGIN HIGHLY CONFIDENTIAL] [REDACTED]
[REDACTED]

HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER IN UTC DOCKET UT-082119

T

⁹[END HIGHLY CONFIDENTIAL]

The table above, summarizing data from CenturyTel's investment bankers, Barclays Capital and Morgan Stanley, shows expected cost savings from comparable ILEC transactions as a percentage of both target cash operating expenses and target EBITDA. As the table indicates, the median ratios for synergies generated in comparable company transactions are 19% and 22%, respectively, and the average ratios are 19% and 26%, respectively. The range of cost savings as a percentage of target cash operating expenses in comparable transactions is 14%-25%. The range of cost savings as a percentage of target EBITDA in comparable transactions is 15%-53%. As is evident from the data, CenturyTel is projecting cost savings that are significantly below the comparable transactions. Importantly, for each of the listed transactions (except FairPoint-Verizon which is too recent to evaluate), all of the announced estimated cost savings have been achieved, are on track to be achieved, or have been exceeded.

HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER IN UTC DOCKET UT-082119

⁹ See Highly Confidential Response to IBEW Data Request 5.

1 In short, CenturyTel has been conservative in estimating cost savings and
2 synergies when compared with the metrics for other transactions in the industry.

3 Our intention is to use our increased financial capacity to respond to
4 developing market conditions. We believe that the higher cash flows resulting
5 from the expected synergies will make it possible to reduce our proportionate
6 levels of debt over the next few years. We also expect that we will be better able
7 to identify and deploy new and emerging technologies. Finally, our improved
8 operating and capital efficiency will better position the combined company to
9 withstand unexpected challenges. In summary, while both companies as stand-
10 alone entities have performed admirably, we believe that the combination
11 provides at least three distinct benefits that will allow us to better serve our
12 customers in Washington. First, we benefit from greater efficiencies in our
13 operations as described above. Second, we are committed to focus on the
14 advancement of products and services, including DSL, fiber-based data services,
15 long-haul transport, and possibly video products in markets where the economics
16 support deployment. And, third, we are convinced that the geographic and
17 regulatory diversity of the combined company will reduce the harmful effects of
18 any single negative development, such as a regulatory change or weaker
19 economic conditions in a particular region. Flexibility is a key benefit in creating
20 a more healthy competitive company to serve consumers, and we therefore
21 contend that unnecessary “protections” in the form of financial conditions could
22 undercut the realization of important benefits.

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Q. DOES THE COMBINATION PROVIDE THE BENEFIT OF CREATING A STRONGER SERVICE PROVIDER GENERALLY AND FOR WASHINGTON SPECIFICALLY?

A. Yes, but I should clarify from the outset that both CenturyTel and Embarq are strong companies with exceptional operations. I will be more specific in my responses to issues raised by Staff and Dr. Roycroft, but I wish to point out that Washington will benefit through this merger from having an incumbent communications provider with an even stronger capital base and a lower-risk profile than either of the standalone companies. CenturyTel and Embarq have complementary financial and competitive characteristics. CenturyTel’s service region across the United States is more rural than Embarq’s service territory, and the switched access line loss in rural regions is slower, resulting in lesser financial pressures. CenturyTel’s year-over-year access line losses nationally totaled approximately 6.4% as of the fourth quarter of 2008; whereas Embarq’s annual line loss rate nationally was approximately 9.8%. The discrepancy in the line loss trends is expected to continue in the future, with CenturyTel’s operations experiencing lower rates of line loss than those pressuring Embarq. As a result of the merger with CenturyTel, the combined entity will have less exposure to access line losses than that of Embarq as a stand-alone company. By contrast, Embarq company-wide, due to its lesser reliance on universal service support and access revenues, has lower exposure to the negative impact of potential regulatory

1 reforms than does CenturyTel. Through this mutually beneficial merger, the
2 diversification of competitive, regulatory and operating risks does not increase
3 overall risk but the total enterprise's risks are reduced. Both companies have
4 investment grade credit ratings, with CenturyTel's ratings slightly higher than
5 Embarq's. As a result of the transaction, the annual synergy savings are expected
6 to improve overall cash flows, resulting in the expectation that the combined
7 company will have an even better credit profile compared with the credit profile
8 of Embarq or CenturyTel today.

9 While it is possible to highlight the risks involved in each individual
10 company's portfolio of services, I believe that the diversification in the combined
11 company with respect to properties and other characteristics, including reduced
12 exposure to access line losses and improved expected financial performance,
13 makes the new company a lower risk operation. This enhanced financial and
14 operating profile should benefit the combined company's nationwide service
15 territories, generally, and Washington, specifically.

1 **III. REBUTTAL TO SPECIFIC ASSERTIONS OF DR. TREVOR ROYCROFT**

2 **Q. DO YOU HAVE ANY GENERAL COMMENTS TO MAKE REGARDING**
3 **DR. ROYCROFT’S DISCUSSION OF THE RISKS OF THE MERGER**
4 **BEFORE ADDRESSING EACH OF HIS ASSERTIONS INDIVIDUALLY?**

5 A. Yes. Before getting into the specifics of the benefits and efficiencies associated
6 with the merger, I would like to point out that Dr. Roycroft’s testimony fails to
7 identify any negative factors or major risks that are likely to occur as a result of
8 the proposed transaction. His testimony raises *potential* shortfalls or *potential*
9 diversions, without quantifying the risks or even asserting data suggesting that
10 there is a significant probability that problems might occur. On the other hand, as
11 described in this testimony and elsewhere, there are clear and compelling benefits
12 associated with the merger of CenturyTel and Embarq.

13 While I am a financial person and not a lawyer, I note that there appear to
14 be fundamental problems with Dr. Roycroft’s approach. Notably, it is my
15 understanding that CenturyTel and Embarq must meet the statutory obligation
16 that there is no harm, which we believe is apparent in the strengthened financial
17 characteristics and more robust operations of the post-merger company. Dr.
18 Roycroft has argued that those substantive benefits are excessively broad—
19 effectively concluding that they are not meaningful—and is suggesting that, as a
20 result, there should be additional concessions.¹⁰ Our position is that financial
21 strength, which enhances our ability to continue to provide high-quality service to

¹⁰ Direct Testimony of Trevor R. Roycroft, p. 16.

1 our customers, is more fundamental in today's economic environment than any
2 other benefit of this merger. Turning to the specific service issues, we are and
3 have been committed to consumers and we understand our survival requires us to
4 be responsive and innovative. The record is clear and the benefits of this
5 combination are substantial.

6

7 **Q. PUBLIC COUNSEL'S WITNESS, DR. ROYCROFT, ASSERTS THAT**
8 **CENTURYTEL IS SMALLER THAN EMBARQ AND THEREFORE MAY**
9 **HAVE DIFFICULTIES INTEGRATING EMBARQ'S OPERATIONS.¹¹**
10 **SHOULD THIS BE AN ISSUE OF CONCERN TO THE COMMISSION?**

11 A. No. CenturyTel has acquired and integrated more access lines than any other
12 telecommunications carrier with the exceptions of the RBOC re-combinations at
13 Verizon and AT&T. The process of integrating systems and operations is a
14 fundamental skill-set at CenturyTel. Dr. Roycroft seems to believe that the
15 difficulty of mergers and acquisitions is totally a function of the number of access
16 lines involved. The acquisition of the Embarq properties is expected to proceed
17 smoothly because it is a single company with focused and integrated operations,
18 there is no requirement of a "flash-cut" of critical systems, and Embarq has
19 highly trained personnel who will be inherited by the combined company and
20 who are working with CenturyTel's transition team members today to ensure a
21 seamless transition.

¹¹ Direct Testimony of Trevor R. Roycroft, p. 11-15.

1 In important ways, this combination is less complex than many of
2 CenturyTel's previous acquisitions, which involved former RBOC properties that
3 needed to be segregated from the RBOC. The primary complexities in those
4 other transactions arose from the necessity to "flash-cut" systems on a single day.
5 Further, it is more complex when customer records and other data are withdrawn
6 from another carrier's systems, without those legacy systems transferring in the
7 transaction, and installed into a new carrier's systems. The CenturyTel-Embarq
8 transition does not face those difficult challenges. At the same time, we can
9 report with some degree of pride about all of our former acquisitions that, to the
10 best of our knowledge, no commission has reported to us any material problem
11 with respect to the many transitions in which we have engaged in the past.
12 Finally, I note that we are not proposing to cross industry lines and enter into a
13 business that is unknown to us. Although larger, Embarq's operations are very
14 similar to our own. Were there any doubt of our ability to integrate the
15 operations, we would not have sought to consummate this transaction nor would
16 we have received the support of our banks or of our shareholders (most of whom
17 are sophisticated institutional investors), as evidenced by the approval of greater
18 than 96% of votes cast from CenturyTel's shareholders and approximately 99%
19 of votes cast from Embarq's shareholders.

20

21 **Q. HAS CENTURYTEL UNDERTAKEN ANY ACQUISITIONS OR**
22 **SYSTEMS TRANSITIONS THAT, WHEN MEASURED BY ACCESS**

REBUTTAL TESTIMONY OF
G. CLAY BAILEY

Exhibit No. ____THC (GCW-2THC)

1 **LINES, WERE LARGER THAN CENTURYTEL AT THE TIME OF THE**
2 **ACQUISITION?**

3 A. Yes. On December 1, 1997, CenturyTel acquired Pacific Telecom, Inc., an entity
4 with over 660,000 access lines (and over 88,000 wireless customers), the parent
5 of CenturyTel's current CenturyTel of Washington, CenturyTel of Inner Island,
6 and CenturyTel of Cowiche subsidiaries. CenturyTel at that time served
7 approximately 540,000 access lines.¹² Moreover, CenturyTel has had extensive
8 experience with conversions of large numbers of customers to new systems. In
9 2000 and in 2002, the company effectively converted in five distinct state
10 transitions what totaled to be more than 1.1 million RBOC lines in Missouri,
11 Wisconsin, Arkansas and Alabama. Those transitions required an immediate cut-
12 over to a new system, which was a challenge very different from the proposed
13 transaction where immediate system cutovers are not necessary and, when
14 implemented, conversions can occur incrementally and in an orderly manner over
15 time. Again demonstrating the company's ability to manage transitions,
16 CenturyTel converted all of its customers (in excess of 2 million access lines) to a
17 new billing system, "Ensemble," by October 2004.¹³ This conversion was
18 managed and accomplished successfully in a very smooth customer transition to a
19 system that provides superior service ordering/billing processes. I also note that
20 we have made multiple acquisitions in Wisconsin and Missouri and, to the best of

¹² See CenturyTel 10-K 1997, at 37, available at <http://www.sec.gov/Archives/edgar/data/18926/0000018926-98-000002.txt>.

¹³ See, CenturyTel 10-Q (Nov. 9, 2004), at 21 (the filing indicates that virtually all the lines were successfully transitioned and that the process would be completed within 6 months).

1 my knowledge, experienced no problem with the commissions, as they approved
2 subsequent transactions in their respective states. Further, in 1997, we acquired
3 the PTI properties in Washington, without conditions and without service failures.
4

5 **Q. IS DR. ROYCROFT CORRECT THAT CENTURYTEL MAY HAVE**
6 **DIFFICULTIES IN INTEGRATING EMBARQ’S OPERATIONS?**¹⁴

7 A. No. I would contend that CenturyTel and Embarq have much more experience in
8 systems conversions than do Dr. Roycroft and the Office of Public Counsel.

9 CenturyTel and Embarq are confident that this transition will occur smoothly.

10 The combined personnel resources of the two companies will be actively
11 involved in the integration process, and will not result in the “tail wagging the
12 dog.”¹⁵ Dr. Roycroft proposes no evidence to support an image that suggests that

13 we have overreached, and he overlooks a long and consistent history. The

14 CenturyTel management team has the fundamental acquisition-related skill-set
15 that has been developed and tested over a long period of time. Additionally, Dr.

16 Roycroft’s calculation that the Embarq transaction is 27 times as large as the
17 average CenturyTel acquisition since 2000 is wrong in at least two ways.¹⁶ First,

18 he misrepresents the numeric computation in his Table 1 on page 12. He lists
19 three acquisitions in the year 2000, treating them as if they were three individual

20 and smaller transactions. He does the same in the year 2002 when he lists two
21 distinct Verizon transactions. The reality is that CenturyTel integrated at the

¹⁴ Direct Testimony of Trevor Roycroft, p. 13, lines 2-7.

¹⁵ Id., p. 13, line 3.

¹⁶ Direct Testimony of Trevor R. Roycroft, p. 12

1 same time approximately 490,500 lines in 2000 in three different states drawn
2 from differing GTE/Verizon operations. In 2002, the company integrated
3 approximately 654,000 lines sold by Verizon from two separate regional
4 operations (Missouri and Alabama). In both cases, the transactions were very
5 complicated and proceeded smoothly.

6 Second and more important, the size of the average acquisition—whether
7 27 times or a smaller figure based on a better averaging approach—is not the
8 point. CenturyTel and Embarq have sophisticated and remarkably scalable
9 systems to care for customers and ensure effective operations. CenturyTel has
10 performed these transition functions many times, including distinct simultaneous
11 transitions in multiple states. Again, in those cases, the approach involved an
12 immediate cutover of systems, while in this case, CenturyTel and Embarq have
13 the ability to engage in a gradual and controlled transition process that will not be
14 harmful or confusing to customers. Our transition and integration methodology
15 will mitigate risk of potential harm to customers. Specifically, the existing
16 Embarq systems will stay in place for a period post-merger, meaning that
17 immediately following the merger Washington actually will be served by
18 redundant systems. This approach will allow us to transition the Embarq
19 Washington customers in a very controlled and methodical environment.

20 CenturyTel’s track record is clear; we have the systems, experience and
21 the benefit of extraordinary personnel who came over from the acquired
22 companies in previous acquisitions, making it possible to combine these two

1 companies in an effective manner. There should be no real concern about
2 CenturyTel’s ability—together with the exceptional Embarq people—to integrate
3 these two companies. As such, we believe that all of our customers, including
4 those in Washington, will continue to receive the high-quality service they have
5 come to expect from both CenturyTel and Embarq.

6
7 **Q. DR. ROYCROFT CLAIMS THAT THE LACK OF A DOCUMENTED**
8 **FINALIZED PLAN OF EXECUTION SHOULD BE CAUSE FOR**
9 **COMMISSION CONCERN. DO YOU AGREE?¹⁷**

10 A. No. Dr. Roycroft incorrectly claims that CenturyTel should already have “a
11 well conceived and executable plan for integration,” fully developed at this point
12 by which it can provide the Commission with a specific blueprint as to what will
13 occur.¹⁸ Dr. Roycroft’s recommendation is unrealistic and shows a lack of
14 experience with executing an acquisition process. It is premature to expect that a
15 plan would have been finalized in early January 2009 when I submitted my
16 original testimony to this Commission, especially in light of the fact that the
17 merger agreement was executed on October 26, 2008. Prior to execution, the
18 parties’ focus was on due diligence and negotiating the specifics of the
19 agreement. Since then, qualified teams have met multiple times each week to
20 work out details and coordinate issues. CenturyTel has learned from its
21 acquisition experience that a deliberate and methodical approach including the

¹⁷ Direct Testimony of Trevor R. Roycroft, p. 13, lines 20 ff.

¹⁸ *Id.*

1 detailed study of each company's operations is required for successful
2 integration. In short, there is a clear process that is being implemented, with
3 significant numbers of team members including highly professional subject
4 matter experts. Between now and closing, CenturyTel and Embarq are
5 inventorying their respective operations and systems for the purpose of
6 identifying best practices and integration opportunities. Preliminary decisions are
7 being made on best practices in a rigorous and deliberate manner after gathering
8 the facts and issues. This process necessarily will continue even after the
9 consummation of the transaction. Given that CenturyTel and Embarq have fully
10 functioning systems today, it is not realistic that plans be set and reviewed. .

11 As evidence of progress since our original filing and in response to Dr.
12 Roycroft's testimony, I note the following: we now plan that Embarq's operations
13 will migrate to CenturyTel's Ensemble billing and customer care system.
14 CenturyTel's Ensemble back-office software (the product of an investment of
15 over \$200 million) is a highly-centralized and flexible system that integrates and
16 automates customer care and other provisioning services in a cost-effective
17 manner. It enables customer service representatives to view and offer the full
18 range of services available to a customer in a single system, then to trigger related
19 customer care functions such as provisioning and customer communications, and
20 finally generate the results on a single bill. In essence, the system makes it easier
21 to provide an optimized customer experience. Other recent decisions concerning
22 systems and processes include:

- The combined company will utilize CenturyTel’s SAP (Systems, Applications, and Products in data processing) accounting system. SAP is a resource planning system currently used by CenturyTel, including modules for Finance, Human Resources, and Materials Management.
- The combined company will utilize Embarq’s CLEC order entry system, EASE (Embarq Administration and Service Order Exchange) system. EASE is an order application system used by wholesale customers to initiate, submit and track access service requests (ASRs) and local service requests (LSRs).
- While the transition team continues its analysis related to final call center structure, the decision has been made to continue CenturyTel’s “Neighborhood program” in the combined company’s residential call centers. Under this program, representatives receive customer calls from a select group of states rather than on a nationwide basis as Embarq operates today. By limiting the number of states, customer service representatives are able to become more familiar with the unique characteristics of their states. Based on these characteristics, I believe that the application of the Neighborhood program across the combined company will have a direct benefit to Embarq customers and its employees

The CenturyTel and Embarq transition teams continue to evaluate systems and best practices that will be applied to other functions.

It remains important to recognize that Dr. Roycroft is stating that a “well-conceived and executable plan” should be evaluated by the Commission, and, absent that information, the Commission is unable to determine that the proposed merger results in no harm to the public interest.¹⁹ This is simply wrong with respect to this acquisition and every acquisition in which we have been involved.

¹⁹ Direct Testimony of Trevor R. Roycroft, p. 13, lines 8-13.

1 The Commission has substantive evidence about the independent
2 operations of CenturyTel and Embarq, clear records about their independent
3 service histories, experience with the management’s operating philosophies,
4 substantial acquisition history from other states, and information about progress
5 in the current integration and transition process. The bottom-line is that the best
6 “plan” in the world, even a fully-documented plan such as Dr. Roycroft desires, is
7 irrelevant without the skills and competencies to execute. Over many years we
8 have developed the skills and competencies that will allow us to execute the
9 transition and integration smoothly, regardless of Dr. Roycroft’s unrealistic
10 expectation that there should be a single finalized master plan document. I can
11 understand Dr. Roycroft having concerns with an unknown set of companies, a
12 start-up enterprise, or even an unproven but established carrier. However, I want
13 to reiterate, that CenturyTel and Embarq are proven, capable, financially-stable
14 operators with established track records for customer-focused approaches to
15 providing services. The kind of document that Dr. Roycroft is requesting is
16 unrealistic and a requirement to produce such a document has never been
17 imposed in any transaction as far as I am aware. Dr. Roycroft seems to be intent
18 on micromanaging this process when it is clear that the companies are distinctly
19 competent to integrate operations smoothly and their interests are aligned with
20 those of the Commission.

21

1 **Q. DR. ROYCROFT POSTULATES THAT IN THE LOCAL EXCHANGE**
2 **INDUSTRY, THERE ARE TWO MAIN DRIVERS ASSOCIATED WITH**
3 **ECONOMIES OF SCALE: (1) CUSTOMER DENSITY AND (2)**
4 **SECONDARY DRIVERS SUCH AS CONSOLIDATION OF**
5 **MANAGEMENT OVERHEAD.²⁰ WOULD YOU PLEASE COMMENT?**

6 A. Certainly. Dr. Roycroft’s argument is again contrary to the evidence in the
7 industry. He is correct that customer density is often a driver of scale economies
8 across various industries, particularly in industries dependent on network
9 technologies. Most networks—wireline or wireless—will have lower per-unit
10 costs if customers are located in a concentrated area. However, as Dr. Roycroft
11 notes, ILECs by definition serve mutually exclusive territories, so that a merger
12 of two ILECs does not change density in any single area (obviously overall
13 density across the newly-merged company would change). Again, the problem in
14 Dr. Roycroft’s mind is that *no* combination of ILECs creates density-related
15 economies. However, I note that ILECs consistently have merged and created
16 synergies, which by definition were never driven by higher density. Under Dr.
17 Roycroft’s view of the telephone industry the mergers of Southwestern Bell with
18 Pacific Telesis or Ameritech or SNET and finally BellSouth all failed to benefit
19 from (in his terms) the “primary driver” of economies of scale. The same would
20 apply to the various combinations prompted by Bell Atlantic with NYNEX or
21 GTE. Finally, the record of rural carrier consolidations would not make any

²⁰ Direct Testimony of Trevor R. Roycroft, p. 17, lines 2 ff.

1 sense, in Dr. Roycroft’s description, unless there were secondary drivers. In
2 response, there are meaningful economies created in ILEC transactions in terms
3 of systems, technologies, personnel, access to capital and a variety of other
4 important drivers. Whether those economies are produced by “primary” or
5 “secondary” drivers does not diminish their financial import. The key point here
6 is that customer density is simply a non-issue in this proceeding and the
7 digression is, at best, a distraction. In short, Dr. Roycroft’s testimony—“*this*
8 *merger will do nothing to increase customer density*”—attempts to make an issue
9 of something that is irrelevant.²¹

10
11 **Q. DR. ROYCROFT ASSERTS THAT BUSINESS OFFICE CALL CENTER**
12 **CONSOLIDATION CAN RESULT IN DISRUPTIONS IN CUSTOMER**
13 **SERVICE THAT MAY BE DETRIMENTAL TO THE INTERESTS OF**
14 **RATEPAYERS.”²² WOULD YOU PLEASE RESPOND?**

15 A. Yes. Dr. Roycroft again offers no evidence and speculates that “[c]hanges in
16 [business office call centers] may lead to problems . . . as service quality is linked
17 with call center performance.”²³ He reaches this gratuitous conclusion based on
18 our response to a data request in which we noted that changes will be
19 implemented in call centers but that no specific timelines have been established.²⁴

20 I note that we have been forthcoming with the Commission and the interveners,

²¹ Direct Testimony of Trevor R. Roycroft, p. 17, lines 17 ff.

²² Direct Testimony of Trevor R. Roycroft, p. 19, lines 19 ff.

²³ Direct Testimony of Trevor R. Roycroft, p. 20, lines 6-7.

²⁴ Joint Applicants’ Response to Public Counsel Data Request No. 37.

1 but it is not constructive to interpret prudent transition processes as indicators that
2 we will be anything but focused in operating our businesses. Public Counsel and
3 the Commission have an important role in this process, but the evidence is clear
4 that we are responsible operators who have performed these types of transitions
5 multiple times and the record is convincing that we understand this business and
6 the challenges in integrating operations.

7 As I noted previously, CenturyTel has extensive experience in converting
8 systems. In 2004, we completed the conversion of 2.2 million customers to our
9 current Ensemble customer service system. In 2000, we purchased significant
10 assets from GTE and in 2002, we purchased major properties from Verizon in
11 multiple states, and we converted those systems and integrated the operations
12 without incident. We believe that our record provides the most tangible evidence
13 of our commitment to customers and customer service. Our ongoing
14 commitment, which can be observed everyday in our operations, should reduce or
15 quell speculative concerns. There is no credible reason that this Commission
16 should conclude that Washington ratepayers will be served by anything but the
17 most robust and advanced systems available and by customer service
18 representatives more than capable of meeting their needs.

19 It is our judgment that Embarq has a sound set of systems to serve
20 customers and the company has been effective up to the present, and those
21 systems could and some will operate well into the future. However, the good
22 news for consumers is that our transition teams are convinced that the CenturyTel

1 Ensemble customer service platform is superior to the Embarq system. To
2 respond to Dr. Roycroft's concerns about the potential for harm to customers,²⁵ I
3 note that the Ensemble customer ordering and billing system is a fully-functional
4 operating platform and an even better customer service platform than Embarq's
5 present system. It is our intention that Ensemble will be adopted for the merged
6 company. CenturyTel has invested more than \$200 million in the scalable and
7 integrated system, and has been operating that platform since 2004. Ensemble
8 benefits from centralized data that reduces the number of systems that a customer
9 service representative needs to access, and it is a more flexible tool than
10 Embarq's multiple and less efficient systems. Thus, customer satisfaction in
11 Washington should increase to the benefit of all involved.

12 The great thing about Ensemble is that it is a customer-focused system as
13 opposed to a product-focused system. In addition, it is a fully-integrated system
14 that can operate across product lines, whereas today Embarq requires several
15 systems to manage customer orders and billing across various products and
16 services. So, using Ensemble, our customer service representatives can view all
17 of the information about a particular customer in one place. For example, the
18 customer service representative would know the specific services available to any
19 given customer and could also see all promotional offers available to that
20 customer. In addition, Ensemble is a plain-text system, meaning that the
21 customer service representatives do not have to memorize a variety of codes. If a

²⁵ Direct Testimony of Trevor R. Roycroft, p. 23, lines 8 ff.

1 customer wants to add voicemail service to a bundle, it says “voicemail” on the
2 screen—the customer service representative does not have to memorize a digit
3 code to enter for voicemail. The simplicity and intuitive nature of the system
4 enhances ease of use and reduces the potential for errors in our interactions with
5 customers. Far from being a potential detriment, the deployment of the Ensemble
6 system to be utilized for all Washington customers will be a clear benefit to the
7 quality of service those customers receive.

8 To be more specific about CenturyTel’s systems, our business office and
9 call center operations today have additional capabilities / processes that represent
10 enhancements to the existing Embarq systems, including the following:

- 11 - Integrated ordering, provisioning and billing system that creates less
12 manual intervention and error.
- 13
- 14 - Presentation of all pricing, offers, and service requirements to the call
15 center associate on a market-specific basis.
- 16
- 17 - Employee evaluation mechanisms enable automated monitoring and
18 reporting of customer service representative performance.
- 19
- 20 - Connection of call center teams supporting specific states with the
21 local (in-market) service teams, technicians, and local servicing
22 centers.
- 23

24 In addition to our experience in transitions and integrations, and our decision to
25 deploy a more robust customer service platform for the benefit of Embarq’s
26 Washington customers, our transition and integration methodology will mitigate
27 any risk of potential harm to customers. Specifically, as I stated earlier, the
28 existing Embarq systems will stay in place for a period post-merger, meaning that
29 immediately following the merger Washington actually will be served by

1 redundant systems. This approach allows us to convert the Embarq Washington
2 customers to the Ensemble system in a very controlled and methodical
3 environment. In contrast, in our 2000 and 2002 acquisitions where assets and
4 customers were “carved out” of ongoing GTE and Verizon operations, we were
5 required to “flash-cut” customer service systems on the first day we took control
6 of the operations. This meant that on day one we had to be prepared to handle all
7 of the operations relating to those customers, including billing, customer service,
8 repair, etc. I will remind you that even under those circumstances the transition
9 of those customers and the integration of those operations occurred without
10 incident. In the current transaction, we will be able to take a much more
11 measured approach and will have the “safety net” benefit of redundant systems
12 for a time. The Commission should take comfort that our experience coupled
13 with this approach should mitigate any of the speculative harms raised by Dr.
14 Roycroft.

15 As a result, the integration of business office and billing functions is not a
16 potential harm to the consumer, but actually is a benefit of the transaction.

17 Through the implementation of new processes and/or modifications to existing
18 processes, the merged companies are able to incorporate the best practices of
19 each company so that employees can be focused on customer satisfaction and
20 services.

21 Not only is Dr. Roycroft’s concern about systems vague and contrary to
22 the evidence, but he overlooks and potentially trivializes the Commission’s

1 regulatory standards and the Commission’s enforcement authority. The
2 Commission will continue to have authority and appropriate regulatory oversight
3 in the unlikely event that individual or collective problems might arise.
4

5 **Q. DR. ROYCROFT ALSO CONTENDS THAT BENEFITS FROM A**
6 **COMBINED POOL OF TECHNICAL EXPERTISE MIGHT NOT**
7 **BENEFIT RATEPAYERS.²⁶ CAN YOU COMMENT?**

8 A. Yes. Dr. Roycroft points narrowly to long-distance services and to the absence of
9 plans at the early stage of the transition regarding CenturyTel’s fiber transport
10 network (Core Fiber Network).²⁷ I note that the concept of combined “technical
11 expertise” is a much broader benefit than that derived from long-distance
12 networks or fiber systems. Better technical testing and research will permit us to
13 deploy in Washington the best network technologies. Technical depth translates
14 to customer welfare, wherever that customer is located. Anyone who knows our
15 companies and our record will recognize that our technological focus and
16 commitment are significant. This merger will permit us to be stronger in terms of
17 our technical “bench strength” of personnel and in terms of our ability to fund
18 expansion of services.
19

20 **Q. BASED UPON AN INTERROGATORY RESPONSE, WITNESS**
21 **ROYCROFT ALSO NOTES THAT THERE ARE NO CURRENT**

²⁶ Direct Testimony of Trevor R. Roycroft, p. 22, lines 6 ff.

²⁷ Direct Testimony of Trevor R. Roycroft, p. 22, lines 8-20; and p. 23, lines 1-2.

1 **DEPLOYMENT SCHEDULES OR PLANS TO CONNECT THE**
2 **WASHINGTON NETWORK TO THE CENTURYTEL CORE FIBER**
3 **NETWORK.²⁸ CAN YOU RESPOND?**

4 A. Yes. I am happy to address Dr. Roycroft's concern and to note that we have
5 additional comments on this subject based on the ongoing work of the transition
6 team. First, I should emphasize that the combined company's plans for
7 CenturyTel's Core Fiber Network continue to advance. In fact, although
8 engineering plans are still being developed the final decision was made recently
9 to connect our Core Fiber Network to Washington, with service starting in 2009.
10 We believe that a fiber backbone improves the potential for future IPTV
11 deployment, but again I caution that various factors will be evaluated before
12 making an IPTV service decision. I wish to be clear that the plan to connect our
13 Core Fiber Network to one or more new markets was not created to appeal to this
14 Commission or any other, but it reflects the ongoing analyses of our transition
15 teams and the positive business case assessed for serving these new markets.
16 Second, I affirm again that we will integrate any of our combined network assets
17 that make financial sense and provide the customer with a stronger product set
18 and bandwidth capabilities, including those based on the extension of
19 CenturyTel's Core Fiber Network. I note that the fact that we will have a larger
20 combined service territory in Washington makes it more likely that we can cost-
21 justify various services including our Core Fiber Network investment. Third, we

²⁸ Direct Testimony of Trevor R. Roycroft, p. 22, lines 14-20.

1 affirm there are other important and substantial benefits of the merger, and our
2 Core Fiber Network is only one of the potential benefits. The Commission, while
3 recognizing the specific benefits, should not miss the importance of the financial
4 benefits of the proposed merger or the significance of the other technical and
5 operational benefits which have been outlined in this testimony and other
6 testimonies supplied by the Joint Applicants.

7
8 **Q. WHAT ABOUT DR. ROYCROFT’S DISCUSSION REGARDING**
9 **REVENUE SYNERGIES?²⁹**

10 A. Dr. Roycroft is incorrect in his assessment of our revenue synergies. First, the
11 “revenue synergies” are a relatively small part of the overall synergies expected,
12 that is, slightly less than 19% of the total projected synergies (\$75 million in
13 revenue synergies divided by \$400 million in total expected synergies). Also, to
14 be clear, the potential revenue synergies are derived from the entire nationwide
15 Embarq footprint, not just Washington or any other single state. Further, the
16 majority of the revenue synergies relate to (i) driving advanced services, such as
17 DSL, deeper into the Embarq customer base and (ii) slowing the rate of access
18 line losses in the Embarq regions as compared to what Embarq has experienced
19 or may be projecting for their markets. The remainder of the revenue synergies,
20 approximately [BEGIN HIGHLY CONFIDENTIAL] [REDACTED] [END
21 HIGHLY CONFIDENTIAL] relates to re-pricing certain services to market

²⁹ Direct Testimony of Trevor R. Roycroft, p. 24, lines 6 ff.

1 prices. Essentially we propose to take non-regulated *competitive* services and
2 price them based on prevailing market prices in the various states served by
3 Embarq and CenturyTel. So, the price increases cited by Dr. Roycroft are not
4 “local services”. The estimates pertain to, among other things, competitive long-
5 distance services for new customers. Our assumption is that customers will have
6 a choice if they are newly contracting for services, and the market price will
7 dictate the level at
8 which those new services are offered. To the extent we price these competitive
9 services too high, the market will impose a discipline on us in terms of fewer
10 sales and fewer customers. Finally, I note that the Commission has never
11 regulated Internet services or the provision of Internet portals. Again, all of these
12 services are disciplined by a competitive market where, if prices are too high or
13 services insufficient, the customer can choose among many alternatives including
14 long-distance companies, electricians, or other Internet providers.

15 The Commission continues to regulate “protected services,” including
16 basic dial tone service. If Embarq or CenturyTel were to seek increased local
17 service rates, the company would be required to make application to the
18 Commission. The process of seeking approval for the CenturyTel-Embarq
19 merger does not diminish or affect any of the Commission’s oversight
20 responsibilities regarding rates for regulated services. There is no harm to
21 current customers, and there is no harm if the new company competes effectively

22 **HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER IN UTC DOCKET UT-082119**

1 in terms of services and pricing in the competitive marketplace.

2

3 **Q. DR. ROYCROFT HAS CLAIMED THAT CENTURYTEL'S 2007**
4 **ACQUISITION OF MADISON RIVER IS INCOMPLETE AND THIS**
5 **SHOULD BE A CONCERN TO REGULATORS.³⁰ DO YOU AGREE**
6 **WITH MR. ROYCROFT?**

7 A. No. The Madison River integration was completed in 2008 and was a very
8 smooth process.

9

10 **Q. DR. ROYCROFT HAS RECITED THE SEC FORM S-4 LISTING OF**
11 **"RISK FACTORS" ASSOCIATED WITH THE TRANSACTION AS**
12 **REASONS TO BE CAUTIOUS.³¹ DO YOU HAVE A RESPONSE?**

13 A. Yes. Obviously, there are numerous benefits associated with the transaction,
14 which also are detailed in the SEC Form S-4 and in my testimony above. While
15 Dr. Roycroft accurately quotes the risks presented in that document, it is
16 important to understand the purpose of the section. These items are mentioned as
17 a matter of full disclosure of any and all risks to shareholders, as would be
18 included in any public company's SEC Form S-4 or annual Form 10K. As
19 described, these "risk factors" represent general recitals of risks of which
20 companies and the public are generally well aware. The disclosure of these risk
21 factors provides legal protection to investors and to the company whose securities

³⁰ Direct Testimony of Trevor R. Roycroft, p. 14, lines 1-4.

³¹ Direct Testimony of Trevor R. Roycroft, pp. 14-15.

1 are publicly-traded; but the disclosures are not intended to suggest that the risks
2 are likely outcomes.

3 Dr. Roycroft then cites the risk related to “performance shortfalls,”
4 pointing to the potential “diversion of . . . [c]ompany management’s attention,”
5 which is a common element in these disclosures. Dr. Roycroft goes on to state
6 that there are “potential problems” in terms of possible “diversion of
7 management’s attention” related to “service quality and broadband
8 deployment.”³² However, he provides no specificity about the problems, no
9 history of problems, no estimation of the probability of problems, and no potential
10 conflicts of interests that might lead to problems. In fact, there are no data or
11 verifications other than Dr. Roycroft’s conjecture, which appears to be based on
12 no actual experience operating and integrating companies. In contrast, the Joint
13 Applicants have a long history of successfully executing these types of
14 transactions that underscores that they fully understand the importance of the
15 customer, have long track records of superior service, and can deliver superior
16 service through these types of combinations (as evidenced by low levels of
17 complaints to commissions). In summary, there is no evidence that such a failure
18 has occurred in the past and there is little likelihood that it will occur here. There
19 is no evidence that should lead the Commission to impose conditions that expand
20 its well-understood oversight role of the combined company. On the contrary, the
21 evidence is clear that the companies are incented to perform at a high level and

³² Direct Testimony of Trevor R. Roycroft, p. 15, lines 24-28.

1 assure no failures in service. I also note that, if undue emphasis were placed upon
2 the risk factors, mergers and new investment would never occur. The
3 shareholders of CenturyTel and Embarq approved the proposed transaction
4 because they concluded that the likely benefits of the proposed merger
5 outweighed the potential risks.

6

7 **Q. AS ONE OF THE “FINANCIAL ISSUES,” DR. ROYCROFT CLAIMS**
8 **THAT “CENTURYTEL FACES A SUBSTANTIALLY HIGHER RISK**
9 **ASSOCIATED WITH REDUCTIONS IN UNIVERSAL SERVICE**
10 **FUNDING (USF) AND IN ACCESS CHARGES COMPARED WITH THE**
11 **RISKS TO WHICH EMBARQ IS EXPOSED.”³³ DO YOU AGREE WITH**
12 **THESE OBSERVATIONS?**

13 A. No. Dr. Roycroft has reached a generalized and incorrect conclusion about the
14 nature and severity of the risks and actually is highlighting one of the benefits of
15 combining the two companies. As I noted above, it is correct that Embarq and
16 CenturyTel have different profiles in terms of the proportionate service to rural
17 regions, and therefore have a different proportionate reliance upon USF and
18 access revenues. First and foremost, Dr. Roycroft fails to acknowledge that
19 CenturyTel’s access line loss rate is less than Embarq’s and that while the
20 combined entity will absorb CenturyTel’s higher exposure to USF and access
21 revenues, it will also absorb CenturyTel’s lesser exposure to access line loss and

³³ Direct Testimony of Trevor R. Roycroft, p. 27, lines 12-14.

1 competitive pressures. This concept of offsetting risks is well understood by
2 companies and investors.

3 We have several responsive comments on the issue of potential access and
4 USF reform, which is admittedly complex. First, the potential for a changing
5 regulatory environment is an affirmative reason that the two carriers should do
6 everything they can to achieve efficient and flexible operations. Regulatory
7 reform at either the state level or federal level is difficult to predict and often
8 moves slowly. Reform often involves a number of complex issues including the
9 need to reconcile competing policymaker objectives such as the advancement of
10 broadband deployment with the desire to alter access rates, change the size of the
11 high cost funding, and ultimately impact the level of local rates paid by
12 consumers. Second, the shape of federal USF reform is not yet final but the
13 current process has focused on stopping the growth in the fund, which has meant
14 that wireless carriers are most affected, not wireline. And it appears that there is
15 still substantial policymaker-support for funding rural regions, including possibly
16 expanding that funding to include broadband. Third, I note that recent attempts to
17 reform intercarrier compensation by former FCC Chairman Martin were soundly
18 rejected by the majority of state regulators and by the other four FCC
19 commissioners. We view this as a sign that there is broad and important support
20 for continuing service in rural regions. Finally, I note again that the benefit of the
21 proposed merger of Embarq and CenturyTel is that any such risks are spread
22 across a broader base, which is an affirmative benefit of this transaction.

1 **Q. DOES CENTURYTEL’S DIVIDEND POLICY PRESENT RISK TO**
2 **RATEPAYERS AS CLAIMED BY DR. ROYCROFT?** ³⁴

3 A. No. Dr. Roycroft again engages in unsubstantiated speculation—without data,
4 probabilities, or financial analyses—when he testifies “CenturyTel’s corporate
5 outlook regarding dividend payouts *could result in a diversion of funds* from
6 other critical uses such as network maintenance, customer service, or broadband
7 deployment or upgrade.”³⁵ [Emphasis added.] I respond that dividends are
8 critical payments to equity holders for the use of their capital. Our industry is in
9 a slow growth or a no-growth mode, at least for a time. Without dividends, we
10 may not have access to equity capital or may have lesser access. Without equity
11 capital, debt will be more expensive or we may not have access. And without
12 access to capital, we will have a sharply reduced ability, beyond internally
13 generated cash flows (which currently are sufficient to fund our operations), to
14 fund services and network investment. The theoretical opposition between
15 dividends and ratepayer-benefits is not only wrong; it is a dangerous logic.
16 Access to equity capital, which requires dividends in an industry such as ours, is
17 fundamental to maintaining a capital-intensive business.

18 Setting aside the logical confusion in Dr. Roycroft’s “concern,” there are
19 two additional comments. First, the strong balance sheet and operations that this
20 merger provides will ensure that a conflict is very unlikely between dividend
21 payments and funding network or services. Dr. Roycroft is again speculating

³⁴ Direct Testimony of Trevor R. Roycroft, p. 29, lines 3 ff.

³⁵ Direct Testimony of Trevor R. Roycroft, p. 29, lines 23-24, and p. 30, line 1.

1 without reference to the very strong cash flows after debt service, dividends and
2 capital expenditures, that is, financials that were presented to investors and to this
3 Commission. There is no such realistic possibility of a conflict between
4 dividends and consumers. Second, Dr. Roycroft cites CenturyTel's policy of
5 "steadily increasing dividends"³⁶ as CenturyTel marked its 35th consecutive year
6 of increasing dividends. Prior to 2008, CenturyTel's pattern over the previous ten
7 years was to raise the dividend by \$0.01 per share annually, which permitted the
8 company to raise the dividend without material changes in cash obligations. Dr.
9 Roycroft is without foundation theoretically or in terms of reasonable estimations
10 in posing a concern about consumers being harmed by the company's current
11 dividend policy.

12
13 **Q. DO YOU AGREE WITH DR. ROYCROFT'S CONTENTION THAT THE**
14 **MERGER INCREASES COMPETITIVE RISK?**³⁷

15 A. No, I don't. As I noted earlier, we are convinced that the combination of the two
16 companies reduces overall risk. Additionally, I find the argument peculiar since
17 most policymakers, and consumer advocates in particular, extol the virtues of
18 increased competition. Here, Public Counsel's witness suggests that increased
19 levels of competition might be a detriment in this case, in spite of the fact that we
20 represent our desire to compete and we are preparing our company to be a more
21 capable competitor. Further, Dr. Roycroft fails to recognize that the combined

³⁶ Direct Testimony of Trevor R. Roycroft, p. 29, line 20.

³⁷ Direct Testimony of Trevor R. Roycroft, pp. 30-32.

1 company will face no more risk, and will in fact face less risk, than the
2 companies would separately. He also fails to acknowledge that increased
3 competition is one of the fundamental reasons for entering into the merger.
4

5 **Q. DO YOU SHARE DR. ROYCROFT’S CONCERN THAT THE**
6 **TRANSACTION WILL DISTRACT THE COMPANY FROM BRINGING**
7 **NEW PRODUCTS, SUCH AS IPTV, TO THE STATE OF**
8 **WASHINGTON?**

9 A. No. Dr. Roycroft’s testimony in this section is difficult to understand as he
10 loosely connects his points and reaches entirely incorrect conclusions. He begins
11 by noting that CenturyTel and Embarq have indicated that consolidation and
12 integration may take up to three years, which leads him somehow to assert that
13 “consolidation may actually interfere with the deployment of new services
14 [and] this could be a significant potential downside of the proposed merger.”³⁸ I
15 respond that the amount of time for integrating all of the systems will have
16 nothing to do with the company’s ongoing capital programs (interference with
17 deployment) or with the incremental benefits of adopting new services. Acting in
18 the way Dr. Roycroft proposes would be contrary to the interests of the post-
19 merger company and to the interests of all its stakeholders, including customers.
20 We will not delay investment while consolidation activities occur, as is evident
21 from our current operations, including the recent decision to connect the Core

³⁸ Direct Testimony of Trevor R. Roycroft, p. 33, lines 11-12.

1 Fiber network to Washington. Dr. Roycroft has confused a clear statement about
2 consolidation, which has nothing to do with running the network or deploying
3 new capital or introducing new services.

4 Then, Dr. Roycroft dedicates two pages of his testimony to Internet
5 Protocol Television (“IPTV”), providing a description of the service and
6 eventually noting that CenturyTel has deployed IPTV in two markets, which are
7 in fact trials.³⁹ He cites a comment about which markets are “potentially well
8 suited” for IPTV and then concludes that because Washington was not one of the
9 three states mentioned in the initial marketing document that there is an “apparent
10 lack of priority” for “network upgrades in Washington as a result of the
11 merger...”⁴⁰ First, IPTV is not a regulated service. Second, the company has not
12 yet performed in-depth analysis of what services will be introduced or when in
13 specific markets. Dr. Roycroft is extrapolating from a high level summary
14 comment about markets that might be “well-suited” and representing that
15 Washington is “not a priority for CenturyTel.”⁴¹ He further concludes that “it
16 does not seem likely that the merger will result in timely advanced broadband
17 network upgrades associated with IPTV in CenturyTel WA and UTNW’s service
18 areas.”⁴² I note in summary that Dr. Roycroft is taking significant liberties with
19 the facts and reaching conclusions that are without foundation. Further, if
20 CenturyTel is able to expand IPTV in Washington or any other state, such a

³⁹ Direct Testimony of Trevor R. Roycroft, p. 35, line 12.

⁴⁰ Direct Testimony of Trevor R. Roycroft, p 36, lines 13-15.

⁴¹ Id., lines 7-8.

⁴² Id., lines 8-10.

1 deployment would represent an incremental benefit, but Dr. Roycroft's
2 speculations do nothing to demonstrate harm, which is pertinent to the
3 Commission's analysis. The fact remains that the potential for IPTV deployment
4 is greater with the merged company than it would have been if the companies
5 operated separately.

6

7 **Q. WHAT ABOUT DR. ROYCROFT'S ALLEGATIONS THAT ADVANCED**
8 **BROADBAND SERVICES COULD BE AT RISK?**⁴³

9 A. Dr. Roycroft cites Embarq's pre-merger proposed capital expenditure "reserve"
10 for VDSL (very high bit rate DSL) upgrades and assumes that this now out-dated
11 single technology investment "reserve" is an indication that for the post-merger
12 company the "level of investment . . . is not sufficient . . . [and] even this modest
13 commitment of investment reserve to the deployment of advanced broadband is at
14 risk."⁴⁴ VDSL is one of many advanced broadband technologies and certainly
15 does not constitute a significant technology for virtually any of the major ILECs.
16 Dr. Roycroft is again reaching wrong conclusions, as CenturyTel and Embarq are
17 using a wide variety of advanced technologies and are committed to improving
18 the capabilities of the advanced network architecture. In addition, extrapolating
19 from one company's "reserve" capital provisions to guess as to how the combined
20 company might approach broadband investment does not seem appropriate. One
21 need only look to CenturyTel's current commitment to broadband deployment to

⁴³ Direct Testimony of Trevor R. Roycroft, p. 36, lines 11 ff.

⁴⁴ Direct Testimony of Trevor R. Roycroft, p. 36, lines 15-19.

1 understand the level of commitment its executive team—the team that will run the
2 post-merger company—places on providing advanced network solutions to its
3 customers where prudent to do so. Given that demonstrated commitment, it
4 seems more likely that advanced broadband services will benefit, not be put at
5 risk, by the proposed transaction. Dr. Roycroft is not only speculating in this
6 instance, but he appears to be ill-informed.

7

8 **Q. WHAT ABOUT DR. ROYCROFT’S CONCERNS ABOUT WIRELESS**
9 **DATA OFFERINGS AND THE 700 MHZ SPECTRUM?**⁴⁵

10 A. Dr. Roycroft essentially claims that the lack of a specific benefit associated with
11 CenturyTel’s acquisition of 700 MHz spectrum “indicates that those alleged
12 benefits may never emerge.”⁴⁶ Again, Dr. Roycroft appears to be reaching for
13 criticisms without foundation. First, wireless is not an ILEC-regulated service.
14 Second, the combined company will evaluate the use of the spectrum. Third, we
15 do not have significant spectrum resources in Washington, so we are limited as to
16 what we can do at present, but it does not preclude the company from pursuing
17 spectrum agreements in Washington in the future if it is in the merged company’s
18 best interests. Again, the customers in Washington are not harmed by the fact that
19 we have no more spectrum assets in Washington after the merger than the assets
20 we had before the merger. However, Washington customers do benefit from the
21 fact that the combined company will be developing core competencies related to

⁴⁵ Direct Testimony of Trevor R. Roycroft, p. 37.

⁴⁶ Direct Testimony of Trevor R. Roycroft, p. 37, lines 21-22.

1 emerging wireless technologies. As these competencies mature and market
2 conditions warrant, the fact that the post-merger company will have experience
3 with 700 MHz wireless services certainly makes it more likely than would
4 otherwise be the case that we will bring these advanced services to Washington in
5 the future.

6

7 **IV. ROYCROFT MERGER CONDITIONS**

8 **Q. DO YOU AGREE WITH WITNESS ROYCROFT THAT THE EMBARQ**
9 **SPIN DOCKET CONDITIONS NEED TO BE APPLIED TO**
10 **CENTURYTEL?⁴⁷**

11 A. No, I do not. It is important to remember that the “Spin” conditions arose out of
12 a settlement among the parties to that case. The argument for the “need” for
13 these conditions was largely due to the fact Embarq was being created as a new
14 holding company for United of the North West (“UTNW”) and had no
15 independent track record in Washington. That is certainly not the case with
16 CenturyTel or, for that matter, Embarq at this point in time.

17

18 **Q. DO YOU AGREE THAT THE FINANCE CONDITIONS IN THE**
19 **SPINOFF SETTLEMENT SHOULD BE EXPANDED TO COVER**
20 **CENTURYTEL?**

⁴⁷ Direct Testimony of Trevor R. Roycroft, p. 39

1 A. No, I do not. Witness Roycroft claims it would be reasonable to apply these to
2 CenturyTel post merger. I believe the opposite is true. It would be unreasonable
3 to impose these conditions which were pursuant to a settlement in a case (and a
4 set of facts) unrelated to this merger. The Commission knows CenturyTel and
5 should recognize that it is burdensome to impose new and unnecessary reporting
6 requirements. There are existing remedies available to consumers and to the
7 Commission if CenturyTel fails to perform on its obligations.

8

9 **Q. DO YOU AGREE THAT THE COMPANY SHOULD NOTIFY**
10 **CONSUMERS ABOUT THE MERGER AND ANY NAME CHANGES?**⁴⁸

11 A. Of course. We believe avoiding customer confusion is important. In fact, we
12 will be notifying Washington customers of the proposed merger via bill message
13 this month. My understanding is that Washington rules require such notice and
14 we will comply with any and all such rules.

15

16 **Q. WILL CENTURYTEL NOTIFY ITS CUSTOMERS IF AND WHEN**
17 **THEIR LONG DISTANCE CARRIER IS CHANGED?**

18 A. Yes, we will. Here again, it is my understanding that Washington has rules that
19 govern the notification of customers when such a change takes place. We expect
20 to follow any and all regulations.

21

⁴⁸ Direct Testimony of Trevor R. Roycroft, p. 41, lines 11-16.

1 **Q. DR. ROYCROFT ALSO PROPOSES THAT THE COMMISSION IMPOSE**
2 **A CONDITION THAT REQUIRES THAT \$9.5 MILLION SHOULD BE**
3 **SHARED WITH CUSTOMERS BASED ON HIS ESTIMATE OF**
4 **WASHINGTON-SPECIFIC MERGER SYNERGIES. DO YOU AGREE?**⁴⁹

5 A. No, I do not. First, we are committed to creating a more financially sound
6 company to benefit consumers through investment and services, to benefit
7 employees through a more stable competitor, and to gain better access to capital
8 through appropriate and lower-cost financing resources. Dr. Roycroft's proposal
9 undercuts the very theory of this combination. CenturyTel and Embarq require
10 increased financial flexibility in operating during a turbulent competitive and
11 economic period. The synergies are intended to make the combined company
12 stronger financially and thereby to create a stronger inter-modal communications
13 competitor for the state of Washington. By enhancing the competitive
14 environment, we believe the combination will result in consumer-beneficial
15 market-based pricing (i.e., competition constrains prices) and more rapid
16 introduction of enhanced service offerings in the marketplace. The benefits are
17 clear and affirmative. However, this condition eviscerates the affirmative
18 purpose. Thus, I believe that the synergies—costs and revenues—should be
19 available to the company to support the company's operations in an emerging
20 competitive environment.

⁴⁹ Direct Testimony of Trevor R. Roycroft, p. 43-44.

1 Dr. Roycroft consistently has raised questions about the company's ability
2 to respond to investment demands and competitive pressures. We agree that
3 those external pressures are challenging for the industry, which is why this
4 merger represents an affirmative step forward in better ensuring that the merged
5 company is better able to flexibly respond. That is the motive for this stronger
6 telecommunications provider, and that is the clear benefit to consumers. We
7 contend that a stronger competitor is clearly good for public policy and all
8 parties, and that result is at risk if there are unnecessary reductions in the
9 resources available to the company such as the one proposed here by Dr.
10 Roycroft.

11

12 **Q. WILL THE COMPANY SEEK TO RECOVER ANY MERGER,**
13 **BRANDING OR TRANSACTION COSTS ASSOCIATED WITH THE**
14 **MERGER?⁵⁰**

15 A. No, we will not seek to recover any non-recurring direct costs related to this
16 merger process.

17

18 **Q. PUBLIC COUNSEL ALSO SEEKS TO HAVE THE COMMISSION**
19 **IMPOSE A VARIETY OF CONDITIONS RELATED TO**
20 **BROADBAND/DSL DEPLOYMENT. IS THIS APPROPRIATE?⁵¹**

⁵⁰ Direct Testimony of Trevor R. Roycroft, p. 45, lines 3-10.

⁵¹ Direct Testimony of Trevor R. Roycroft, p. 45-46.

1 A. No. To the extent broadband and DSL are regulated, they are regulated by the
2 FCC and not this Commission. Having said that, we are committed to expanding,
3 when prudent to do so, the availability and penetration of these services for our
4 future growth and to remain competitive. CenturyTel and Embarq are proud of
5 the networks we have built and the broadband penetration in our markets,
6 including the largely rural areas. This growth in broadband has been
7 accomplished without Commission oversight and we expect to continue
8 improving these services and their availability because the improvement is in the
9 best interest of our customers, our business and our financial stakeholders.

10

11 **Q. DO YOU AGREE THE COMPANY SHOULD HAVE TO PROVIDE**
12 **QUARTERLY REPORTS TO THE COMMISSION REGARDING**
13 **BUSINESS, REPAIR, MAINTENANCE, CALL CENTER AND BILLING**
14 **OPERATIONS AS SUGGESTED BY WITNESS ROYCROFT?⁵²**

15 A. No, I do not. First, it is my understanding that the Commission already has
16 service standards specified by administrative rule. As it has throughout its
17 history, CenturyTel intends to comply with or exceed all applicable standards.
18 Second, we respectfully propose that the Commission should minimize costly and
19 unnecessary conditions or regulatory reports resulting from this transaction. We
20 understand that there are risks which the Public Counsel and the Commission
21 should mitigate, but when there are appropriate other remedies, we urge the

⁵² Direct Testimony of Trevor R. Roycroft, p. 47-48.

1 avoidance of increased regulatory costs. A careful examination of Dr. Roycroft's
2 testimony will reveal relatively little potential for harm as our interests and the
3 public policy interests clearly are aligned. We have and will continue to commit
4 to superior service, but if we fail we expect that the Commission will employ the
5 enforcement mechanisms currently at its disposal.

6

7 **Q. SHOULD THE COMMISSION PLACE CONDITIONS ON THE NEW**
8 **COMPANY REGARDING LIFELINE SERVICES?**⁵³

9 A. No, it should not. This issue is unrelated to the merger and is not a risk. Both
10 companies are in full compliance with the federal program and work with
11 program administrators to advertise these benefits to consumers. Such a
12 condition is unnecessary.

13

14 **Q. DR. ROYCROFT SUGGESTS A CONDITION RELATING TO THE**
15 **MARKETING OF BASIC TELEPHONE SERVICE. HOW IS THAT**
16 **RELATED TO THIS PROCEEDING?**⁵⁴

17 A. I do not understand how this condition avoids some potential harm. Dr. Roycroft
18 asserts that UTNW advertises a product it calls "Basic Home Phone" which he
19 believes provides more service than his definition of "basic." It appears that
20 Public Counsel is attempting to accomplish other, unrelated objectives. I submit

⁵³ Direct Testimony of Trevor R. Roycroft, p. 48-49

⁵⁴ Direct Testimony of Trevor R. Roycroft, p. 49-50.

1 that there are a variety of alternatives available to Public Counsel to address its
2 concerns and this docket is not the appropriate place.

3

4 **V. REBUTTAL TO STAFF WITNESS WEINMAN**

5 **Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY OF COMMISSION**
6 **STAFF WITNESS WEINMAN?**

7 A. Yes I have.

8

9 **Q. DO YOU AGREE WITH MR. WEINMAN THAT ONE BENEFIT OF THE**
10 **PROPOSED MERGER IS THE IMPROVEMENT OF THE COMBINED**
11 **COMPANY’S BALANCE SHEET?⁵⁵**

12 A. Yes I do. He represents that the combined balance sheet will “offset the
13 individual weakness” of the individual balance sheets.⁵⁶

14

15 **Q. DO YOU BELIEVE THAT THE LEVEL OF GOODWILL ON**
16 **CENTURYTEL’S BALANCE SHEET IS CAUSE FOR CONCERN?⁵⁷**

17 A. No, I do not. Goodwill in this case is related to the “premium” above book value
18 generally arising in acquisitions. From a financial point of view, debt and equity
19 investors will focus on the predictable cash flows generated by the company. As
20 I noted earlier, the combined cash flows are expected to be higher for the

⁵⁵ Direct Testimony of William H. Weinman, p. 6. p. 6

⁵⁶ Direct Testimony of William H. Weinman, p. 7, line 15.

⁵⁷ Direct Testimony of William H. Weinman, p. 6.

1 combined company compared with the level that might be projected for the
2 individual companies.

3

4 **Q. WOULD YOU RESPOND TO STAFF WITNESS WEINMAN'S**
5 **COMMENTS REGARDING BALANCE SHEET WEAKNESS ON THE**
6 **PART OF BOTH COMPANIES?**⁵⁸

7 A. Yes. Mr. Weinman asserts that Embarq's balance sheet is weak because of the
8 low level of equity, as debt is approximately 99% of assets. As the Commission
9 is aware, the Embarq balance sheet reflects the accounting for the separation from
10 Sprint Corporation, as the equity in that case remained with the wireless parent.
11 However, in the financial markets, debt holders and equity holders have and will
12 focus on the level of cash flows. In fact, Embarq's debt is rated as investment
13 grade due to the rating agencies' assessment that the Embarq's cash flows remain
14 strong.

15 CenturyTel's balance sheet reflects a higher level of goodwill, which at
16 the end of the fourth quarter of 2008 was about \$4 billion. The reason, as
17 explained above, is that CenturyTel has engaged in a number of acquisitions and
18 has paid prices above the book value of the assets acquired. We note again that
19 the CenturyTel balance sheet, in spite of the presence of goodwill, remains strong
20 as verified by independent third-party credit rating agencies. CenturyTel and
21 Embarq are the only two independent ILECs whose credit is rated as investment

⁵⁸ Direct Testimony of William H. Weinman, p. 7.

1 grade. As explained above in my testimony and affirmed in the testimony of
2 William Weinman, the balance sheet of the post-merger company is expected to
3 be stronger as a result of this acquisition.⁵⁹
4

5 **Q. DO YOU AGREE THAT THE SIZE OF THE MERGER ALONG WITH**
6 **THE DEPLOYMENT OF NEW TECHNOLOGIES WOULD CAUSE A**
7 **SIGNIFICANT STRAIN ON MANAGEMENT AND THE CASH**
8 **REQUIREMENTS OF THE NEW COMPANY?⁶⁰**

9 A. No, I do not. Staff witness Weinman’s testimony provides no evidence to support
10 his conclusion, noting simply that Staff is concerned about the \$275 million in
11 integration costs during a period when “CenturyTel, Inc. is facing serious
12 competition . . . [and] experiencing a decline in originating and terminating
13 access minutes and access lines . . .”⁶¹ The concern about cash obligations should
14 be offset by the synergy savings. It is simply not correct to assess risks for costs
15 without assessing the net benefit from cost reductions. As previously disclosed,
16 we expect annual benefits that should be netted against the one-time expenses of
17 \$275 million. Further, we believe we have been very conservative in estimating
18 synergies compared with the savings realized in virtually all the recent mergers.
19

20 **VI. WEINMAN PROPOSED CONDITIONS**

⁵⁹ See Direct Testimony of William H. Weinman, p. 7, lines 15 ff.

⁶⁰ Direct Testimony of William H. Weinman, p. 8.

⁶¹ Direct Testimony of William H. Weinman, p. 8, lines 12-15.

1 **Q. DO YOU AGREE THAT “RING FENCE” CONDITIONS ARE**
2 **NECESSARY FOR THE COMMISSION TO APPROVE THIS**
3 **MERGER?**⁶²

4 A. I am very clear that ring-fencing would be wrong in this case. First, the principle
5 of ring-fencing is based on the perceived need to protect the individual operating
6 companies’ in a state jurisdiction against potential adverse effects in other
7 outside-state operations. We contend that the parent company, CenturyTel-
8 Embarq, would have the strongest capital position of any publicly-traded
9 independent carrier in the business, when measured by credit ratings, balance
10 sheet metrics, improved cash flows, and diversified operations that reduce risk.
11 As a result, there is no proximate or realistically foreseeable hazard that requires
12 such a ring-fencing condition. Second, the principle of ring-fencing involves an
13 isolation of a state’s operations to create greater security for those operations. I
14 contend that the Washington state operations are made stronger and benefit from
15 lower risk due to diversifying the in-state risk with different risks in other state
16 operations. If each state chose to be isolationist with respect to its capital and
17 operations through ring-fencing, the net effect would be to raise overall risk.
18 Third, I note that the operations in the state of Washington should enjoy the
19 financial benefits derived from a parent operation that has access to the capital
20 markets, technological resources, and personnel in other jurisdictions. It appears
21 inequitable that the state should limit the parent’s access to in-state capital, even

⁶² Direct Testimony of William H. Weinman , p. 10

1 as the state operations expect full access to the parent's resources. In short, I
2 contend that such a condition and such a policy creates risk that is not in the
3 public interest, whereas the avoidance of ring-fencing benefits the public that
4 realizes superior access to critical financial resources in other jurisdictions.
5 Finally, I note that, to the best of my knowledge, no other jurisdiction is
6 proposing such a limitation of the flow of capital.

7

8 **Q. DO YOU AGREE WITH COMMISSION STAFF THAT IT IS NOT**
9 **APPROPRIATE TO ENGAGE IN AN EARNINGS REVIEW AT THIS**
10 **TIME?**⁶³

11 A. Yes, I do. It would be premature to attempt to define the state-specific operating
12 costs benefits, and we support the deferral of those analyses until the next rate
13 review.

14

15 **Q. STAFF WITNESS WEINMAN ALSO EXPRESSES CONCERN ABOUT**
16 **MERGER, BRANDING AND TRANSACTION EXPENDITURES. DOES**
17 **CENTURYTEL INTEND TO TRY AND RECOVER THESE EXPENSES**
18 **THROUGH RATES?**⁶⁴

19 A. No. As I explained in my rebuttal to Dr. Roycroft, the company expects to incur
20 those costs, and will not seek to recover direct non-recurring merger-related
21 expenditures through regulated rates.

⁶³ Direct Testimony of William H. Weinman, p. 13

⁶⁴ Direct Testimony of William H. Weinman, p. 14-15.

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VII. REBUTTAL TO STAFF WITNESS ERDAHL

Q. DID YOU REVIEW THE TESTIMONY OF STAFF WITNESS ERDAHL?

A. Yes I did.

Q. DO YOU AGREE WITH STAFF WITNESS ERDAHL’S CONCLUSIONS REGARDING THE POTENTIAL HARMS OF THE TRANSACTION? ⁶⁵

A. No, I do not. First, Staff witness Erdahl states: “. . . staff analyzed the proposed merger for *potential* harms to competition, rates, and quality of service.”⁶⁶
[Emphasis added.] Nowhere in Staff’s testimony is there an explanation regarding how the analysis was conducted or what were the data that supported the conclusions. Second, the witness summarizes the “potential for harm” under three headings which relate to (a) potential rate impacts arising from merger costs, (b) potential quality of service impacts arising from diversion of management focus, and (c) decreased investment due to pressure to realize synergy savings.⁶⁷ All of these topics were addressed in my testimony above, but I again note that it is difficult for the Commission or for the Joint Applicants to assess *potential* concerns when there is no specific rationale presented, and when the record is apparently clear that these risks are minimal. I recommend that the Commission should not issue an Order with unnecessary conditions that rely on

⁶⁵ Direct Testimony of Betty A. Erdahl, p. 4-7.
⁶⁶ Direct Testimony of William H. Weinman, p. 4, lines 18-19.
⁶⁷ Direct Testimony of William H. Weinman, p. 6, lines 8-20.

1 unfounded and speculative fears when the record indicates that these “risks” are
2 small.

3

4 **Q. ARE CUSTOMERS AT RISK FOR INCREASED RATES OR**
5 **DECREASED SERVICE QUALITY DUE TO THE PROPOSED**
6 **MERGER?⁶⁸**

7 A. No. As we stated in our Application, the rates, terms and conditions of our
8 services will be the same the day after the merger is completed as they were the
9 day before. Further, the Commission’s oversight over the combined company
10 will not be changed by the merger. Any future changes the combined company
11 might seek in the terms and conditions of its regulated services are subject to
12 Commission review and approval. Similarly, the Commission’s regulation of
13 service quality is also unaffected by the merger. Throughout this case and in
14 every other acquisition over the last decade, CenturyTel has demonstrated its
15 commitment to service quality and good customer service. The company has a
16 good track record in Washington that is known and measurable. No Party in this
17 case has produced any evidence to the contrary, and we affirm again that the
18 company’s interests are aligned with those of the Commission as our success will
19 be tied to customer satisfaction. There is no record to support the belief that there
20 would be rate or service quality concerns, and in fact there is a record that

⁶⁸ Direct Testimony of William H. Weinman, p. 6

1 supports the expectation that the company will be a focused and superior
2 competitor.

3

4 **VIII. MERGER CONDITIONS PROPOSED BY STAFF WITNESS ERDAHL**

5 **Q. DO YOU AGREE THAT ALL CONDITIONS FROM EMBARQ'S**
6 **SEPARATION FROM SPRINT NEXTEL SHOULD CONTINUE TO**
7 **APPLY TO UTNW?**

8 A. Embarq witnesses Barbara Young and Mark Gast address this recommendation of
9 Ms. Erdahl. I will note that as explained by Ms. Young and Mr. Gast, the majority
10 of those conditions have been satisfied and are no longer applicable. To the extent
11 any of the conditions is still appropriate, the testimonies of Ms. Young and Mr.
12 Gast address those continuing obligations and/or requirements.

13

14 **Q. DO YOU BELIEVE ADDITIONAL AFFILIATED INTEREST**
15 **REPORTING REQUIREMENTS ARE NECESSARY FOR THE**
16 **COMMISSION TO APPROVE THE MERGER?⁶⁹**

17 A. No. I am not sure what "additional" affiliated interest transaction reporting is
18 contemplated.⁷⁰ However, my understanding is that the State of Washington
19 currently has a set of comprehensive affiliated interest rules and reporting
20 requirements as detailed in the settlement conditions for the Spin-off of UTNW
21 from Sprint. These rules are designed to ensure that ratepayers are not

⁶⁹ Direct Testimony of William H. Weinman, p.10-11.

⁷⁰ Direct Testimony of William H. Weinman, p.8, line1.

1 disadvantaged by inter-company transactions. We will abide by the agreement
2 and other appropriate existing regulations.

3

4 **Q. WILL IMPOSING A SERVICE GUARANTEE ON CENTURYTEL AID**
5 **CUSTOMERS?**

6 A. Not in my opinion. As explained above, I understand Washington has a
7 comprehensive set of service quality rules designed to protect customers.
8 CenturyTel and Embarq currently are in compliance with these rules and the
9 merger does nothing to change those rules or any of the enforcement mechanisms.
10 I respectfully note that this proposed condition imposes an additional layer of
11 administrative reporting, creates unnecessary costs in light of the two companies’
12 history of service, burdens one competitor without commensurate burdens for
13 other competitors, and does so without demonstrable need. Given the lack of
14 evidence supporting the perceived risk, the Commission should reject this
15 condition.

16

17 **IX. CONCLUSION**

18 **Q. IN YOUR VIEW, IS THE PROPOSED TRANSACTION IN THE PUBLIC**
19 **INTEREST?**

20 A. Yes, the proposed transaction is definitely in the public interest. Not only does it
21 cause no harm, it provides substantial near-term and long-term benefits to
22 ratepayers and the public generally

1 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

2 A. Yes.