

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the matter of,

Joint Application of Qwest Communications
International Inc. and CenturyTel, Inc. for
Approval of Indirect Transfer of Control of
Qwest Corporation, Qwest Communications
Company LLC, and Qwest LD Corp.

Docket No. UT-100820

DIRECT TESTIMONY

OF

JOHN JONES

CENTURYLINK

MAY 21, 2010

1 **Q. Please state your name and business address.**

2 A. My name is John Jones and my business address is 100 CenturyLink Drive, Monroe,
3 Louisiana.

4
5 **Q. Who is your employer and what is your position?**

6 A. I am employed as the Vice President, State Government Affairs for CenturyLink.

7
8 **Q. Please describe your educational background, work experience and present
9 responsibilities.**

10 A. I graduated with a Bachelor of Arts degree in Journalism and a Master of Arts degree in
11 Communication from the University of Louisiana at Monroe (ULM). Prior to joining
12 CenturyLink, I served as Public Affairs Director, student media adviser and adjunct
13 Communications faculty member for ULM for 12 years. I have also worked as a
14 journalist and public relations practitioner prior to my position at the university.

15 I joined CenturyTel, Inc. in 1993 and have been with the company nearly 17 years. I
16 have worked in various communications, government relations and regulatory positions
17 in the company during that time. Prior to the acquisition of Embarq, I was Vice President
18 of State and Federal Regulatory/Government Relations for the company. I have been
19 active in numerous state and federal reform proceedings including the MAG Plan,
20 Intercarrier Compensation Forum (ICF) and the Missoula Plan. I have also served as
21 President of the Independent Telephone and Telecommunications Alliance (ITTA) and
22 served on various committees for US Telecom in Washington, D.C.

1

2 My present role is Vice President of State Government Affairs for CenturyLink in our 33
3 operating states. I lead the state field teams that are responsible for regulatory, legislative
4 and government relations activities in each state. During my time with CenturyLink, I
5 have assisted in gaining state and federal regulatory approvals for approximately six
6 acquisitions.

7

8 **Q. What is the purpose of your testimony?**

9 A. I am testifying in support of the Joint Application (“Application”) filed by CenturyTel,
10 Inc., d/b/a CenturyLink (“CenturyLink”)¹ and Qwest Communications International Inc.
11 (“Qwest”) with the Washington Utilities and Transportation Commission
12 (“Commission”) on May 13, 2010. My testimony will describe the proposed transaction
13 and demonstrate that the transaction is consistent with the public interest and will result
14 in no net harm.

15

16 **Q. Are other witnesses filing direct testimony in this proceeding?**

17 A. Yes. Mark Reynolds, Assistant Vice President Public Policy and Regulatory Affairs for
18 Qwest Corporation (“Qwest Corp”) in Washington will describe the Qwest operations in
19 Washington and the benefits to customers and competition from achieving a stronger
20 combined company as a result of this transaction. In addition, G. Clay Bailey,

¹ CenturyTel, Inc. changed its name to CenturyLink, Inc. with shareholder approval on May 20, 2010.

1 CenturyLink’s Senior Vice-President and Treasurer, will discuss the financial benefits of
2 the proposed transaction. His testimony discusses why the proposed transaction will
3 create a financially stronger service provider nationally and in Washington – one with a
4 solid balance sheet and greater flexibility to continue investing in local networks,
5 broadband deployment and customer service enhancements. Finally, CenturyLink’s
6 President of the Mid-Atlantic Region, Todd Schafer will provide an overview of
7 CenturyLink’s operations and history, including its extensive experience in successfully
8 integrating and executing on prior acquisitions and will describe the company’s highly
9 localized business model that provides for a strong focus on its local markets and
10 customers. The combined testimony of all of the witnesses will explain why this
11 transaction is not only good for Washington consumers and businesses, but also for the
12 state as a whole in terms of meeting and advancing longer term telecommunications and
13 advanced services needs in a challenging economic environment.

14
15 **Q. Please generally describe the transaction subject to this proceeding.**

16 A. The proposed transaction (“Transaction”) is a simple stock-for-stock exchange by which
17 CenturyLink will acquire Qwest. It does not involve complex financial or tax structures.
18 Nor does it require additional debt or any refinancing. As further discussed by Mr.
19 Bailey, the Transaction is designed to create a strong and stable company in both the
20 short and long run, with greater financial resources and access to capital to invest in
21 networks, systems and employees. From a financial standpoint, CenturyLink will have
22 the scale and stability to make necessary, ongoing infrastructure investments needed to
23 serve the next generation of consumers whose preferences are likely to dictate that

1 communication companies become more responsive, diverse and faster to market in their
2 product offerings than they are today.

3
4 The Application and “Agreement and Plan of Merger” (“Merger Agreement”)² describe
5 the Transaction. Simply stated, the Merger Agreement calls for a business combination
6 at the parent level whereby a subsidiary of CenturyLink will merge with and into Qwest.
7 The separate existence of the subsidiary will then cease and Qwest will continue as a
8 direct, wholly owned subsidiary of CenturyLink. Upon closing of the Transaction, Qwest
9 shareholders will receive 0.1664 CenturyLink shares for each share of Qwest common
10 stock they own at closing. At that time, CenturyLink shareholders are expected to own
11 approximately 50.5 percent of the combined company, and Qwest shareholders
12 approximately 49.5 percent. As a result of the Transaction, CenturyLink will have local
13 exchange footprints in 37 states, including Arizona, Utah, North Dakota and South
14 Dakota where CenturyLink currently does not have incumbent local exchange carrier
15 (“ILEC”) operations today.

16
17 Following completion of the Transaction, four directors from the Qwest Board will be
18 added to the CenturyLink Board of Directors, including Edward A. Mueller, Qwest’s
19 Chairman and Chief Executive Officer. This addition will increase the number of
20 CenturyLink directors from 13 pre-Transaction to 17 post-Transaction.

21
22

² The Merger Agreement was included as Exhibit C to the Application filed on May 13, 2010 in this docket.

1 **Q. How will the merged entity be structured?**

2 A. The corporate structure will essentially remain as it is today except that Qwest will be a
3 subsidiary under CenturyLink. Attached to my testimony as Exhibit JJ-2 are diagrams
4 illustrating the organizational structure of the relevant companies before and after
5 closing. As mentioned, the Transaction contemplates a parent-level transfer of control of
6 Qwest so there is no direct effect on any of the regulated operating subsidiaries in
7 Washington for either company. At closing, Qwest will become a direct, wholly-owned
8 subsidiary of CenturyLink and all Qwest subsidiaries, including Qwest Corp, will be
9 indirectly owned and controlled by CenturyLink but otherwise will experience no change
10 in their existing corporate status or structure. In addition, the Transaction changes
11 nothing with respect to the corporate structure of CenturyLink's regulated operating
12 subsidiaries as all remain in place under the same status, structure, ownership and control
13 as exists today.

14

15 **Q. Please identify the CenturyLink entities operating in the state of Washington that**
16 **are regulated by the Commission.**

17 A. CenturyTel of Washington, Inc., CenturyTel of Inter-Island, Inc., CenturyTel of
18 Cowiche, Inc., and United Telephone Company of the Northwest are each indirect
19 subsidiaries of CenturyLink and are local exchange carriers operating under the
20 jurisdiction of the Commission. I will refer to these companies collectively as the "CTL
21 Washington ILECs." The CTL Washington ILECs provide service to approximately
22 200,000 access lines in 110 primarily rural exchanges in Washington. The other
23 regulated indirect subsidiaries of CenturyLink registered in Washington are CenturyTel

1 Long Distance, LLC, CenturyTel Solutions, LLC, CenturyTel Fiber Company II, LLC,
2 and Embarq Communications, Inc. I will refer to these companies and the CTL
3 Washington ILECs collectively as the “CTL Regulated Entities.” None of the CTL
4 Regulated Entities (or any entity that holds a controlling interest in them) is experiencing
5 a change in control as a result of this Transaction. The control of these companies will
6 remain with CenturyLink where it resides today.

7
8 **Q. Will the Transaction result in any changes in the manner in which the CTL**
9 **Regulated Entities are regulated by the Commission today?**

10 A. No, the CTL Regulated Entities will retain the same individual corporate identities and
11 continue to operate as they do today under the ownership and control of CenturyLink. As
12 a result, each of these companies will maintain its current operating authority and
13 regulatory status and will continue to abide by all applicable statutes, rules, regulations,
14 Commission orders, commitments, and tariffs or pricelists, as applicable, under which
15 they are currently regulated.

16
17 In addition, the Transaction will be virtually seamless to Qwest and CenturyLink
18 Washington customers. Immediately after the Transaction, customers will continue to
19 receive the same full range of high quality products and services at the same rates, terms
20 and under the same conditions as they did immediately before the close of the
21 Transaction. Any subsequent service, term, or price changes will be made, just as they
22 are now, in accordance with applicable rules and laws, including required notices.
23 CenturyLink has been successful in past acquisitions in minimizing customer confusion

1 and helping to make the integration of acquired companies as seamless and customer-
2 friendly as possible.

3

4 **Q. What authority are the Applicants seeking from the Commission in this proceeding?**

5 A. Applicants are seeking all requisite authority provided for in Chapters 80.12 RCW and
6 480-143 WAC that is applicable to a transaction of this nature.

7

8 **Q: Would you comment on the changing nature of the communications business and**
9 **the challenges faced by providers?**

10 A. The communications industry has changed dramatically in the last several years. It
11 continues to experience change at a frenetic pace. Consumers and businesses are
12 constantly seeking innovative technologies and alternative modes of communication as
13 they experience the benefits of more convenient and ubiquitous ways to communicate
14 and obtain data and video. Competition for voice, Internet, data and video is widespread
15 with increasing competition from wireless companies, cable operators, VoIP providers
16 and new, start-up entities. Mr. Reynolds' testimony provides further insight into the
17 nature and extent of competition in Qwest's Washington markets. The pressure on all of
18 these companies to be responsive, invest and innovate is intense.

19 Industry consolidation in the ILEC segment is also a reality. The evolving market and
20 technology dynamics have significantly altered the fundamentals of operating a wireline
21 business. We are in a challenging economy and an even more challenging telecom
22 environment. The timing of this transaction is good for both companies. The

1 combination of CenturyLink and Qwest will bring added stability and reliability to the
2 telecommunications industry in Washington and also position the company to better meet
3 current and future customer demands. Our business will require greater focus and
4 strategic flexibility to bring new products on line, and we will need to do so more quickly
5 than ever before. We will need to be stronger and have greater product and revenue
6 diversity as we develop expanded broadband services, innovative IP products such as
7 IPTV and other video choices, VoIP services, enhanced fiber-to-the-cell tower
8 connectivity and other high bandwidth services. As a combined company with
9 complementary strengths and operating footprints, we will have greater potential to
10 effectively reach more types of customers with a broader range of products, services and
11 connectivity solutions than either company could standing alone.

12
13 **Q. How does the Transaction help to provide that opportunity to the benefit of**
14 **customers?**

15 A. First, the Transaction brings together two leading communications companies with
16 complementary network and operating footprints, which will result in a more balanced
17 urban and rural footprint.³ The combined enterprise will have over 17 million telephone
18 access lines and serve over five million high-speed internet customers across 37 states. It
19 creates a truly nationwide platform for high-speed internet deployment by merging
20 Qwest's long-haul fiber network with CenturyLink's complementary long-haul fiber

³ CenturyLink's local-service network operates in 33 states while Qwest's local network operates in 14 mostly Western states. The merger will enable the companies to have complementary local exchange footprints in 10 of the combined 37 states. Additionally, CenturyLink will be able to provide voice and advanced telecom services in four additional states: Arizona, Utah, North Dakota and South Dakota

1 network and its core metropolitan rings. Combined, it gives CenturyLink approximately
2 180,000 route miles of fiber⁴ which will enable a more diverse mix of product offerings
3 and an enhanced ability to reach customers with those products. The combined network
4 will be a key differentiator in our industry and it will heighten the ability to advance the
5 deployment of high speed Internet services as well as for the customer-desired “triple
6 play” of broadband, voice and video.

7
8 A key benefit will come from leveraging each company’s operational and network
9 strengths, resulting in a company with an impressive national presence and local depth.
10 CenturyLink has proven the effectiveness of its region-based local market focus, as
11 further described by CenturyLink Operations witness Schafer. Qwest has industry-
12 leading enterprise, government and wholesale customer capabilities, as explained in more
13 detail by Qwest witness Mark Reynolds. These witnesses also attest to the extensive
14 investments that each company has made in advanced network and the expansion of their
15 individual fiber core networks. The merger of these complementary and additive
16 strengths, will increase the likelihood of bringing to market more advanced services and
17 compelling choices for customers at an accelerated pace.

18
19 The increased capabilities of the combined company, which will include Qwest’s coast-
20 to-coast network and growing Enterprise business segment, will also diversify the
21 company’s revenue structure and thereby create a stronger provider. The company will

⁴ An illustrative map is attached as Exhibit JJ-3.

1 be better situated, both financially and operationally, with more flexibility to meet the
2 challenges of a rapidly changing and intensely competitive communications environment.

3
4 The bottom line is that the combined company will be better-positioned to lead the
5 deployment of advanced services in Washington and other states with an experienced
6 workforce, a strategic national network infrastructure and a stronger balance sheet. The
7 result is a win not only for the company, but also for Washington customers and
8 communities.

9
10 **Q. Can you provide a more concrete example of the potential benefits that can be**
11 **derived from leveraging the complementary strengths of these two companies?**

12 A. As I mentioned, Qwest is a national provider of services to the enterprise market, and has
13 particular strength in serving large business and government customers. Thus, the
14 Transaction gives the combined company an increased prominence in the enterprise and
15 government broadband markets. CenturyLink, by contrast, focuses on businesses with
16 regional and local needs. The transaction will enable post-merger CenturyLink to
17 leverage Qwest's strength in providing complex communications services to large
18 businesses and government entities on a national and global scale to provide a broader
19 array of services to enterprise customers in CenturyLink territories. The combination of
20 Qwest's long-haul network with CenturyLink's fiber rings in metropolitan areas will
21 create a service partner that can offer strategic products to a broader array of businesses,
22 including those seeking access to a nationwide long-distance network. It will also allow
23 for more diverse routing options, provide redundant routing for network reliability

1 purposes, and offer communications and information services that are attractive to
2 businesses in the financial sector, government entities, and other customers who require
3 solutions for highly sensitive data operations.

4
5 **Q. What qualifications and ability does CenturyLink have to operate the combined**
6 **company and to continue to provide high quality services to customers?**

7 A. CenturyLink's senior officers are proven leaders in the telecommunications industry and
8 have established a solid, consistent reputation for running a high-performing enterprise
9 that serves customers well. To that end, Glen F. Post, III, the current CEO and President
10 of CenturyLink, will continue to be the CEO and President of the post-merger
11 CenturyLink. R. Stewart Ewing, Jr. the current Chief Financial Officer (CFO) of
12 CenturyLink, will continue to be the CFO of the post-merger CenturyLink. Karen A.
13 Puckett, the current Chief Operating Officer (COO) of CenturyLink, will continue to be
14 COO of post-merger CenturyLink. It is noteworthy that Mr. Post, Mr. Ewing and Ms.
15 Puckett have a combined total of approximately 88-years experience in the
16 communications industry, and have worked together as a continuous senior leadership
17 team at CenturyLink for the past decade. This length of undisturbed leadership
18 continuity is nearly unheard of in an industry such as ours. Also, Christopher K. Ancell,
19 currently the Executive Vice President of Business Markets Group for Qwest, will be the
20 President of the Business Markets Group for post-merger CenturyLink and will continue
21 to lead Qwest's successful, and growing, enterprise business segment.⁵ These leaders are
22 industry veterans with a stable base of knowledge, experience and leadership. They have

⁵ Additional senior leaders will be announced in the coming months.

1 a successful track record of executing on proven business models and localizing service
2 to the benefit of consumers in acquired markets. The CenturyLink leadership team
3 possesses the depth of knowledge, experience and leadership to move this company
4 forward through the next era of change and challenge.

5
6 The company's extensive merger and acquisition track record in Washington and other
7 states also provides a clear indication of its ability to successfully execute on its business
8 plans and provide high quality service. As Mr. Schafer explains in his testimony,
9 CenturyLink has a long history of successfully integrating acquired properties and assets
10 and expanding into new state jurisdictions. These successful acquisitions and subsequent
11 integrations have generated benefits for both the company and its customers. The senior
12 management team of CenturyLink is very familiar with and well-equipped to face the
13 challenges and opportunities that an acquisition and integration of this magnitude
14 presents. CenturyLink and its customers will benefit from that continued steady hand as
15 it faces the challenges and opportunities ahead.

16
17 Furthermore, ensuring that CenturyLink continues to provide high quality service and
18 customer experience pre- and post-merger is vitally important. CenturyLink understands
19 that continuing to meet customer needs is its top priority. The Transaction will not
20 change that focus. To the contrary, the customer service, network and operations
21 functions that are critical to each company's success today will continue to be key areas
22 of focus when the Transaction is complete, and the post-Transaction company will be
23 staffed to ensure that continuity. Qwest Corp and the CenturyLink Washington ILECs

1 will continue to be managed by employees with extensive knowledge of the local
2 communications business and with a commitment to the needs of the local community.

3
4 **Q. Would you comment on CenturyLink's technical expertise?**

5 A. CenturyLink's technical expertise is reflected in the multitude of services it provides
6 today in 33 states and also in its highly skilled workforce, which includes engineers, IT
7 personnel and technicians that have long been operating networks and systems for the
8 benefit of millions of customers. Going forward, the post-Transaction CenturyLink will
9 have a combined pool of technical and operational expertise from both companies from
10 which to draw support, training and the deployment of new and innovative products like
11 IPTV.

12
13 **Q. How would you describe "the fit" between the two companies, particularly as it
14 relates to a commitment to customer service?**

15 A. CenturyLink and Qwest are holding companies with both unique differences and
16 similarities. Utilizing the strengths of both companies are a key component of the
17 transaction. Their primary focus has been the ownership and operation of subsidiary
18 ILECs on a multi-state basis. Both companies have deep roots in serving and meeting the
19 communication needs of customers by investing heavily in quality, reliable voice and
20 data networks. Both companies and their employees are dedicated to local community
21 involvement and employee volunteerism. Both companies have strong management
22 teams and a base of experienced employees who share the common view that
23 successfully providing high quality communication services in these dynamic times is

1 contingent upon the ability to respond quickly to rapid changes in markets, technology
2 and customer demands.

3
4 CenturyLink's region-based, local operating model will reinforce this shared philosophy
5 and will likely be the most noticeable positive change for Qwest customers. As stated in
6 the testimony of CenturyLink Operations witness Schafer, this approach will likely be
7 implemented to ensure that the customer is at the center of everything the company does.
8 This structure has proven successful in driving customer service, responsiveness and
9 accountability closer to the customer and enabling the company to be more proactive and
10 successful in direct response marketing efforts on a market-by-market basis.

11
12 **Q. Are there other areas where you believe that the Transaction will have positive**
13 **benefits?**

14 **A.** Yes, as I mentioned, the Transaction will also have a positive impact on providing
15 competitive choice and responding to customer demands. Healthy competition is in large
16 part driven by the existence of a variety of viable network platforms in a given market.
17 Competition is most robust in markets where there is intermodal competition: that is,
18 where services are being delivered over wireless, wireline, and cable platforms. If any of
19 those platforms is rendered unsustainable, it would negatively impact competition and
20 consumers. The combination of CenturyLink and Qwest network infrastructure and
21 operating experience ensures a stable, capable, reliable network operator will be available
22 to weather long-term technological and competitive changes yet to come.

23

1 **Q. In your testimony thus far, you have described how the Transaction promotes the**
2 **public interest. Do you believe there are any potential harms that could result from**
3 **the merger?**

4 A. No. The Transaction will not disrupt existing service arrangements or regulatory
5 commitments. Both companies have affirmed that existing wholesale and interconnection
6 arrangements and commitments will remain intact, and that the operating companies will
7 honor the terms of existing Commission-ordered regulatory commitments. In this regard,
8 the Transaction will not have any impact on compliance with the regulatory requirements
9 of this Commission. The Transaction will not in any way affect this Commission's
10 jurisdiction over the CenturyLink Washington ILECs and Qwest Corp, the type of
11 regulation that they are subject to, or any binding regulatory commitments that have been
12 placed by the Commission.

13

14 **Q. Please summarize your testimony.**

15 A. The Transaction is in the public interest. It is a straightforward, parent-level stock-for-
16 stock transaction without any complex financing structures. It combines two leading
17 communications companies with customer-focused, industry-leading capabilities and
18 complementary networks and operating strengths. The Qwest regulated subsidiaries will
19 continue to provide services as they do today, but with the added benefit of a financially
20 stronger parent and a more localized approach to service and meeting evolving customer
21 demands. The combined company's senior management team will consist of proven
22 leaders with extensive experience in the industry and a successful track record of
23 transactional integration.

1
2 CenturyLink will become stronger, and more diverse and flexible, by leveraging the
3 complementary financial, operational and network strengths of each of the two
4 companies. This will help to ensure and accelerate the continued deployment of
5 advanced, broadband services to the benefit of both residential and business customers
6 and competition in general. The combined company's expertise in bringing high-speed
7 broadband services to market, together with the robust, nationwide fiber network, will
8 also improve its competitive potential in the enterprise business market. In sum, the
9 company will be better positioned for future growth and service to customers amid a
10 rapidly changing and intensely competitive communications environment.

11

12 **Q. Does this conclude your testimony?**

13 A. Yes.