Exhibit No. ___ T (MAG-2T)
Docket No. UT-082119
Witness: Mark A. Gast

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 MARK A. GAST

ON BEHALF OF
EMBARQ CORPORATION

March 18, 2009

Q. Please state your name, business address, employer and position.

A. My name is Mark A. Gast. My business address is 5454 West 110th Street, Overland Park, Kansas 66211. I am Director – Regulatory Analysis and Reporting for Embarq ("Embarq").

Q. Are you the same Mark A. Gast who filed direct testimony in this proceeding on January 2, 2009?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address certain of the proposed conditions suggested by Staff witnesses Betty A. Erdahl and William H. Weinman as well as one of the proposed conditions of Public Counsel witness Dr. Trevor R. Roycroft.

Q. Staff proposes that all conditions from Embarq's separation from Sprint Nextel (Docket UT-051291), to the extent they still apply, should continue to be imposed.[1] Is it appropriate for all of these conditions to continue to apply?

A. No. The majority of these conditions have already been satisfied and are not continuing obligations on United Telephone Company of the Northwest ("UTNW") or Embarq. For the conditions that have already been fulfilled, there is no need for them to be continued.

[1] Testimony of Betty A. Erdahl, p. 8, lines 18-19

For the few continuing or unexpired obligations, the combined company is committed to fulfilling those obligations for UTNW.

Specifically, I will address separation settlement conditions #1, 2 and 7 in Staff Witness Erdahl's testimony related to directory sale imputation, commitment to not seek recovery of certain spin-related costs, and affiliated interest issues. In addition, I will address the status of settlement condition #6 and its applicability for UTNW. CenturyTel Witness Mr. G. Clay Bailey will address the recommendations of Staff Witness Weinman and Public Counsel Witness Roycroft for imposing finance conditions on CenturyTel. Embarq witness Barbara Young will address the remaining separation settlement conditions #3, 4, 5 and 8, which involve conditions related to Embarq's service guarantee, service quality, customer notice, and broadband reporting.

Q. Please explain the separation settlement condition #1 related to the directory sale and any impact the merger may have on that condition.

A. This condition requires UTNW to recognize $1.451M of imputed revenue to reflect the ratepayer gain associated with the sale of Sprint's directory publishing operations. UTNW began recognizing this regulatory adjustment in its 2008 reports to the Commission and will continue to do so until the amortization period is completed in 2017. This condition is not impacted by the merger and will continue to apply to UTNW.

Q. What is the status of condition #2 from the separation settlement prohibiting recovery of certain costs related to the separation of Embarq from Sprint Nextel?

A. Embarq has separately tracked costs related to its separation from Sprint in May, 2006. UTNW has not filed for a rate case or any other regulatory ratemaking proceeding since the separation, and there has been no impact on ratepayers from any of these costs. Further, in 2008, Embarq did not incur any costs that were related to the 2006 separation from Sprint and there will be no future costs associated with the separation. Therefore, this condition is no longer necessary.

Q. What is the status of condition #6 from the separation settlement related to certain finance conditions?

A. Condition #6 is comprised of several conditions (a) through (g) that set forth certain restrictions and reporting requirements related to financial transactions affecting UTNW. These conditions will continue to apply to UTNW post-merger, but because some of the conditions contain evaluations of, or place restrictions on the parent company (i.e., CenturyTel post-merger), the conditions are affected by the merger. To the extent the condition applied to parent company, Embarq pre-merger, the condition will apply to the parent company, CenturyTel post-merger. Specifically, condition #6a establishes certain triggers under which dividends from UTNW to Embarq would be limited.[2] Post-merger, the financial triggers will be based on CenturyTel's market value equity and net debt and investment grade ratings. Similarly, condition #6c establishes certain reporting

[2] The triggers are based on the relationship between the average market values of Embarq's common equity and the book value of Embarq's net debt, and whether Embarq's debt is rated investment grade,

requirements on parent company (i.e., CenturyTel post-merger) related to cash management activities performed on behalf of UTNW if the dividend restrictions are triggered. Finally, condition #6f limits the ability of the parent company (i.e., CenturyTel post-merger) or UTNW to pledge assets to secure any borrowings undertaken by the parent company unless approved by the Commission. The remaining finance conditions (#6b, 6d, 6e and 6g) will continue to apply to UTNW consistent with the terms of the separation settlement agreement.

Q. What is the status of condition #7 from the separation settlement governing affiliate interest agreements?

A. This condition was to be applicable if UTNW were a signing party to any contracts negotiated with Sprint Nextel prior to the separation. Since UTNW was not a signing party to any contract with Sprint Nextel prior to the separation, this condition is now inapplicable and should not be continued as part of the current merger proceeding.

Q. Commission Staff Witness Erdahl recommends additional affiliate transaction reporting requirements.[3] Are such additional requirements necessary?

A. No. This condition is unnecessary, costly, burdensome and unreasonable especially in light of the substantial affiliated interest information that is already being provided to Staff today. Under WAC 480-120-395 – Affiliated Interest and Subsidiary Transactions Report, both CenturyTel and Embarq are required annually to provide a listing of the

[3] Testimony of Betty A. Erdahl, p. 10, line 30 through p. 11, line 5.

subsidiaries in which transactions in excess of $100,000 are recorded. This listing includes a description of the services being provided, the transfer pricing basis (cost), the payments and receipts by Part 32 account, whether any loans exist between the affiliates, a listing of common officers, and a balance sheet and income statement of each affiliate. This report is no small effort. For example, Embarq's most recent report was over 80 pages. This report provides more than sufficient information for the Staff to understand all payments and receipts made to and from Embarq affiliates.

Staff's call for quarterly reporting of affiliate transactions in the level of detail recommended would require significant additional efforts to extract and summarize the detailed information from our accounting systems. Such additional regulatory reporting would force the companies to incur unnecessary costs to the produce the reports - costs that our competitors do not have to incur. Because the Commission's current affiliated reporting rules already require extensive amounts of information, which both CenturyTel and Embarq will independently report pre-merger, and the merged company will report post-merger, no additional reporting obligation is necessary.

Q. Staff believes that the additional reporting is necessary to gain "a clearer understanding of the new relationships post-merger in comparison with premerger affiliated relationships.[4]" Do you agree?

[4] Testimony of Betty A. Erdahl, p. 13, lines 5-7.

A. No. Staff's concern is unwarranted because WAC 480-120-375 requires both CenturyTel and Embarq to file a copy of any contract or arrangement of any affiliated interest. To the extent that affiliate relationships are expanded or changed as a result of the merger, the merged company will update and file the appropriate affiliate contracts with the Commission in compliance with the WAC. This should allow the Staff to gain an understanding of any new post-merger affiliated relationships and no additional reporting is necessary.

Q. **Staff claims that the additional reporting is necessary "in the event a rate case were to be filed.[5]" Is such a condition necessary?**

A. No. The Commission has the authority under Washington statutes and Commission rule to review affiliate transactions in conjunction with any rate case filings by the companies. Staff appears to be trying to justify its additional affiliate reporting obligation before a contingency (i.e., a rate case filing) has ever happened. Reporting obligations should not be determined in conjunction with a future event. In fact, at this point in time it is impossible to predict issues and appropriate protections that could arise so any new reporting obligation would merely be guesswork. If a rate case were to be filed in the future by the merged company in Washington, all affiliated transactions will be justified in compliance with the Commission rules at that time.

[5] Testimony of Betty A. Erdahl, p. 13, line 9.

I do not believe it is necessary to impose any additional affiliate interest reporting requirements than currently exist in the WAC, especially since both CenturyTel and Embarq fully comply with the current requirements. Furthermore, requiring detailed, quarterly reporting of affiliate transactions in the level of detail recommended by Commission Staff would require significant effort to extract and summarize the detailed information from our accounting systems. Adding additional regulatory reporting burdens on top of existing requirements is unnecessary.

Q. Staff Witness William H. Weinman and Public Counsel witness Dr. Trevor R. Roycroft propose that the companies should not be allowed recovery of any one-time (and recurring costs per Public Counsel) merger, branding or transaction costs[6]. Please comment on this proposed condition?

A. As stated in response to discovery, the merged companies will not seek recovery of any one-time merger, branding or transaction costs, and it does not anticipate incurring any such "recurring" costs. The companies agree that any filing made at the Commission to increase basic rates (for either Embarq or CenturyTel's operations in Washington) will not include one time costs of the merger.

Q. Staff Witness Weinman also proposes that the companies confirm that merger, transaction, and branding related costs will not be recorded on their books, or in the

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[6] Testimony of William H. Weinman, p. 14, lines 17-21 and Direct Testimony of Dr. Trevor R. Roycroft, p. 45, lines 5-10.

alternative, submit quarterly reports listing accounts and the amount accrued in those accounts for a period of five years[7]. Is this requirement necessary?

A. No. Commission rules already require quarterly results of operations and an annual report. Both CenturyTel and Embarq comply with Commission reporting requirements, and will continue to comply post-merger. In addition to the required reporting, the Commission has the authority at any time to request additional information from the companies. Staff's proposal to require additional quarterly reporting of accounts and amounts is both unnecessary and burdensome, and should not be a condition of the merger.

Q. Does this conclude your rebuttal testimony?

A. Yes.

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[7] Testimony of William H. Weinman, p. 15, lines 1-5.