

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

TODD SCHAFER

CENTURYLINK

MAY 21, 2010

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

2 A. My name is Todd Schafer and my business address is 14111 Capital Blvd, Wake Forest,
3 NC 27587.

4

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

6 A. I am employed by as the President for the Mid Atlantic Region for CenturyLink.

7

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

10 A. In 1987, I graduated with a B.S. from the University of Wisconsin-Stevens Point
11 majoring in both Business Administration-Finance as well as Managerial Accounting.
12 Immediately after graduation, I joined the Audit Division of Arthur Andersen & Co. For
13 3 ½ years, my role was to perform audit work at various clients.

14

15 In 1991, I became the Vice President of Urban Telephone Corporation, a subsidiary of
16 Rochester Telephone Corporation in Clintonville, Wisconsin. Rochester Telephone later
17 changed its name to Frontier Corporation which is now part of Citizens Communications
18 operating under the Frontier brand name.

19

20 In 1993, I became the State of Wisconsin General Manager responsible for the five
21 telecommunications companies owned by Frontier in Wisconsin. From 1993 until early
22 2001, my role as State General Manager was to oversee and lead all activities for the
23 companies in Wisconsin including all the day to day operations, customer service,

1 community relations, financial performance, network investment and performance,
2 competitive and regulatory direction as well as the integration of the five once
3 independently owned and operated companies into Frontier's regional operating model.
4

5 In early 2001, I began working for CenturyTel becoming the General Manager for its
6 wireline and wireless operations in eastern Wisconsin and the Upper Peninsula of
7 Michigan. As the General Manager, my responsibility was to lead the eastern Wisconsin
8 market responsible for overall financial performance, level of service, customer facing
9 sales distribution, market competitiveness and network development.
10

11 In 2004, I became the Regional Vice President responsible for CenturyTel's Southern
12 Region. From 2004 until June 2009, my role as Regional Vice President was to lead the
13 overall performance of the eight states in the region. Financial performance, level of
14 service, customer facing sales distribution, market competitiveness and daily operations
15 were elements of my responsibility.
16

17 Since July 2009, I have been the President of the Mid Atlantic Region of CenturyLink
18 leading the results for the five states in the region. My role is very similar to the role I
19 had for CenturyTel's Southern region but significantly larger in customer and employee
20 counts.
21
22
23

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

2 A. I am testifying in support of the Joint Application (“Application”) filed by CenturyTel,
3 Inc., d/b/a CenturyLink (“CenturyLink”)¹ and Qwest Communications International Inc.
4 (“Qwest”) with the Washington State Utilities and Transportation Commission
5 (“Commission”) on May 13, 2010. My testimony will provide a brief overview and
6 history of CenturyLink, including a description of the company’s demonstrated ability to
7 successfully complete the integration process associated with prior acquisitions. In
8 addition, I will describe CenturyLink’s highly localized business model which focuses on
9 empowering local personnel to meet the distinct needs of the markets they serve and
10 places the customer at the center of what the company does.

11

12 **Q. Please give a brief overview and history of CenturyLink.**

13 A. CenturyLink is a holding company that conducts business principally through wholly-
14 owned subsidiaries that offer a broad array of high-quality communications products and
15 services. These products and services are provided to consumers and businesses in 33
16 states. Headquartered in Monroe, Louisiana, CenturyLink is an S&P 500 company and
17 has been listed in the Fortune 500 list of America’s largest corporations. As of December
18 31, 2009, CenturyLink provided “ILEC” services to over approximately seven million
19 access lines, and high-speed Internet and data transmission services to over 2.2 million
20 customers. With its exceptional network infrastructure, localized approach to service and

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

1 its commitment to invest in broadband, CenturyLink has been a leading provider of
2 advanced broadband services in the majority of the markets it serves. The company
3 currently employs about 20,000 employees, with 420 in Washington.

4
5 CenturyLink started as a single-exchange, family-run local telephone company in 1930.
6 Throughout the years, CenturyLink has grown its operations into new markets by
7 successfully acquiring and integrating companies, properties, and assets and improving
8 and expanding services in those markets. As I will discuss in more detail below, many of
9 these acquisitions have been relatively large transactions that greatly expanded the then-
10 existing company's size and footprint. The company also acquired significant fiber assets
11 in 2003 and 2005 which has enabled it to develop and grow an extensive high-speed
12 optical core network that provides wholesale and retail fiber transport services to
13 customers all across the United States.

14
15 **Q. Could you expand upon the wide array of communications services that**
16 **CenturyLink provides?**

17 A. Yes. These services include a host of local and long-distance voice, high-speed Internet,
18 video entertainment and wholesale local network access services, as well as a variety of
19 broadband and high bandwidth services. In various areas, CenturyLink also offers
20 security monitoring, home networking, data hosting, national and metro Ethernet,
21 systems/network management and other professional, business and information services.
22 To secure its position as a leading provider of advanced broadband services, the company
23 has invested heavily not only to extend its fiber core network, but also to deploy fiber

1 deeper into its local networks. CenturyLink has been a leader in the launching of DSL
2 offerings and is expanding or preparing to expand its Internet protocol television (IPTV)
3 product into additional locations which is made possible by the investment in faster
4 broadband speeds.

5
6 **Q. You stated that CenturyLink has grown over time in part due to a number of**
7 **successful, strategic acquisitions. Please describe CenturyLink's consolidation**
8 **history.**

9 A. CenturyLink is an American business success story. What started as a family run
10 business being operated from the parlor of a residence in northeastern Louisiana, has
11 grown into one of the most well-respected national communications companies in the
12 United States. Over the years, the company has successfully completed and integrated a
13 number of acquisitions which has enabled the company to expand its national footprint
14 and build upon its commitment to provide excellent customer service and to improve its
15 network. With each transaction, the company has been able to increase in size and
16 financial strength, enabling it to improve the range of services, enhance customer service
17 and place itself in a more stable financial position.

18
19 Exhibit TS-2 illustrates a timeline of the various acquisitions. While there are a number
20 of examples which illustrate the company's expertise in this area as shown on Exhibit
21 TS-2, let me speak to several of the larger ones. In the late 1990's, CenturyLink added
22 approximately 600,000 access lines across twelve states, including Washington, when it
23 acquired Pacific Telecom, Inc. At that time, the transaction more than doubled the size of

1 the company. Over the next few years, the company engaged in a series of acquisitions
2 that once again doubled the company's size when it added another 1.2 million access
3 lines acquired from GTE, Ameritech, and Verizon, concentrated primarily in Alabama,
4 Arkansas, Missouri, and Wisconsin. These acquisitions significantly expanded its
5 presence in those states and demonstrated the company's ability to not only grow rapidly,
6 but to also successfully integrate and operate nearly two million new access lines serving
7 wholesale, business and residential customers. Most recently, CenturyLink acquired
8 Embarq Corporation ("Embarq") and its 5.4 million access lines, which more than tripled
9 the size of the company.

10
11 In each case, the integration efforts have been successful. Billing, financial and customer
12 care system conversions have been executed smoothly and in accordance with established
13 time frames. These efforts have included standardizing key operational processes,
14 making strategic investments in infrastructure, aligning and holding employees
15 accountable, providing advanced technical support in the field, enhancing communication
16 strategies and increasing and streamlining training, among other things. Overall, the
17 company has maintained a sharp focus on accountability and commitment at all levels of
18 management to achieve a successful transition.

19
20 CenturyLink's senior executive management team has one of the longest tenures in the
21 industry, and is recognized by the financial community as one of the most successful and
22 experienced in managing mergers and acquisitions. CenturyLink is confident that, with
23 the combined experience and leadership abilities of the management teams, the execution

1 of this integration will be as smooth and successful as the Embarq integration and others
2 have been in the past.

3

4 **Q. Would you provide examples of that integration process?**

5 A. Absolutely. The best way to describe our approach to integration and other M&A
6 processes is that the entire company works holistically to ensure that all operating units
7 and departments are working in unison to achieve business and integration objectives.
8 Regardless of the size of the acquisition, the company establishes carefully developed
9 integration plans and targeted timelines for all relevant functional areas with clearly
10 defined owners and metrics to measure progress.² CenturyLink's integration success is
11 attributable to learning from each transaction, establishing workable schedules and action
12 plans and then executing on those plans. Minimizing customer confusion and disruptions
13 are over-arching goals of our integration process.

14

15 As an example, on July 1, 2009 CenturyTel closed on its acquisition of the much larger
16 Embarq in a sizeable transaction which created a leading communications service
17 provider which as of the end of 2009 served 7 million access lines, 2.2 million broadband
18 customers and 535,000 video customers in 33 states. The company's significant,
19 focused, and meaningful progress since the CenturyTel/Embarq closing in July 2009 is
20 indicative of its ability to successfully integrate acquisitions and its foresight in
21 anticipating growth as it makes operational or system decisions. For example, several

² A graphic illustration of some of the major tracked milestones associated with integration of the Embarq transaction and anticipated timelines for the Qwest integration is attached hereto as Exhibit TS-3.

1 years ago CenturyLink made significant investment in and upgraded its financial and
2 billing systems in order to deliver integrated, customer service and improved levels of
3 financial accountability. These system upgrades were designed to be scalable and
4 support future business expansion which has enabled CenturyLink to quickly and
5 seamlessly reach many key integration milestones. Consequently, very quickly after
6 close, financial and human resource systems were converted. Within months, a phased
7 schedule for converting customer billing systems was implemented. Already,
8 approximately 25 percent of the access lines served by former Embarq systems have been
9 successfully and seamlessly converted to CenturyLink's single integrated retail customer
10 service and billing system. Another 25% of former Embarq access lines are expected to
11 convert by year end 2010, with the remaining access lines converted by the third Quarter
12 of 2011, or within about 24-27 months after closing.

13
14 The successful integration of Embarq has not been limited to systems however. Since the
15 closing, CenturyLink has expanded its core fiber network by building or leasing fiber
16 optic transport to connect former Embarq and CenturyTel markets in the western United
17 States with markets on the east coast. As a result, CenturyLink's long-haul network now
18 connects 90 percent of its service areas, reducing costs and creating revenue opportunities
19 from new service opportunities. IPTV has been deployed in former Embarq markets and
20 the company is ramping up its initiative to deploy IPTV in other locations. Broadband
21 deployment has continued with the introduction of new products such as "Pure
22 Broadband." Broadband speeds and additional deployment to unserved areas have
23 increased in multiple markets. And, CenturyLink has been deploying its "triple play"

1 offering to bring more competition to customers in multiple-dwelling-unit buildings—a
2 customer segment that was not a significant focus for former Embarq.

3
4 In addition to system conversions and network deployment, the company finalized the
5 budgeting process, completed organizational design and many staffing decisions, and
6 launched a new brand. On the day of closing, the company had its five-region “go-to-
7 market” concept in place and operational. The region concept has successfully brought
8 renewed local focus to all markets. The success of the concept has been defined and
9 demonstrated by a local leadership structure that is focused on the local needs of
10 communities and customers and the importance of maintaining a local market presence.

11
12 **Q. You mention the effectiveness of CenturyLink’s five-region “go-to-market” concept.**
13 **Please explain the attributes of that operating model in more detail.**

14 A. The region organizational structure brings our business closer to the customer and
15 provides a localized approach. Upon completion of the Embarq transaction, CenturyLink
16 implemented its proven “go-to-market” service delivery model, which presently includes
17 five regions and 22 market clusters in the 33 states in which the company operates.³ A
18 regional president oversees each of the five regions, and a general manager and various
19 operations managers are assigned to each of the market clusters. This more de-
20 centralized local structure enables a leaner, more efficient central corporate operation.
21 Placing a significant percentage of company leadership in the field creates a clear local

³ An illustration of how the regional management approach and its components fit within the overall Go-to-Market Service Delivery Model is attached hereto as Exhibit TS-4. A map showing the five regions implemented at close of the Embarq transaction is attached hereto as Exhibit TS-5.

1 market focus, which drives operations and service decision-making closer to the
2 customer. Together with CenturyLink's integrated retail customer care and billing
3 system, this model promotes more accountability to the customer. The company is able
4 to provide more direct and localized service and can respond to customers and
5 competition more quickly, on a market-by-market basis. Essentially, this model focuses
6 on empowering local personnel to meet the distinct needs of their markets and places the
7 customer at the center of what the company does.

8
9 **Q. Will that model be incorporated into the areas of Qwest's operational structure**
10 **upon the completion of the Transaction?**

11 A. Yes, we anticipate it likely will, as CenturyLink's structure has proven to be a successful
12 service delivery model. No changes will be made prior to closing, and we will first need
13 to evaluate Qwest's structure and consider adjustment to the configurations necessary to
14 fit the newly merged operations and to ensure that any modifications continue to meet
15 customer expectations.

16
17 **Q. Has CenturyLink found the locally focused business model approach works well in**
18 **urban markets as well as rural?**

19 A. Yes. CenturyLink's business model is focused on driving accountability to customers
20 and results of the market at a local level. Markets often differ for many more reasons
21 than population densities as even urban markets have differing levels of competition,
22 customer needs, and unique attributes. For example, while the CenturyLink Ft. Myers,
23 FL and Las Vegas, NV markets are clearly both urban markets, they have varying

1 customer-types, demographics, and competitive activities. Having dedicated General
2 Managers and their local teams in both markets help to more clearly distinguish those
3 unique elements and significantly improves our ability to adjust our specific strategies
4 and tactics to meet the needs of each individual market.

5
6 **Q. In discussing a more localized service approach, you refer to the company's**
7 **customer care systems. Do you have any examples of improvements that have**
8 **enhanced the ability of CenturyLink to provide more targeted, localized customer**
9 **service?**

10 A. Yes. CenturyLink employs a "neighborhood" approach to customer service call centers
11 that enables customer calls to be matched with associates that are trained to understand
12 the nuances of the state. The neighborhoods are designed and grouped to align available
13 staffing with the needs of the states that are included in that group. Through the
14 neighborhood approach, customer service associates have a focus and an "ownership" of
15 the states for which they are responsible. They understand the service offerings in that
16 region and are even aware of current happenings in the area as the call screens have the
17 ability to provide real time information about the locale so that there is a real connection
18 between the associate and the customer. This is another approach that likely will be
19 adopted during the integration of Qwest.

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1 **Q. Does this locally focused approach help you to address the changing nature and**
2 **challenges of the business that Mr. Jones discusses in his testimony?**

3 A. Absolutely. As Mr. Jones discusses, there is no question that the communication industry
4 has changed dramatically in the last several years. Customers now have more service and
5 provider options and more varied expectations that carriers must meet. While all markets
6 change, markets do not all change in the same way or at the same speeds. As I
7 mentioned, even two markets that share some common characteristics such as the two
8 urban markets of Ft. Myers and Las Vegas, still have unique needs that are best served
9 through a locally focused approach that can more quickly determine and address the
10 changes in the market.

11
12 **Q. Do you have any concluding remarks?**

13 A. Yes. The Transaction brings together two leading communications companies with
14 complementary networks and operating footprints. By building on each company's
15 operational and network strengths, the combined company will have an impressive
16 national presence with the local depth that will allow it to better serve all of its customers.
17 The combination creates a company that will be well-positioned to lead the deployment
18 of advanced services as well as successfully manage the challenging and rapidly
19 changing telecommunications environment.

20
21 **Q. Does this conclude your testimony?**

22 A. Yes.