

**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

**DIRECT TESTIMONY OF
BARBARA YOUNG**

**ON BEHALF OF
EMBARQ CORPORATION**

January 2, 2009

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

2 A. My name is Barbara Young and my business address is 902 Wasco Street,
3 Hood River, OR 97031.

4

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

6 A. I am employed by Embarq Management Company as State Executive for
7 Washington and Oregon.

8

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

11 A. I received a Bachelor of Science degree in Business Finance from Portland State
12 University in 1994. I began working for United Telephone Company of the Northwest in
13 1983 in the Consumer Services Department, was then promoted to the Revenues and
14 Regulatory Department. I held various management positions in the Department with
15 responsibilities including regulatory, legislative, carrier services and consumer affairs. I
16 was named the State Executive for Washington and Oregon in September 2007. My
17 responsibilities include overseeing all public, regulatory and legislative affairs on behalf
18 of Embarq in Washington and Oregon.

19

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

21 A. The purpose of my direct testimony is to address some of the benefits of the
22 proposed transaction which demonstrates that the change of control resulting from the
23 Transaction is in the public interest.

24

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

26 **A.** Yes, the testimony of Mr. Clay Bailey on behalf of CenturyTel, Inc. (“CenturyTel”)
27 will address the operational and financial benefits of the proposed merger.

28

29 Mark A. Gast on behalf of the Regulated Entities will address the financial
30 strengths of the companies post-transaction. Mr. Gast demonstrates that the merged
31 entity will be financially capable of providing quality service after the transaction. Mr.
32 Gast's testimony further shows that the financial structure and capabilities of the merged
33 entity will allow it to invest in networks, systems and employees to continue providing
34 high quality service in an increasingly competitive environment.

35

36 **Q. Please identify the Embarq entities operating in the state of Washington**
37 **that are affected by this application.**

38 **A.** United Telephone Company of the Northwest d/b/a Embarq (“United”) and
39 Embarq Communications, Inc., (“ECI”) (collectively “the Regulated Entities”) are
40 certificated to provide service in Washington. The Regulated Entities are direct
41 subsidiaries of Embarq Corporation.

42

43 **Q. What transaction is the Commission being asked to approve in this**
44 **proceeding?**

45 **A.** CenturyTel and Embarq have agreed to merge. Under the terms of the
46 Transaction, CenturyTel will exchange a specified number of shares of its stock for each

47 share of Embarq stock. In turn, Embarq will become a direct, wholly owned subsidiary
48 of CenturyTel. The Regulated Entities will remain subsidiaries of Embarq. As a result
49 of the stock transaction, a change of control of the Regulated Entities' parent will occur
50 and a makeup of the merged entity's Board of Directors will undergo a change as well.
51 Specifically, the merged entity's Board of Directors will be composed of eight members
52 designated by the pre-transaction CenturyTel Board of Directors and seven members
53 designated by Embarq. As noted in the Application, CenturyTel expects to refinance
54 Embarq's bank debt at closing and has commitments in place, but no incremental debt
55 will be incurred as a result of the transaction.

56

57 **Q. What standard of review is applicable to the Commission's review and**
58 **approval of the Transaction?**

59 **A.** WAC 480-143-170 requires that an applicant demonstrate that the transaction is
60 consistent with the public interest. As noted in the Application, the Transaction need not
61 specifically benefit the public, but must simply cause no harm.¹ However, the
62 Transaction will in fact benefit customers.

63

64 **Q. Please describe the structure of the merged entity.**

65 **A.** Attached to my testimony as Exhibit 1 are diagrams illustrating the organizational
66 structure of the relevant companies before and after the merger. In general, Embarq
67 will merge with a subsidiary of CenturyTel formed solely to effectuate the Transaction.
68 Embarq will then become a direct, wholly-owned subsidiary of CenturyTel.

¹ See *In the Matter of the Application of PacifiCorp and Scottish Power*, Docket No. UE-981627, Third Supplemental Order on Prehearing Conference at 2 (Apr. 2, 1999).

69

70 **Q. What are the organizational and operational effects of the Transaction, if**
71 **any, on the local operating subsidiaries of Embarq and CenturyTel, including the**
72 **Regulated Entities in Washington?**

73 **A.** There will be no immediate effect on the organization and operations of the
74 Regulated Entities. The Transaction will occur at the holding company level. As a
75 result, the Regulated Entities will retain the same corporate identities and continue to
76 exist and operate as individual, separate companies. Also, these companies will
77 continue to operate under their current certificates of public convenience and necessity,
78 subject to the Commission's regulatory oversight and control that exists today.
79 Furthermore, the Regulated Entities will continue to abide by all existing commitments
80 that were negotiated or agreed upon in previous Orders.

81

82 **Q. Will there be changes of any other sort to the Regulated Entities?**

83 **A.** After the Transaction is completed, there may be a change in the names under
84 which the companies are doing business (the "d/b/a"), but apart from that, the
85 Transaction will be transparent for customers. Immediately after the Transaction,
86 customers will continue to receive the same full range of high quality products and
87 services at the same rates, terms and conditions as they did before the Transaction.

88

89 In summary, the only organizational or operational change to the Regulated Entities at
90 the time of the Transaction will be that the ultimate owner of the Embarq entities will be
91 CenturyTel rather than Embarq. Stated in another way, when the Transaction is

92 completed, the Embarq Regulated Entities will have a new “grandparent” – CenturyTel –
93 but all else will remain as is today.

94

95 **Q. Why should the Commission approve the Transaction?**

96 **A.** CenturyTel’s acquisition of the Regulated Entities provides substantial benefits.
97 Notably, the affirmative benefits of the transaction include, at a minimum, the fact that
98 the merger builds greater financial strength and stability for the combined companies.
99 As a result, the combined companies will have the opportunity to be positioned in a
100 manner that allows the Applicants to be more responsive to competitive forces. As the
101 testimony of Mr. Gast and Mr. Bailey illustrates, the Transaction will result in a stronger
102 parent company than either company alone, and a parent company that is capable of
103 building greater financial strength and stability than could have occurred pre-
104 transaction. The combined company anticipates having financial metrics consistent with
105 those companies rated “investment grade.”

106

107 In addition, the merger will combine two leading communications companies with strong
108 customer-centric histories. Embarq has a rich history of providing telecommunications
109 services to local communities that dates back over a hundred years, and since its
110 emergence from Sprint, it has strengthened its local community roots. CenturyTel has a
111 similarly rich history in local telecommunications services, anchored by wireline service
112 in its existing certificated areas. The two companies combined will be the largest
113 independent wireline communications company in the United States. The combined
114 companies will serve approximately 8 million access lines, 2 million broadband

115 customers and approximately 400,000 video subscribers. The Transaction will
116 significantly increase the scale of the merging companies and enhance their competitive
117 position. With these complementary operating strengths, the combined company will be
118 better positioned to take advantage of beneficial purchasing opportunities, which in turn
119 should position the combined company to bring about network and operating
120 efficiencies and infrastructure improvements.

121

122 **Q. Can you address the opportunity the merger may offer to expand the suite**
123 **of products and solutions offered?**

124 **A.** As I mentioned earlier in my testimony, the combined company at close will be
125 the largest independent wireline communications company in the United States. By
126 combining assets, resources, and complementary strengths, the merged enterprise can
127 achieve greater economies of scale and scope than the two companies operating
128 independently. This, in turn, will enhance their ability to more strategically focus and
129 quickly respond to customer demand for a wide range of high quality advanced
130 communications services. Doing so will differentiate the Regulated Entities in the
131 markets they serve. With significantly increased scale, the Regulated Entities will be
132 better positioned to grow by deploying products and services that attract and retain
133 customers.

134

135 **Q. Please address the current market in which the Regulated Entities operate.**

136 **A.** United faces significant intermodal competition in many of its operating territories
137 in Washington. This competition takes on many forms, including wireless providers and

138 cable companies as well as CLECs (both resellers and overbuilders). While this
139 competition is advantageous for the consumer, it continually forces ILECs, like United,
140 to rethink our business strategies. The proposed merger of CenturyTel and Embarq is a
141 direct result of the need for both companies to create greater financial stability to
142 continue to provide reliable and innovative services in the competitive communications
143 marketplace.

144

145 While competitive entry has not been widespread in all of United's exchanges,
146 United has lost over 23% of its total retail access lines since 2001. These losses and
147 the competitive pressures make it difficult to achieve the economies of scale desired.
148 The merger will lead to improved economies of scale and provide strategic strength
149 which, in turn, provides the Regulated Entities with opportunities to remain competitive
150 in an ever-changing telecommunications market. Upon completion of the merger, the
151 Regulated Entities will be better positioned to serve customers in an increasingly
152 competitive environment where consumers of residential and business communications
153 services have more choices than ever before for voice, data, video, and wireless
154 services.

155

156 **Q. Will customers experience a change in the way they do business with the**
157 **Regulated Entities?**

158 **A.** No. As I explained earlier in my testimony, immediately following the transaction,
159 the Regulated Entities will continue to offer the same products and services they offered
160 the day before the Transaction was consummated, at the same prices, and subject to

161 the same rules, regulations, and applicable tariffs. The Transaction will have no
162 adverse effect on the quality of service provided to customers or on the ability of the
163 Regulated Entities to meet their obligations. Immediately following the Transaction,
164 customers will continue to be able to call existing telephone numbers and other existing
165 customer contact points to obtain new services, report service problems, and address
166 billing or other customer care issues.

167

168 **Q. Will the Regulated Entities continue to have the technical and managerial**
169 **ability to provide quality service after the Transaction closes?**

170 **A.** Absolutely. The Regulated Entities will have the assets, facilities, certificates,
171 technical capabilities, managerial expertise and other resources needed to continue to
172 provide quality services for customers. In addition, the Regulated Entities will continue
173 to employ personnel experienced and dedicated to the provision of service. The
174 customer service, network and operations functions that are critical to each company's
175 success today will continue when the Transaction is complete, and the post-transaction
176 company will be staffed to ensure that continuity. The local operations of the Regulated
177 Entities will continue to be managed by employees with extensive knowledge of the
178 local communications business and with a commitment to needs of the local community.

179

180 **Q. Will the Regulated Entities continue to honor existing commitments**
181 **provided for in the Stipulation and Settlement approved by the Commission when**
182 **Embarq separated from Sprint Nextel?**

183 **A.** Yes. The Regulated Entities will continue to abide by all existing commitments
184 that were negotiated or agreed to in previous Orders, including United's settlement at
185 the time of separation from Sprint Nextel.

186

187 **Q. Please summarize your testimony.**

188 **A.** Customers will benefit because the merger will bring together two companies
189 with complementary strengths and industry-leading capabilities whose businesses are
190 built upon serving local customers and creating a variety of products and services that
191 more directly address the preferences of those customers. With significantly increased
192 scale, the combined company will have greater financial and operational resources to
193 capitalize on marketplace opportunities, diversify revenues and expand networks,
194 expertise and financial resources to build long-term value for customers and
195 shareholders. The Regulated Entities will be part of an operationally and financially
196 stronger corporate family and, thus, better able to meet ever-increasing competition in
197 the telecommunications marketplace.

198

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

200 **A.** Yes.

201