

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

THE CENTURYLINK COMPANIES –  
QWEST CORPORATION;  
CENTURYTEL OF WASHINGTON;  
CENTURYTEL OF INTERISLAND;  
CENTURYTEL OF COWICHE; AND  
UNITED TELEPHONE COMPANY OF  
THE NORTHWEST

To be Regulated Under an Alternative  
Form of Regulation Pursuant to RCW  
80.36.135.

Docket No. UT-(new)

**DIRECT TESTIMONY OF**

**MARK S. REYNOLDS**

**ON BEHALF OF**

**CENTURYLINK**

**APRIL 1, 2013**

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<b>MSR-2</b>	<b>CenturyLink’s AFOR Proposal</b>

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**I. IDENTIFICATION OF WITNESS**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND EMPLOYMENT.**

A. My name is Mark S. Reynolds and my business address is 1600 7<sup>th</sup> Ave., Room 1506, Seattle, Washington, 98191. I am employed by CenturyLink as the NW Region Vice President Public Policy.

**Q. PLEASE REVIEW YOUR PRESENT RESPONSIBILITIES.**

A. I am responsible for regulatory, legislative, and local government affairs for CenturyLink operating companies in the states of Washington, Oregon, Idaho, Wyoming and Montana. My responsibilities include oversight of regulatory filings and advocacy, including presentation of testimony, as in this docket. I am also responsible for CenturyLink’s and its affiliates' communications and activities with the Washington Utilities and Transportation Commission (“Commission”).

**Q. BRIEFLY OUTLINE YOUR EDUCATION AND EMPLOYMENT BACKGROUND.**

A. I received a B.A. from Oregon State University in 1977 and an M.B.A. in 1979 from the University of Montana. My professional experience in the telecommunications industry spans 32 years working for CenturyLink and its predecessors, Qwest, U S WEST Communications, Inc. (“U S WEST”) and Pacific Northwest Bell. I have held various director positions in costs, economic analyses, pricing, planning and interconnection for U S WEST in the marketing and regulatory areas. I was responsible for ensuring economic pricing

1 relationships between and among U S WEST's product lines, including telephone  
2 exchange service, long distance, and switched/special access services. I  
3 represented U S WEST, both as a pricing policy witness, and as the lead company  
4 representative, in a number of state regulatory and industry pricing and service  
5 unbundling workshops. Subsequently, I managed an organization responsible for  
6 the economic analyses and cost studies that supported U S WEST's tariffed  
7 product and service prices and costs before state and federal regulators.

8 I also managed U S WEST's interconnection pricing and product strategy and the  
9 interconnection negotiation teams that were responsible for negotiating  
10 interconnection and resale contracts with new local service providers. Also, I  
11 managed U S WEST's cost advocacy and witness group, which was responsible  
12 for providing economic cost representation in telecommunications forums,  
13 workshops and regulatory proceedings. I was also responsible for state regulatory  
14 finance issues and, specifically, the development and implementation of Qwest's  
15 performance assurance plans in conjunction with its Section 271 applications.  
16 Finally, prior to my current position, I was responsible for CenturyLink's  
17 regulatory affairs in its former seven state Western Region, which included  
18 Washington.

19

20 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

21 A. Yes. I have testified in a number of proceedings before the Commission dating  
22 back to 1989, including rate and cost dockets, wholesale arbitration dockets,  
23 wholesale complaint dockets, the Qwest/U S WEST merger docket, the 271  
24 docket, the Dex sale docket, business services competitive classification dockets,

1 the Service Quality Performance Plan docket, the prior Qwest AFOR docket and  
2 most recently the CenturyLink/Qwest merger docket.

3 **II. PURPOSE OF TESTIMONY**

4 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

5 A. The purpose of my testimony is to provide an overview of CenturyLink’s request  
6 for an alternative form of regulation (“AFOR”) in accordance with RCW  
7 80.36.135. To that end, my testimony explains the basis for CenturyLink’s AFOR  
8 request, reviews the applicable statutes and rules that apply to such a request and  
9 summarizes CenturyLink’s evidence that satisfies the statutory requirements.

10

11 **III. OVERVIEW OF CENTURYLINK’S PETITION**

12 **Q. WHAT IS THE BASIS FOR CENTURYLINK’S PETITION FOR**  
13 **ALTERNATIVE REGULATION?**

14 A. The primary basis is the unprecedented level of competition CenturyLink faces in  
15 virtually all of its markets in the state of Washington and the differences in  
16 regulation between CenturyLink and its competitors. CenturyLink faces  
17 pervasive competition from wireless providers and cable companies for its  
18 residential and business exchange services, features and long distance. Also,  
19 CenturyLink is required to file for alternative regulation as a condition of its  
20 merger with Qwest.<sup>1</sup> The testimony of John M. Felz, also filed in support of  
21 CenturyLink’s AFOR petition, provides an in-depth analysis of the various types  
22 and levels of competition in the Washington telecommunications market.

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<sup>1</sup> Merger condition 3 ii., in the merger settlement agreement in Docket UT-100820 states that, “CenturyLink must file, at the company’s option, either a single consolidated proposed AFOR plan or separate proposed AFOR plans for each CenturyLink ILEC and Qwest, in compliance with RCW 80.36.135 and utilizing the principles established by the Commission in the Qwest AFOR, Docket UT-061625.” CenturyLink recently received approval from the Commission to proceed with an AFOR petition on an accelerated schedule.

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**Q. WHAT ARE THE REGULATORY DIFFERENCES BETWEEN CENTURLINK AND ITS COMPETITORS?**

A. The Commission does not regulate CenturyLink’s inter-modal competitors – wireless providers, cable companies and other Voice over Internet Protocol (“VoIP”) providers. Although the Commission does regulate competitive local exchange carriers (CLECs), CLECs are subject to only minimal regulation. Under the Commission’s rules, CLECs are classified as competitive companies for which many of the Commission’s rules are waived. As competitively classified companies, CLECs are not required to comply with the Commission rules associated with a number of financial transactions and reporting requirements, including affiliated interests, cash transfers and security obligations, and property transfers. CLECs do not have to keep their accounting books in accordance with regulatory accounting standards and do not have to file quarterly financial reports with the Commission. Also, although CLECs must comply with the Commission’s service quality rules, virtually none of them needs to file the monthly service quality reports required of the larger incumbent local exchange companies.<sup>2</sup> Finally, and most importantly, CLECs are not subject to rate of return regulation, or any other type of regulatory pricing constraints, and all of their services are treated as competitively classified services for which there is minimal regulation.

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<sup>2</sup> Only regulated companies serving more than 2% of the access lines are required to file monthly service quality reports.

1 **Q. WHY IS THE RELATIVE LEVEL OF REGULATION AN IMPORTANT**  
2 **CONSIDERATION IN THE COMMISSION'S DELIBERATION OF**  
3 **CENTURYLINK'S AFOR PETITION?**

4 A. It is important because regulatory constraints impede CenturyLink's ability to  
5 offer its services in manner similar to its competitors. As mentioned in the  
6 previous response, CenturyLink is required to comply with financial and service  
7 quality regulations and reporting requirements. Such regulation forces  
8 CenturyLink to incur monitoring and reporting costs that are not borne by its  
9 competitors. Further, for many of CenturyLink's Washington operating  
10 companies, its pricing flexibility is limited by legacy monopoly based constraints  
11 and rate of return ratemaking requirements while its competitors face no such  
12 artificial conditions. For example, earnings monitoring and artificial cost  
13 requirements are inappropriate in a competitive environment where costs can vary  
14 widely between diverse technologies and where prices are determined by the  
15 market.<sup>3</sup> In a competitive market, economically efficient prices are driven by  
16 consumer demand, based on product functionality, not the underlying product  
17 costs or a company's regulatory return on rate base.

18 Rate of return on rate base (traditional) regulation is a vestige of a bygone era  
19 when monopoly phone companies offered customers services at regulator-  
20 prescribed rate levels designed to recover each company's costs and a regulator-  
21 prescribed return on invested capital (rate base) from a captive customer base.  
22 Because pervasive competition has eliminated the monopoly, it has also  
23 eliminated the justification for traditional regulation.

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<sup>3</sup> For example, providing a VoIP telephony service on cable is a relatively small incremental cost compared with the cost to provide traditional circuit switched telephone service. Likewise, the cost to provide wireless services are different from either cable-based telephone or traditional wire-line service costs.

1           RCW 80.36.135, **Alternative regulation of telecommunications companies,**  
2           states, in part, that “[c]hanges in technology and the structure of the  
3           telecommunications industry may produce conditions under which traditional rate  
4           of return, rate base regulation of telecommunications companies may not in all  
5           cases provide the most efficient and effective means of achieving the public  
6           policy goals of this state . . .” CenturyLink submits that the changes in  
7           technology and the structure of the telecommunication industry referenced in the  
8           statute are precisely what has occurred over the past ten years with the emergence  
9           of wireless and cable networks and the Internet to offer telecommunications  
10          services that are competing with the regulated services of traditional telephone  
11          companies such as CenturyLink. Consequently, CenturyLink believes that  
12          petitioning the Commission to change its regulation to better reflect today’s  
13          competitive market is exactly the purpose of RCW 80.36.135.<sup>4</sup>

14

15   **Q.   WHAT DID CENTURYLINK DO IN PREPARATION FOR ITS**  
16   **ALTERNATIVE FORM OF REGULATION PLAN?**

17   A.   In preparation for its AFOR Plan, CenturyLink reviewed the provisions of the  
18          legacy Qwest AFOR plan to determine what provisions needed to be modified to  
19          reflect the changes in the telecommunications industry that have occurred since  
20          the plan was initiated in 2007. CenturyLink also conducted discussions with  
21          Commission Staff and the Public Counsel Section of the Attorney General’s  
22          Office. The purpose of these discussions was to inform these parties of  
23          CenturyLink’s AFOR proposal and to solicit input that CenturyLink could use to

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<sup>4</sup> In many states in the country, laws have been changed, or are in the process of being changed, to reflect the competitive telecommunications market and incorporate the goals that are expressed in this testimony. In some states, CenturyLink has successfully worked with the existing statutes and regulatory processes to achieve these same objectives. CenturyLink believes that this second approach is the preferable alternative to pursue in Washington at this time.



1 design its final AFOR plan. Based on its review of the legacy Qwest AFOR,  
2 CenturyLink believes that it has developed a comprehensive AFOR Plan for  
3 CenturyLink's five Washington operating companies that satisfies the terms and  
4 intent of the statute and should be approved by the Commission.

5

6 **Q. WHAT DOES CENTURYLINK PROPOSE FOR AN ALTERNATIVE**  
7 **FORM OF REGULATION?**

8 A. The basis of CenturyLink's AFOR proposal, similar to the current legacy Qwest  
9 AFOR, is that the Washington CenturyLink operating companies<sup>5</sup> should be  
10 regulated as competitively classified companies pursuant to RCW 80.36.320<sup>6</sup>  
11 subject to certain exceptions and certain transition period requirements, as  
12 described herein. Additionally, CenturyLink requests that the service quality  
13 reporting requirements under WAC 480-120-439(1) be waived, although it will  
14 still be subject to WAC 480-120-439(2) service quality requirements.<sup>7</sup>  
15 Notwithstanding this provision, during a three year transition period, CenturyLink  
16 will continue to provide monthly service quality reports that are comparable to the  
17 reporting of other Class A carriers.

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<sup>5</sup> Qwest Corporation d/b/a CenturyLink QC; CenturyTel of Washington d/b/a CenturyLink; CenturyTel of Inter Island d/b/a CenturyLink; CenturyTel of Cowiche d/b/a CenturyLink; United Telephone Company of the Northwest d/b/a CenturyLink

<sup>6</sup> The following statutes (and any associated rules and regulations) are waived for competitive telecommunications companies pursuant to RCW 80.36.320: RCW [80.04.300](#) (Budgets to be filed by companies -- Supplementary budgets); RCW [80.04.310](#) (Commission's control over expenditures); RCW [80.04.320](#) (Budget rules); RCW [80.04.330](#) (Effect of unauthorized expenditure -- Emergencies); RCW [80.04.360](#) (Earnings in excess of reasonable rate -- Consideration in fixing rates); RCW [80.04.460](#) (Investigation of accidents); RCW [80.04.520](#) (Approval of lease of utility facilities); RCW [80.36.100](#) (Tariff schedules to be filed and open to public); RCW [80.36.110](#) (Tariff changes -- Statutory notice -- Exception); Chapter [80.08](#) RCW (Securities) (except RCW [80.08.140](#), State not obligated); Chapter [80.12](#) RCW (Transfers of property); Chapter [80.16](#) RCW (Affiliated interests).

<sup>7</sup> Under this provision, CenturyLink would still be required to comply with WAC 480-120-439 service quality requirements, but would no longer be required to provide mandatory monthly reports. Like Class B companies, CenturyLink would be required to provide service quality reports, on an exception basis, if requested by the Commission.

1 Also, CenturyLink requests that the reporting requirements in the Seventeenth  
2 Supplemental Order in Docket UT-991358 be waived for Qwest Corporation  
3 d/b/a CenturyLink QC. The Seventeenth Supplemental Order in Docket UT-  
4 991358 required Qwest to provide monthly reports on its Customer Service  
5 Guarantee Program.<sup>8</sup> CenturyLink further requests that the requirement to report  
6 payments on a quarterly basis be eliminated. CenturyLink should be relieved of  
7 these obligations because no other carriers are required to report on their  
8 respective service guarantee programs.

9

10 Finally, CenturyLink proposes that upon approval by the Commission, the terms  
11 of the AFOR remain in effect for five years. During the six months prior to the  
12 AFOR's five year anniversary, CenturyLink and the Commission's Staff will  
13 conduct a review of the provisions of the AFOR to determine if changing market  
14 conditions warrant modifications to the plan. During the course of that review  
15 any of the parties to the AFOR may propose or oppose modifications. Upon  
16 conclusion of the review, but not later than the five year anniversary, the  
17 Commission will provide notice to the parties and hold a proceeding in which  
18 parties may advocate for or against proposed modifications. While the  
19 Commission deliberates, the terms of the AFOR will remain in effect.

20

21 **Q. WHAT ARE THE EXCEPTIONS TO THE PROPOSAL WHICH ARE**  
22 **REFERENCED IN THE PREVIOUS RESPONSE?**

23 A. The CenturyLink AFOR proposal does not disturb the Commission's authority to  
24 regulate CenturyLink's wholesale obligations under the Telecommunications Act

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<sup>8</sup> This requirement was reduced to a semi-annual report in the 2007 AFOR, but reinstated as a monthly requirement in the Qwest/CenturyLink merger proceeding.

1 of 1996, nor does it modify existing carrier-to-carrier service quality  
2 requirements, including service quality standards or performance measures for  
3 interconnection and appropriate enforcement or remedial provisions in the event  
4 CenturyLink fails to meet service quality standards or performance measures.  
5 This exception includes, but is not limited to, CenturyLink’s Interconnection  
6 Agreements with CLECs covering Interconnection, Unbundled Network  
7 Elements, Ancillary Services, and Resale of Telecommunications Services,  
8 legacy Qwest’s Interconnection Tariff (WN U-46), and legacy Qwest’s Resale  
9 Tariff (WN U-47).

10 The following other exceptions not addressed by the AFOR are:

- 11       ▪ Residential Measured Exchange Service<sup>9</sup>
- 12       ▪ Limited Directory Assistance - IntraLATA and National Directory  
13       Assistance charges will not be applicable to requests originating from  
14       telephone services CenturyLink has determined are used on a  
15       continuing basis by a person(s) certified incapable of using a published  
16       telephone directory. IntraLATA Directory Assistance charges will not  
17       be applicable for calls that originate from hospitals.
- 18       ▪ Washington Telephone Assistance Program - “WTAP”
- 19       ▪ Lifeline and Link-up Programs
- 20       ▪ Basic and Enhanced Universal Emergency Number Service – 911
- 21       ▪ Access Service

22  
23 The services listed above as exceptions to the AFOR would remain under tariff  
24 and subject to the Commission’s authority under current statutes and rules.

25 Additionally, CenturyLink agrees to be bound by the provisions of RCW

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<sup>9</sup> Measure residential service will remain in the tariff for those service areas where measured service is currently an option. CenturyTel of Cowiche d/b/a CenturyLink does not offer measured service, but does offer a flat rated service with a measure EAS option. In some CenturyTel of Washington d/b/a CenturyLink areas identified in WN U-2, rate groups 1 and 2, a measured service option is not offered.

1 80.36.330(3), and the Commission's implementing regulations, in connection  
2 with below-cost pricing.

3 Finally, although WAC 480-120-355 allows competitively classified companies  
4 to keep their accounts in accordance with generally acceptable accounting  
5 principles (GAAP), CenturyLink agrees to keep its accounts using the same  
6 method it uses for accounting and reporting to the Federal Communications  
7 Commission (the "Federal Regulatory Basis").

8 **Q. WHAT ARE THE TRANSITION PERIOD REQUIREMENTS OF THE**  
9 **AFOR?**

10 A. The following requirements would apply during a three year transition period:

- 11 • The stand-alone residential exchange service recurring rate for all  
12 CenturyLink operating companies is capped at \$15.50 during the transition  
13 period.<sup>10</sup> CenturyLink plans to employ a price plan for stand-alone  
14 residential exchange service rates aimed at normalizing the prices among the  
15 CenturyLink operating companies.
- 16 • Notwithstanding that most of CenturyLink's residence and business services  
17 will be treated as competitively classified services, the CenturyLink operating  
18 companies agree not to geographically de-average the non-recurring and  
19 monthly recurring rates for these services. This provision does not modify or  
20 restrict CenturyLink's ability to enter into individual contracts for service that  
21 specify rates other than state-wide average rates.

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23  

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<sup>10</sup> Residential rates currently in excess of \$15.50 would remain unchanged during the AFOR term.

1 **Q. PLEASE EXPLAIN THE PRACTICAL APPLICATION OF**  
2 **CENTURYLINK'S AFOR PROPOSAL, INCLUDING SPECIFIC**  
3 **CHANGES IN THE REGULATION OF CENTURYLINK IF THE AFOR**  
4 **IS APPROVED BY THE COMMISSION?**

5 A. The foundation of CenturyLink's proposal is the provision that it be regulated as a  
6 competitively classified company. Although footnote 6 details the statutes that  
7 are waived for competitively classified companies, the following list of regulatory  
8 changes summarizes the practical effect of this provision:

- 9
- 10 ■ All of CenturyLink's services would be regulated as competitively  
11 classified services except those listed in the exceptions portion of  
12 CenturyLink's proposal – i.e., Measured Residential Service, Certain  
13 Directory Assistance Services, WTAP, Lifeline and Link-up Programs,  
14 911, access service, interconnection service, resale service, and  
15 CenturyLink's other wholesale obligations under the Telecom Act.  
16 CenturyLink services that are not listed as exceptions would be treated  
17 as competitively classified services as a result of this provision and  
18 include, but are not limited to:
    - 19 • Residence and business flat-rated exchange services
    - 20 • Residence and business features
    - 21 • Residence and business packages
    - 22 • Analog and digital private line services
- 23

24 During a three year transition period, however, CenturyLink agrees not to  
25 geographically de-average the non-recurring and monthly recurring rates for these  
26 services. Also during this transition period, CenturyLink agrees to cap its  
27 residential rates at \$15.50.<sup>11</sup>

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<sup>11</sup> Residential rates currently in excess of \$15.50 would remain unchanged during the AFOR term.

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Regarding financial requirements and reporting obligations:

- CenturyLink would not be subject to rate of return regulation
- CenturyLink would not be subject to regulations or reporting requirements associated with:
  - Securities - RCW 80.08;
  - Transfers of Property - RCW 80.12 except, during the three year transition period, for purposes of reviewing a merger of the parent or operating companies or sale of exchange(s) for the WUTC-regulated CenturyLink companies;
  - Affiliated Interests – RCW 80.16.
- CenturyLink will keep its books of account in accordance with WAC 480-120-355. The accounting method that CenturyLink commits to use is the method it uses for accounting and reporting to the Federal Communications Commission (the “Federal Regulatory Basis”)
- CenturyLink will report to the Commission in accordance with [WAC 480-120-382](#), and not in accordance with [WAC 480-120-385](#).

Another provision of CenturyLink’s proposal is that CenturyLink be exempt from filing monthly service quality reports, including a waiver of a requirement that it report on its Customer Service Guarantee Program metrics. This provision is constrained by the transition period requirement in which CenturyLink agrees to continue to provide service quality reports that are consistent with the service quality reports of other Class A companies for the three-year transition period.

Finally, CenturyLink’s proposal provides that the AFOR be effective for five years. Both the Commission and CenturyLink would conduct a review of the plan

1 six months prior to the five year anniversary to determine if changing market  
2 conditions warrant plan modifications.

3 **Q. RCW 80.36.135 REQUIRES THE COMMISSION TO CONSIDER A**  
4 **NUMBER OF PUBLIC POLICY GOALS IN DETERMINING THE**  
5 **APPROPRIATENESS OF AN AFOR. DO YOU BELIEVE THAT YOUR**  
6 **AFOR PROPOSAL SATISFIES THESE PUBLIC POLICY GOALS?**

7 A. Yes. The public policy goals cited by the statute include those declared in RCW  
8 80.36.300 and those listed in RCW 80.36.135. I will first address the public  
9 policy goals in RCW 80.36.300.

10 **1. Preserve affordable universal telecommunication service**

11 CenturyLink's proposed AFOR addresses this goal in variety of ways. First, the  
12 AFOR allows CenturyLink to be more competitive in the marketplace, which will  
13 help ensure its survival and the survival of its services which provide customers  
14 with more choices at affordable rates. Second, the AFOR specifically carves out  
15 standalone residential measured service as a fully regulated service and  
16 establishes a maximum price for residential flat rated services during a three year  
17 transition term. During this transition period, CenturyLink plans to normalize  
18 prices among CenturyLink's operating companies. Finally, for those services that  
19 would be treated as competitively classified services as a result of the AFOR,  
20 CenturyLink commits to not geographically de-average the non-recurring and  
21 monthly recurring rates.

22 **2. Maintain and advance the efficiency and availability of**  
23 **telecommunications service**

24 CenturyLink's AFOR allows it to be more competitive in the market by  
25 enhancing its efficiency which increases its chances of survival and the survival

1 of its services that provide customers with more choices at affordable rates.  
2 Efficiency gains directly attributable to the AFOR include streamlined reporting  
3 and more efficient accounting and product management and pricing processes.

4 **3. Ensure that customers pay only reasonable charges for**  
5 **telecommunications service**

6 Whether CenturyLink's AFOR Petition is granted or not, its prices will remain  
7 constrained by the competitive market. Also, as previously mentioned, the AFOR  
8 specifically carves out standalone residential measured service as a fully regulated  
9 service and establishes a maximum price cap for residential flat rated services  
10 during a three year transition term of the plan. And, for those services that would  
11 be treated as competitively classified services as a result of the AFOR,  
12 CenturyLink commits to not geographically de-average the non-recurring and  
13 monthly recurring rates.

14 **4. Ensure that rates for noncompetitive telecommunications services do**  
15 **not subsidize the competitive ventures of regulated**  
16 **telecommunications companies**

17 CenturyLink does not believe that any of its services are noncompetitive.  
18 Nonetheless, to allay the concerns of some parties that, in some instances, few  
19 competitive alternatives may exist for standalone residential exchange service,  
20 CenturyLink proposes to leave its residential measured service as a fully regulated  
21 service, subject to the Commission's oversight. This means that the Commission  
22 can ensure that the rates for the service are fair, just and reasonable and do not  
23 provide a subsidy to other services. CenturyLink has also committed to comply  
24 with the restrictions against below-cost pricing in RCW 80.36.330(3), which  
25 means that no services will be sold below cost. As such, they will not be  
26 subsidized by other services.



1           **5. Promote diversity in the supply of telecommunications services and**  
2           **products in telecommunications markets throughout the state**

3           As previously stated, the AFOR allows CenturyLink to be more competitive in  
4           the marketplace which will help ensure its survival and the survival of its services  
5           which provide customers with more choices at affordable rates. As Mr. Felz's  
6           testimony explains, the past ten years have seen a tremendous increase in the  
7           number of telecommunications related products and vendors available to  
8           consumers in all markets, and that trend will certainly continue over the next five  
9           years. In order for CenturyLink to be successful in this highly competitive  
10          market, it must be subject to a level of regulation similar to its competitors.  
11          CenturyLink's AFOR is a step in that direction.

12          **6. Permit flexible regulation of competitive telecommunications**  
13          **companies and services**

14          CenturyLink believes that this is exactly what its AFOR is designed to do.  
15          Recognizing that its competitors that utilize cable and wireless networks are  
16          unregulated, the AFOR helps move the company in the direction of regulatory  
17          parity.

18  
19          **Q. PLEASE ADDRESS HOW CENTURYLINK'S AFOR PROPOSAL**  
20          **ADDRESSES THE PUBLIC POLICY GOALS OF RCW 80.36.135.**

21          A. The following response addresses how CenturyLink's AFOR satisfies the public  
22          policy goals listed for RCW 80.36.135.

23          **1. Facilitate the broad deployment of technological improvements and**  
24          **advanced telecommunications services to underserved areas or**  
25          **underserved customer classes**

1 Nothing in the AFOR affects CenturyLink's ongoing commitment to deploy  
2 quality and technologically current products to its customers throughout its  
3 operating territory. In fact, CenturyLink's AFOR includes a provision that it  
4 would not geographically de-average its rates for the services that would be  
5 treated as competitively classified services if the AFOR is approved. This means  
6 that rural customers would receive the benefit of any price changes for those  
7 services made by the company to compete in the competitive urban markets.  
8 CenturyLink's commitment and performance in terms of deploying advanced  
9 services is best illustrated by its recent deployment history. CenturyLink has met  
10 and exceeded its merger commitments for broadband deployment.<sup>12</sup> CenturyLink  
11 expects to continue to deploy facilities enabling advanced services in order to  
12 meet market demands and competitive pressures. The more freedom that  
13 CenturyLink has from regulations that do not apply to its competitors, the better  
14 able it will be able to deploy advanced services to compete with other providers.

15 **2. Improve the efficiency of the regulatory process**

16 CenturyLink's AFOR definitely seeks to improve the efficiency of the regulatory  
17 process through streamlined financial and service quality reporting and more  
18 efficient accounting and product management and pricing processes. More  
19 specifically, the proposed AFOR would eliminate a number of unnecessary  
20 quarterly financial reports to bring it into line with the reporting detail of other  
21 similarly situated companies, and significantly reduce the regulatory filings of a  
22 number of services that would be treated as competitively classified services if the  
23 AFOR is approved.

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<sup>12</sup> In Docket UT-100820, the CenturyLink/Qwest merger docket, CenturyLink committed to invest \$80M in retail broadband infrastructure in Washington over a five year period. To date, CenturyLink has invested approximately \$115M towards that commitment, with a significant portion enabling or upgrading service in unserved and underserved areas. Additionally, in Docket UT-120128, the building sale docket, CenturyLink committed to invest \$11.1M in broadband deployment in currently unserved and underserved areas.

1           **3.     Preserve or enhance the development of effective competition and**  
2                                   **protect against the exercise of market power during its development**

3           Because the AFOR begins the transition to regulatory parity for CenturyLink, vis-  
4           à-vis its unregulated cable and wireless competitors, it furthers the development  
5           of effective competition. The highly competitive market that is the genesis for  
6           CenturyLink’s AFOR request provides the necessary protection against the  
7           exercise of market power. Mr. Felz’s testimony provides compelling evidence  
8           that CenturyLink has virtually no market power in today’s market.

9           **4.     Preserve or enhance service quality and protect against the**  
10                                   **degradation of the quality or availability of efficient**  
11                                   **telecommunications services**

12           Nothing in CenturyLink’s AFOR affects its current retail or wholesale service  
13           quality obligations, with the exception of the modifications to CenturyLink’s  
14           monthly service quality report to bring it more in line with the reporting by other  
15           similar companies. The highly competitive market, not regulation, ensures and  
16           will continue to ensure that customers receive high quality and efficient  
17           telecommunications services. In today’s highly competitive market, if  
18           CenturyLink does not provide a high quality product that is efficiently  
19           provisioned and attractive to customers, it will not survive.

20           **5.     Provide for rates and charges that are fair, just reasonable, sufficient,**  
21                                   **and not unduly discriminatory or preferential**

22           CenturyLink’s AFOR proposes a number of its services be treated as  
23           competitively classified service. These services are subject to significant  
24           competition which will constrain rates and ensure that they are reasonable. In the  
25           AFOR, CenturyLink commits to not geographically de-average the rates for these  
26           services which means that rural customers will enjoy the competitive pricing

1 benefits brought about by the highly competitive urban markets. This also helps  
2 to ensure against undue discrimination or preference.

3 **6. Not unduly or unreasonable prejudice or disadvantage any particular**  
4 **customer class**

5 Nothing in CenturyLink's AFOR results in unreasonable prejudice or  
6 disadvantages any particular class of customer. As has been previously  
7 explained, the AFOR includes CenturyLink's commitment to not de-average the  
8 rates of services that would be treated as competitively classified services if the  
9 AFOR is approved. Further, CenturyLink's AFOR proposal does not change the  
10 current level of regulation for wholesale services and standalone residential  
11 measured exchange service.

12  
13 **Q. HOW DOES CENTURYLINK'S PROPOSAL SATISFY THE CARRIER-**  
14 **TO-CARRIER SERVICE QUALITY PLAN STATUTORY**  
15 **REQUIREMENT?**

16 A. As previously discussed in my testimony, CenturyLink's AFOR proposal does not  
17 disturb its current carrier-to-carrier obligations under either state or federal law,  
18 including the service quality plan that was required in the Qwest AFOR in 2007.  
19 Nor would it change any of CenturyLink's interconnection agreements with other  
20 carriers under Section 252 of the Telecommunications Act of 1996. Most, if not  
21 all, of these agreements contain a set of Performance Indicators, coupled with the  
22 Commission-approved CenturyLink Performance Assurance Plan ("QPAP") that  
23 together operate as service quality standards and performance measures, and  
24 provide appropriate enforcement and remedial provisions within their terms.  
25 Because CenturyLink is proposing no change to the status quo in this area, and

1 because the status quo provides adequate protection for carrier-to-carrier service  
2 quality, no new or addition provision are proposed in CenturyLink's AFOR plan.

3

4

#### IV. CONCLUSION

5 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

6 A. My testimony provides an overview of CenturyLink's request for an AFOR. The  
7 primary basis for the AFOR is the unprecedented level of competition  
8 CenturyLink now faces in virtually all of its markets in the state of Washington  
9 and the differences in regulation between CenturyLink and its competitors. The  
10 Commission does not regulate CenturyLink's intermodal competitors (wireless,  
11 cable, and VoIP) and CLECs are subject to only minimal regulation. The relative  
12 level of regulation among competitors is an important consideration for the  
13 Commission in its deliberation of CenturyLink's AFOR Petition because  
14 regulatory constraints impede CenturyLink's ability to offer its services on the  
15 same basis as its competitors. The testimony of John M. Felz provides an in-  
16 depth analysis of the various types and levels of competition in the Washington  
17 telecommunications market.

18 The premise and structure of CenturyLink's AFOR is that it should be regulated  
19 as a competitively classified company pursuant to RCW 80.36.320, subject to  
20 certain exceptions and certain transition period requirements. Additionally,  
21 CenturyLink requests modifications to its service quality reporting requirements.  
22 The AFOR would remain in effect for five years. Exceptions to the provision that  
23 CenturyLink be regulated like a competitively classified company include:

- 1                   • The AFOR does not affect the Commission’s current regulation of  
2                   CenturyLink’s wholesale obligations under the  
3                   Telecommunications Act of 1996, including wholesale service  
4                   quality, interconnection agreements, the legacy Qwest  
5                   Interconnection Tariff (WN U-46) and the legacy Qwest Resale  
6                   Tariff (UN U-47).
- 7                   • Unless otherwise specifically addressed in the AFOR, the  
8                   following services would remain under tariff and subject to the  
9                   Commission’s authority under current statutes and rules:
- 10                      ○ Residential Measured Exchange Service;  
11                      ○ Certain Directory Assistance Services;  
12                      ○ WTAP;  
13                      ○ Lifeline and Link-up;  
14                      ○ Universal Emergency Number Service – 911; and  
15                      ○ Access Service.

16                   The following transition period requirements apply during a three year  
17                   transition period:

- 18                   • Establishes a maximum price cap of \$15.50 for residential flat  
19                   rated services during a three year transition term.<sup>13</sup>  
20                   • Non-recurring and monthly recurring rates for services treated as  
21                   competitively classified by virtue of the AFOR would not be  
22                   geographically de-averaged;  
23

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<sup>13</sup> Residential rates currently in excess of \$15.50 would remain unchanged during the AFOR term.

- 1                   • CenturyLink would continue to file monthly service quality reports  
2                   consistent with the service quality reports filed by other Class A  
3                   companies;
- 4                   • CenturyLink would keep its books of account on the Federal  
5                   Regulatory Basis and will report to the Commission in accordance  
6                   with [WAC 480-120-382](#) and
- 7                   • CenturyLink agrees to be bound during the three year transition  
8                   period by RCW 80.12 for purposes of a Commission review of a  
9                   merger or sale of exchanges of its regulated companies.

10               Finally my testimony addresses how CenturyLink’s AFOR proposal satisfies the  
11               public policy goals declared in RCW 80.36.300 and listed in RCW 80.36.135.  
12               Ultimately, CenturyLink’s AFOR represents a critical milestone in the changing  
13               telecommunications market and serves as a vehicle by which competitive forces  
14               are allowed to replace regulatory mandates. CenturyLink urges the Commission  
15               to approve its petition expeditiously.

16   **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**  
17   **A.    Yes, it does.**