

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

NOTICE OF TRANSACTION AND APPLICATION FOR
AN ORDER DECLINING TO ASSERT JURISDICTION
OVER, OR, IN THE ALTERNATIVE, EXPEDITED
APPROVAL OF THE INDIRECT TRANSFER OF
CONTROL OF LEVEL 3 COMMUNICATIONS, LLC,
BROADWING COMMUNICATIONS, LLC, WILTEL
COMMUNICATIONS, LLC, GLOBAL CROSSING
TELECOMMUNICATIONS, INC., GLOBAL CROSSING
LOCAL SERVICES, INC., AND LEVEL 3 TELECOM OF
WASHINGTON, LLC TO CENTURYLINK, INC.
("NOTICE")

DOCKET NO. UT- 170042

DIRECT TESTIMONY OF MARK S. REYNOLDS

**ON BEHALF OF
CENTURYLINK**

February 10, 2017

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I. IDENTIFICATION OF WITNESS

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS AND
POSITION WITH CENTURYLINK.**

A. My name is Mark S. Reynolds and my business address is 1600 7th Ave., Room 1506, Seattle, Washington, 98191. I am employed by CenturyLink as the NW Region Vice President Public Policy. I am testifying on behalf of all of the CenturyLink companies named in the Application filed on January 17, 2017 in this docket.

**Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND
PROFESSIONAL EXPERIENCE?**

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 over 35 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 relationships between and among U S WEST's product lines, including telephone exchange service, long distance, and switched/special access services. I represented U S WEST, both as a pricing policy witness, and as the lead company representative, in a number of state regulatory and industry pricing and service unbundling workshops. Subsequently, I managed an organization responsible for

1 the economic analyses and cost studies that supported U S WEST's tariffed
2 product and service prices and costs before state and federal regulators.

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

14
15 **Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THE WASHINGTON**
16 **PUBLIC UTILITIES COMMISSION?**

17 A. Yes. I have testified in a number of proceedings before the Commission dating
18 back to 1989, including rate and cost dockets, wholesale arbitration dockets,
19 wholesale complaint dockets, the Qwest/U S WEST merger docket, the 271
20 docket, the Dex sale docket, business services competitive classification dockets,
21 the Service Quality Performance Plan docket, the Qwest AFOR docket, the
22 CenturyLink/Qwest merger docket, the CenturyLink AFOR docket, and the
23 Commission investigations into the San Juan Islands cable cut, and the 911 outage
24 that occurred in 2014.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my direct testimony is to explain why CenturyLink's proposed acquisition of Level 3 Communications, Inc. (the "Transaction") is in the public interest and should be approved. I have reviewed the Application seeking approval of the Transaction, and the matters discussed in that Application that relate to CenturyLink are true and correct, to the best of my knowledge, information, and belief, and should be considered as part of my testimony.

The Transaction will benefit both customers and competition. Approval of the proposed Transaction will enable CenturyLink and Level 3 to combine their complementary networks to offer customers of enterprise services a broader range of on-net services and solutions than they currently can obtain from the companies individually. It will reduce both companies' dependence on leased fiber facilities, and, by enhancing the combined company's reach and financial profile, strengthen its ability to invest and compete for the long term. As will be explained fully in the testimony, the Transaction will promote competition, will improve the combined company's financial profile, will not adversely harm existing residential customers, and will not alter existing contracts or regulatory commitments.

1 **Q. ARE THERE OTHER WITNESSES TESTIFYING IN SUPPORT OF THE**
2 **TRANSACTION?**

3 A. Yes, Michael Balhoff is providing detailed testimony about the financing for the
4 transaction. Kristie Ince is testifying about the transaction from Level 3's
5 perspective.

6 **Q. WHAT STANDARD HAS THE COMMISSION USED IN THE PAST**
7 **WHEN DETERMINING WHETHER MERGER TRANSACTIONS ARE**
8 **IN THE PUBLIC INTEREST?**

9 A. When the Commission was examining the Qwest/CenturyLink merger it set forth
10 the standard for approval of a merger or acquisition under Chapter 80.12 RCW as
11 whether the transaction is consistent with the public interest.¹
12 The Applicants have previously explained why they believe those statutes and
13 rules do not apply to this transaction (see, Application at ¶¶ 18-21), but
14 nevertheless are confident that CenturyLink's proposed acquisition of Level 3
15 Communications, Inc. meets this standard, providing affirmative benefits without
16 any adverse impacts or harm.

¹ The Commission's authority and responsibility regarding transfers of ownership and control of public services companies are found in RCW 80.12 and WAC 480-143. These statutes and rules require Commission approval whenever a public service company proposes consolidation with another company. The standard governing our review is:

If, upon the examination of any application and accompanying exhibits, or upon a hearing concerning the same, the commission finds the proposed transaction is not consistent with the public interest, it shall deny the application.

**III. THE PROPOSED TRANSACTION WILL BENEFIT WASHINGTON
CUSTOMERS OF ENTERPRISE SERVICES**

**Q. HOW WILL THE COMPANIES' NETWORKS AND SERVICE
OFFERINGS BE IMPACTED BY THE TRANSACTION?**

A. The Transaction, if approved, will enable the companies to combine their complementary fiber networks and offer customers of enterprise services a broader range of on-net services and solutions than they currently can obtain from the companies individually, reduce the combined company's dependence on leased fiber facilities, and, by enhancing the combined company's reach and financial profile, strengthen its ability to invest and compete for the long term. The proposed Transaction will enable the combined company to provide better services and a fuller suite of solutions to its base of enterprise customers.

**Q. WILL THE TRANSACTION ALLOW THE COMBINED COMPANY TO
MORE EFFECTIVELY COMPETE?**

A. Yes. The needs of an interconnected world create increasing demand for fiber broadband capacity. The proposed Transaction will expand CenturyLink's fiber network to better serve its existing enterprise customers and will reduce the combined company's dependence on leased fiber facilities. The Transaction will bolster the combined company's ability to compete for multi-location enterprise

1 customers and will enhance its expanded reach to serve a higher proportion of
2 locations using its own end user connections. By combining resources, therefore,
3 the companies will be better able to provide existing and future enterprise
4 customers with robust end-to-end solutions for greater bandwidth, enhanced
5 security, greater convenience and better customer service.

6 Both CenturyLink and Level 3 have proven track records when it comes to
7 scaling their businesses through organic growth and acquisitions. However, the
8 companies' ability to continue to compete effectively in the provision of
9 enterprise services is challenged by the presence of other, larger-scale providers.
10 Indeed, as the needs of enterprise customers have grown, both CenturyLink and
11 Level 3 have found themselves at a competitive disadvantage vis-à-vis larger,
12 better-capitalized competitors with greater national and in some cases global
13 reach. By combining their network resources, services and solutions, the
14 Transaction will enable the combined CenturyLink and Level 3 to become a more
15 viable, better-resourced competitor with enhanced service delivery capabilities.

16
17 **Q. WILL THERE BE ANY COUNTERVAILING COMPETITIVE HARMS?**

18 A. No. The Transaction will not result in any countervailing competitive harms. By
19 bolstering the combined company's ability to compete in markets that will remain
20 competitive, the Transaction will only enhance the quality of competition in these
21 markets. Existing and future enterprise customers in Washington thereby benefit.
22 Meanwhile, the proposed Transaction will have no adverse impact on competition
23 in the residential market. Level 3 does not serve residential subscribers or

1 consumers. While CenturyLink remains committed to its residential customers in
2 Washington, this Transaction is about the enterprise market.

3 Accordingly, the Transaction will not have a negative effect on residential and
4 small business consumers in Washington. The Transaction will not affect
5 CenturyLink's regulatory obligations toward such subscribers, or any pending
6 commitments or obligations of CenturyLink in Washington relative to those
7 customers. The Transaction's focus is on enhancing the ability of the combined
8 company to compete vigorously in the provision of enterprise services.

9
10 **IV. THE PROPOSED TRANSACTION WILL IMPROVE THE COMBINED**
11 **COMPANY'S FINANCIAL PROFILE AND WILL RESULT IN OPERATIONAL**
12 **AND ECONOMIC EFFICIENCIES**

13 **Q. WHAT AFFECT WILL THE TRANSACTION HAVE ON THE**
14 **FINANCES OF THE COMBINED COMPANY?**

15 **A.** Once completed, the Transaction is expected to bolster the financial profile of the
16 combined company, thereby enhancing the combined company's ability to
17 compete in the provision of enterprise services. The increased scale afforded by
18 the combined company is expected to generate about \$975 million of annual run-
19 rate synergies, primarily from the consolidation of duplicative functions, systems
20 integration, and increased operational and capital efficiencies. The Transaction is
21 expected to create a more stable, growth-oriented service provider with lower

1 costs and the financial wherewithal to compete with larger, better-capitalized
2 competitors in the market. Michael Balhoff discusses the financial benefits of the
3 Transaction in greater detail in his Testimony.

4 **Q. DO CENTURYLINK AND LEVEL 3 HAVE EXPERIENCE IN**
5 **ACQUIRING AND INTEGRATING BUSINESSES?**

6 **A.** Yes. Both CenturyLink and Level 3 have a demonstrated record of successfully
7 integrating the businesses they acquire and meeting or exceeding their synergy
8 targets while continuing to provide high-quality service. The planned integration
9 for this Transaction will combine the best managerial and technical talent from
10 both companies. Adopting the best operational practices from the merging
11 companies will further enhance the already strong customer-centric commitment
12 of the combined company. As a result, the Transaction will not only improve the
13 combined company's financial profile, but will result in operational and economic
14 efficiencies.

15
16 **V. THE PROPOSED TRANSACTION WILL NOT ADVERSELY HARM**
17 **EXISTING RESIDENTIAL CUSTOMERS, WILL NOT ALTER EXISTING**
18 **CONTRACTS AND WILL NOT CHANGE REGULATORY COMMITMENTS**

19 **Q. HOW WILL THE PROPOSED TRANSACTION AFFECT**
20 **CENTURYLINK'S RETAIL CUSTOMERS IN WASHINGTON?**

21 **A.** The Transaction will in no way affect CenturyLink's existing obligations or
22 commitments to its retail customers in Washington. The proposed Transaction is

1 about making the combined company a stronger, better-resourced competitor in
2 the enterprise market.

3
4 **Q. WILL CONTRACTUAL AND REGULATORY OBLIGATIONS TO THE**
5 **COMPANIES' CUSTOMERS BE AFFECTED?**

6 A. No. The Transaction will have no effect on either CenturyLink's or Level 3's
7 contractual and regulatory obligations to its retail or wholesale customers. The
8 Transaction will not alter the rates, terms, and conditions of service under
9 customers' current contracts, and will not change the regulatory status of any
10 CenturyLink entity or Level 3 entity or any of the services that those entities
11 provide. From a wholesale perspective, the companies also will continue to abide
12 by their ongoing obligations under existing interconnection agreements, as well as
13 under applicable law, including, for example, those set forth in Sections 251 and
14 252 of the Communications Act of 1934, as amended. 47 U.S.C. §§ 251 *et seq.*
15 Those obligations will not be changed by the Transaction.

16 The Transaction will also not result in any change to the regulatory status of the
17 Level 3 operating companies in Washington. The Level 3 operating companies
18 will remain subject to the same limited regulatory obligations as they do now.
19 Moreover, because the Transaction results in no direct change to Level 3
20 operating companies' operations, it is transparent to customers. There is no
21 change in services or rates as a result of the Transaction. Though most services
22 that the Level 3 companies offer are deregulated in Washington, after the merger
23 is completed, the Level 3 operating companies will continue to offer services

1 subject to the same rules, regulations and applicable tariffs or catalogs as they do
2 now. Considering all of the strategic and economic benefits of the merger,
3 customers are benefitted due to increased confidence and satisfaction from a
4 provider that will be better positioned to meet their demands in the future without
5 any impact to the legal and regulatory obligations that protect those consumers
6 today.

7 **VI. CONCLUSION**

8 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

9 A. Approval of the proposed Transaction is in the public interest and will benefit
10 both customers and competition. It will enable CenturyLink and Level 3 to offer
11 customers of enterprise services a broader range of on-net services and solutions
12 than they currently can obtain from the companies individually. The combined
13 company's reach and financial profile will be enhanced which will strengthen its
14 ability to invest and compete for the long term. Importantly, the Transaction will
15 not adversely harm existing residential customers and will not alter existing
16 contracts (retail or wholesale) or impact any other regulatory commitments or
17 obligations.

18

19 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

20 A. Yes, it does.