**Exhibit No. \_\_\_ T (MJV-1T)**

**Docket UT-100820**

**Witness: Mark J. Vasconi**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

|  |  |
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| **In the Matter of the 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 UT-100820** |

**TESTIMONY**

**OF**

**MARK J. VASCONI**

**STAFF OF**

**WASHINGTON UTILITIES AND**

**TRANSPORTATION COMMISSION**

**September 27, 2010**

**TABLE OF CONTENTS**

1. INTRODUCTION 1
2. SUMMARY OF THE TRANSACTION 3
3. RELEVANT LEGAL STANDARD 9
4. RISKS OF THE TRANSACTION 9
5. STAFF CONDITIONS FOR THE TRANSACTION 14

**EXHIBIT LIST**

Exhibit No. \_\_\_ (MJV-2) Qualifications

Exhibit No. \_\_\_ (MJV-3) Pre-Merger Organizational Structure Diagram

Exhibit No. \_\_\_ (MJV-4) Post-Merger Organizational Structure Diagram

Exhibit No. \_\_\_ (MJV-5) Customer Benefits

Exhibit No. \_\_\_ (MJV-6) Staff List of Conditions

1. **INTRODUCTION**

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

A. My name is Mark Vasconi, and my business address is 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington, 98504-7250. My business e-mail address is mvasconi@utc.wa.gov.

**Q. By whom are you employed and in what capacity?**

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as the Manager in the Telecommunications Section.

**Q. Please state your qualifications to provide testimony in this proceeding.**

A. I have provided a description of my qualifications as Exhibit No. \_\_\_\_ (MJV-2).

**Q. Have you filed testimony before this Commission in other cases?**

A. Yes, I filed testimony in UT-050606 concerning the designation of ICS as an Eligible Telecommunications Carrier.

**Q. What is the scope of your testimony?**

A. My testimony is four-fold. First, I provide a general overview of the proposed merger between CenturyLink, Inc. and Qwest Communications International, Inc. (the “Transaction”). Second, I will present the legal standard applied in Washington to transactions of this type. Third, I will discuss possible risks associated with the proposed Transaction. Last, I will present conditions that I believe will mitigate potential risks. The foregoing provides a general framework for the testimony

**Q. Does Staff recommend approval of the transaction?**

A. No. I don’t believe the Transaction should be approved because the applicants have not adequately addressed risks to Washington customers that may result from the Transaction. CenturyLink, Inc. (CenturyLink) and Qwest Communications International, Inc. (QCII) (together the “Applicants”) have indicated in numerous discovery responses that they do not have the necessary data to make decisions concerning post merger broadband deployment plans (UTC Staff Data Request 52), system integration (UTC Staff Data Requests 61, 76, 77, 84, and 90), workforce integration (UTC Staff Data Request 70); network integration (UTC Staff Data Requests 81 and 82) or Service Quality reporting (UTC Staff Data Request 113).

**Q. Are there any circumstances under which you would recommend that the Commission approve the Transaction?**

A. Yes, the Commission could approve the transaction if the Applicants agree to conditions that reduce the risks that I believe are inherent in this Transaction. These risks and associated conditions are specifically explained through Commission Staff (Staff) testimony provided by myself, Mr. Rick T. Applegate, Ms. Jing Liu, Ms. Kristen M. Russell, Mr. Robert T. Williamson, Mr. John Cupp, and Ms. Rebecca Beaton. Table 1 shown below identifies the areas covered by each witness:

**Table 1**

|  |  |
| --- | --- |
| **Staff Witness** | **Subject(s)** |
| Mr. Mark J. Vasconi | Overview of the Transaction; Legal Standard; Risks of the Transaction; Summary of Conditions and a discussion of conditions specific to AFOR proceedings and retail rate conditions. |
| Mr. Rick T. Applegate | Financial Analysis; Financial Conditions |
| Ms. Jing Liu | DSL and Broadband Analysis and DSL Conditions |
| Ms. Kristen M. Russell | Retail Service Quality Analysis and Retail Service Quality Conditions |
| Mr. Robert T. Williamson | Operational Support Systems Analysis and Operation Support Systems Conditions |
| Mr. John Cupp | WTAP Conditions |
| Ms. Rebecca Beaton | 911 and Rate Center Consolidation Analysis and Conditions |

1. **SUMMARY OF THE TRANSACTION**

**Q. Please provide a general overview of the Transaction.**

A. CenturyLink and QCII filed their “Joint Application for Expedited Approval and Indirect Transfer of Control” (“Application”) with the Commission on May 13, 2010. On April 21, 2010, QCII, CenturyTel, Inc. and a wholly owned subsidiary of CenturyLink, SB44 Acquisition Company (“Acquisition Company”), entered into an Agreement and Plan of Merger (“Merger Agreement”). Under the terms of the Merger Agreement, QCII and Acquisition Company will merge, after which QCII will be the surviving entity and the separate existence of Acquisition Company will cease. CenturyLink[[1]](#footnote-1) also indicates that as a result of the Transaction, QCII will become a wholly-owned, first tier subsidiary of CenturyLink and there will be no change in corporate structure of the respective CenturyLink and QCII operating entities. QCII’s operating subsidiaries, Qwest Corporation (“Qwest”), Qwest Communications Company, LLC (“QCC”), and Qwest LD Corp (“QLDC”), will remain subsidiaries of QCII. Moreover, since this Transaction combines parent companies only, it is not a transaction in which local exchanges, companies or assets are being sold, combined or transferred to a new service provider.[[2]](#footnote-2) Exhibit No. \_\_ (MJV-3) and Exhibit No. \_\_ (MJV-4) provide Organizational Diagrams of all of the Applicants’ pre-merger and post-merger entities, respectively.[[3]](#footnote-3)

The Applicants also indicate that the Transaction is a tax free, stock-for-stock arrangement that requires no new debt or refinancing. QCII shareholders will receive .1664 shares of CenturyLink stock for every share of QCII common stock owned at closing. Upon closing, the shareholders of pre-merger CenturyLink will own about 50.5% of post-merger CenturyLink while shareholders of pre-merger QCII will own approximately 49.5% of post-merger CenturyLink. CenturyLink will issue new stock to acquire QCII. CenturyLink is not paying cash nor will it be financing the Transaction through additional debt.[[4]](#footnote-4) Significantly, CenturyLink will, as part of the transaction, assume QCII’s debt of $11.79 billion[[5]](#footnote-5) which will be in addition to CenturyLink’s own debt of $7.59 billion[[6]](#footnote-6) resulting in total debt after the transaction of $19.38 billion. Staff witness Mr. Rick Applegate in his testimony examines the implications of this level of debt as well as the resulting financial condition of the post-merger company.

The incumbent local exchange carriers (“ILECs”) operating in Washington that are affected by the proposed transaction are CenturyTel of Washington, Inc., CenturyTel of Inter-Island, Inc., CenturyTel of Cowiche, Inc., United Telephone Company of the Northwest dba Embarq (collectively the “CenturyLink ILECs”) and Qwest. Since the proposed transaction is a parent-level transfer of control of QCII only, each operating company will continue as a separate carrier and each will have the required managerial, technical and financial capabilities to provide service to its customers.[[7]](#footnote-7)

**Q. Please describe the operations of CenturyLink and Qwest respectively.**

A. CenturyLink is a publicly traded Louisiana corporation with its headquarters in Monroe, Louisianna. CenturyLink provides voice and broadband services to both residential and business customers in 33 states. As of December 31, 2009, CenturyLink served approximately 7 million access lines nationwide, 2.2 million broadband subscribers and over 553,000 video subscribers. In Washington, CenturyLink ILECs provide local exchange service to approximately 200,000 access lines. CenturyLink also provides competitive local exchange carrier (“CLEC”) and interexchange carrier service in Washington. CenturyLink ILECs provide interconnection services to CLECs via numerous interconnection agreements approved by the Commission.[[8]](#footnote-8) CenturyLink’s operations in Washington currently employ over 400 people and have over $937 million in investment.[[9]](#footnote-9)

Qwest is a subsidiary of QCII, which is a publicly traded Delaware corporation with headquarters in Denver, Colorado. As of December 31, 2009, Qwest provides incumbent local exchange services in 14 states, serving approximately 10.3 million local access lines. Qwest also provides intrastate interexchange services, and retail and wholesale services under the jurisdiction of the Commission as well as interconnection services to CLECs through numerous interconnection agreements that have been approved by the Commission.[[10]](#footnote-10) In Washington, Qwest currently serves over 1.5 million access lines, employs over 2,600 people and has over 6.1 billion in investment. Qwest’s network serves many of the larger urban areas of Washington such as Seattle, Tacoma, Olympia and Spokane as well as many other mid-size cities and rural areas. CenturyLink, on the other hand, serves many more rural areas, particularly in western, southern and mid-eastern Washington.[[11]](#footnote-11)

**Q. What customer benefits associated with the Transaction are cited by CenturyLink?**

A. Generally, the Applicants indicate that with the transaction, a company will emerge that has:

greater network and financial resources to provide voice, broadband data and other advanced communications services to Washington customers. The combination will result in a company that will have national breadth and local depth to provide a compelling array of products and services to its customers.[[12]](#footnote-12)

Specific customer benefits touted by the Applicants are found in materials provided to Staff on May 5, 2010 and contained here as Exhibit No. \_\_ (MJV-5). These benefits are:

1. **Increased Capabilities**: Creates a stronger data/voice and long-haul competitor by expanding a robust, national fiber network that positions the company for greater customer reach and provides more diverse and customized product offerings;
2. **Expanded and Enhanced Consumer Offerings**: Increases the likelihood of faster, extended broadband deployment that enables video via IPTV and increased prominence in enterprise and government broadband markets;
3. **Customer Focus**: Transaction creates a local go-to-market focus that brings decisions closer to the needs of local customers and communities;
4. **Financial Strength and Flexibility**: Sound capital structure will support the ability to take advantage of new opportunities, while continuing to invest in core business.[[13]](#footnote-13)

**Q. Do the Applicants state any other benefits or reasons that the Transaction is in the public interest?**

A. Yes. CenturyLink indicates that the merged companies will achieve total synergies of $625 million stemming from $575 million in synergies from operating expenses over a three to five year period and another $50 million in synergies coming from capital expenditure.[[14]](#footnote-14)

The Applicants also indicate that the transaction is in the public interest because:

1. CenturyLink’s expertise in serving smaller, rural markets combined with Qwest’s national fiber-optics network, its data centers and expertise in serving enterprise businesses positions the post-Transaction entity to better serve both rural and urban markets;[[15]](#footnote-15)
2. There will be no material reduction in competition since there is virtually no overlap in the companies’ incumbent local exchange operations and the incumbent local exchange companies serve predominantly complementary service areas;[[16]](#footnote-16)
3. As a parent-level transaction, the Transaction will be transparent to customers other than a possible change in the names under which the companies are doing business and combinations of certain billing and billing operations.[[17]](#footnote-17) Also, there is no change in services or rates as a result of the Transaction and Qwest, QCC, QLDC and the CenturyLink operating subsidiaries will continue to provide local exchange service and to offer long distance service subject to the same rules, regulations and applicable tariffs or catalog terms as they do now.[[18]](#footnote-18)
4. The Transaction will in no way affect the obligations created in the CenturyTel/Embarq merger order. Neither will the Transaction affect any unexpired terms or conditions established in the Embarq separation docket.[[19]](#footnote-19)
5. The transaction will not affect the operation of or any terms of the Qwest AFOR.[[20]](#footnote-20)
6. **RELEVANT LEGAL STANDARD**

**Q. What is the legal standard used by the Commission to examine transactions such as this one?**

1. My understanding is that the standard used by the Commission in reviewing an application such as this is a “no harm” standard. This means that the transfer of control of a telecommunications entity that sits under the jurisdiction of the Commission should not cause harm to customers of the entities involved in the transaction. In this case, since there are multiple entities involved in the Transaction, this Transaction should cause no harm to customers of CenturyLink ILECs or Qwest.
2. **RISKS OF THE TRANSACTION**

**Q. What are the risks of the Transaction to customers currently served by either Qwest or CenturyLink ILECs?**

A. I believe that the transaction poses risk in the following areas:

a) Financial risks associated with integration costs include the impacts of assuming QCII’s debt, reduction in revenues associated with the loss of access lines, and the potential transference of liabilities among the various entities that will comprise the post-merger entity. Mr. Rick Applegate’s testimony addresses financial risks associate with the Transaction;

b) Risk to broadband deployment in rural areas stemming from the need of the post- merger entity to focus on broadband deployment in urban areas in order to address competitive pressures. Ms. Jing Liu in her testimony addresses the risks to expanded broadband deployment presented by the Transaction;

c) Risk to maintaining service quality. Currently the operating companies involved in the Transaction are meeting most service quality metrics; however, the focus on integration and the drive to secure synergies may risk on-going service quality. Ms. Kristen M. Russell, in her testimony, addresses the risk to service quality resulting from the Transaction;

d) Risk from Operational Support Systems (OSS) integration. Given the complexity of merging or replacing systems, and the lack of specificity regarding the transition process, there is risk that systems used in support of both retail and wholesale services will not be transitioned efficiently thereby disrupting service. These risks and potential harms are discussed in detail in Mr. Robert T. Williamson’s testimony;

e) Risk of improper compliance with Washington Telephone Assistance Program (WTAP) requirements. Numerous complaints against both Qwest and CenturyLink have been investigated in the past year and there is risk that these complaints will continue in the post-merger environment. These risks to WTAP compliance are presented in John Cupp’s testimony;

f) Risk of 911 failure is discussed in Ms. Rebecca Beaton’s testimony. Ms. Beaton also presents the need for number conservation measures and specifically discusses rate center consolidations as an effective method of conserving telephone numbers.

**Q. Are there other risks associated with the Transaction that have not been addressed?**

A. Yes. First, I’m concerned that synergy savings estimated by the Applicants will not provide any benefits to Washington customers. Second, I’m also concerned that rates for residential and basic business services eventually will be increased.

**Q. What are your concerns regarding synergies?**

A. The Applicants indicate that the Transaction will result in synergy savings of $575 million in operating expenses over a three to five year period and another $50 million in savings regarding capital expenditures. Expense savings of $575 million will come largely from savings in corporate overhead, network and operational efficiencies, Information Technologies (IT) support, increased purchasing power, and advertising and marketing.[[21]](#footnote-21) If these savings are actually realized, there is the risk that maintenance as well as investment in Washington will be reduced.

**Q. What local services and rates are you specifically concerned about?**

A. While the Applicants have stated that, as a result of the Transaction, neither services nor rates will change, [[22]](#footnote-22) I’m specifically concerned that the merged entity may attempt to recover costs associated with the Transaction through eventual rate increases for residential services or basic business services of single and multiple line offerings as well as PBX and Centrex charges. I’m also concerned that bundles of services may increase in price or that particular service components currently included in the bundles will be eliminated. If the rates for these services were to increase or if these services were to be eliminated, Washington customers would be harmed.

**Q. Do you have any concerns regarding intrastate long distance services offered by Qwest?**

A. Yes, I do. While the intrastate long distance (LD) market in Washington has a number of competing providers, customers who currently take LD service from Qwest are hindered from choosing another LD provider due to a charge associated with changing a customer’s Preferred Interexchange Carrier (PIC). While the Applicants have indicated that prices and services will not change as a result of the transaction, LD services are classified as competitive and prices could increase without the approval of the Commission. Therefore, I think that it is important for Qwest and CenturyLink ILECs to waive their PIC charges for at least a period of 90 days so that customers wishing to change LD carriers are able to do so easily and without an additional charge.

**Q. Are there any other concerns posed by the Transaction that you would like to address?**

A. Yes, there is one other set of concerns that I think needs to be addressed which deals with AFORs.[[23]](#footnote-23) I say “AFORs” in the plural because there are two AFORs that are relevant to this Transaction. The first is Qwest’s current AFOR which expires on November 30, 2011, and will require the Commission to begin a review of the AFOR on February 28, 2011. The second AFOR is one which CenturyLink is required to file as part of the settlement in UT-082119, which allowed CenturyLink to acquire Embarq. In that settlement, CenturyLink agreed to file an AFOR within five years of the closing date of that merger.[[24]](#footnote-24)

My concerns with these AFORs are three-fold. First, from a practical perspective, the Qwest AFOR review is slated to start only seven weeks after hearings are to be concluded in this, the CenturyLink – Qwest Transaction. It may very well be that an Order in this proceeding will not even have issued by the time the review of the Qwest AFOR is slated to start. Second, if the Commission approves the Transaction, reviewing Qwest so soon after the Transaction’s approval will be pre-mature given changes in operations that Qwest may experience. For example, if synergies are to be realized, those savings likely will take a few years to develop.[[25]](#footnote-25) Therefore, if Qwest’s AFOR examination proceeds under the current time line, the full scope of synergies and operating changes will not be in place and a resulting AFOR might be not capture the full effect of the Transaction on Qwest’s operations. Third, if the Transaction is approved, CenturyLink will clearly be the largest telecommunications carrier in Washington and its legacy operation possibly will change greatly in its efforts to realize synergies and properly address the needs of 1.7 million customers versus the 200,000 that it serves currently. Therefore, given the linkage between CenturyLink and Qwest that will occur if the Transaction is approved, I think it is advisable for Qwest and CenturyLink to file one AFOR in 2014 so that synergies from the Transaction can be realized and properly examined and so that markets served by the merged entity can be viewed in a holistic manner. To conduct separate AFOR proceedings would segment treatment of legacy Qwest from CenturyLink ILECs when in reality, the network and many of the systems serving Washington customers will be commonly operated and managed by CenturyLink. Therefore, I am recommending that the AFOR under which Qwest currently operates be effectively extended for three years past the closing date of the transaction and at that date, both Qwest and CenturyLink ILECs operating in Washington file an AFOR. Supporting information should include Pro Forma results of operations and investment grade cost of capital using combined Century ILECs and Qwest financial data. The AFOR should address rate design for residential and business services as well as intrastate access charges. I also believe that for the purpose of setting intrastate rates, CenturyLink ILECs and Qwest should be treated as one entity given the common ownership and common use of systems used to provide service to Washington customers.

1. **STAFF CONDITIONS FOR THE TRANSACTION**

**Q. If the Commission decides to approve the Transaction, does Staff have any recommended conditions that the Commission should require of the Applicants?**

A. Yes. Although Staff’s primary recommendation is that the Commission deny the Transaction, Staff realizes that the Commission may find that the Transaction will be in the public interest if conditions are imposed that would mitigate harms and provide offsetting benefits. Therefore, Staff presents forty-five conditions to protect Washington customers. These forty-five conditions are attached as Exhibit No. \_\_ (MJV-6) and are grouped into the following nine major categories:

1) Financial

2) DSL/Broadband

3) Retail Service Quality

4) Retail Services and Retail Rates

5) Operations Support Systems

6) WTAP

7) 911 Service

8) Rate Center Consolidation

9) Capital Investment and Maintenance Expenditures

**Q. Has the Commission recently imposed conditions on transactions involving telecommunications companies operating in Washington?**

A. Yes. In the past two years, the Commission has imposed conditions in two different mergers involving telecommunications companies. The first transaction was in UT‑082119 which involved the transfer of United Telephone Company of the Northwest d/b/a Embarq and Embarq Corporation’s Washington operating subsidiaries to CenturyTel, Inc. The second transaction was in UT-090842 which involved the transfer of Verizon Communications, Inc. Washington operations to Frontier Communications, Corp.

**Q. What do you believe is the major difference between this Transaction and the other two you just cited?**

A. While every merger has its own unique set of characteristics, the major difference with this Transaction compared to the other two recent transfers is the size and scale of the merger. CenturyTel’s transaction with Embarq, while significant, was between two entities that focused largely on rural markets and involved approximately 225,000 access lines. Frontier’s transaction with Verizon impacted approximately 578,000 access lines. CenturyLink’s Transaction with QCII involves the acquisition of the single largest telecommunications company operating in Washington, which serves approximately 1,500,000 access lines, provides service to most of Washington’s urban centers and has significant relationships with most other major telecommunications companies conducting business in Washington be they wireline, wireless or cable companies. The resulting entity will serve approximately 1,700,000 access lines in Washington. Given the scope and scale of Qwest’s presence in Washington, the potential harm to Washington customers exceeds that which was associated with other recent transactions.

**Q. What specific conditions are you sponsoring?**

A. Of the forty-five conditions recommended collectively by Staff and found in Exhibit \_\_\_(MJV-6), I am specifically sponsoring a total of ten conditions. The remaining thirty-five conditions are sponsored by other Staff witnesses and are also shown below. The ten conditions I am sponsoring are as follows:

1. **Condition No. 3**

Three years after the date the transaction closes, CenturyLink ILECs and Qwest must file contemporaneously the following with the Commission:

1. Pro forma results of operations. The results of operations will use the Commission’s format using a historical test period with restating and pro forma adjustments to the test period. Restating adjustments will remove non-recurring transactions and other costs that are not appropriate for rate making purposes, such as integration costs. Pro forma adjustments will use the “known and measurable” standard.
2. AFOR plan. The filing must include a proposed plan for an alternative form of regulation (AFOR) in compliance with RCW 80.36.135 utilizing the principles established by this Commission in the Qwest AFOR, Docket UT-061625.The proposed plan shall address, at a minimum, rate design which includes retail rates for residential and business services and intrastate access charges. CenturyLink ILECs and Qwest will be treated as one entity for intrastate rate setting purposes, and the proposed plan must reflect this treatment.
3. Joint petition seeking an extension of the Qwest AFOR in Docket UT-061625. The petition will be supported by Staff and will request (1) deferral of the AFOR review until the filing required by this condition is made and (2) extension of the AFOR period until the Commission issues an order on the filing required by this condition.
4. Joint petition seeking harmonization of the CenturyLink ILEC AFOR requirements in Docket UT-082119 (the CenturyTel-Embarq transaction) with this condition. The petition will be supported by Staff and will be filed only if necessary.
5. **Condition No. 12**

No later than one year after the date the transaction closes, CenturyLink must provide to the Commission a report consisting of the following:

A multi-year strategic plan that identifies the expected remaining life of all host and remote central office switches currently deployed in the CenturyLink ILECs’ and Qwest franchise areas in Washington and a proposed replacement plan for the switches, if any, so that CenturyLink will be able to meet the then current service standards under Washington statutes and rules. This plan should also contain information regarding CenturyLink’s intent to deploy new technology (soft switch, voice over internet protocol, etc.).

1. **Condition No. 13**

No later than one year after the date the transaction closes, and annually each subsequent year on the anniversary of the transaction’s closing date, CenturyLink ILECs and Qwest will file the following:

An annual report detailing Washington budgeted capital expenditures by operating entity which includes a comparison of the amount of planned Washington budgeted expenditures as a percentage of total CenturyLink system wide expenditures, and a comparison of the amount of capital expenditure per Washington access line with the amount of capital expenditure per CenturyLink access line, system-wide. This requirement will continue until the company has received an order from the Commission establishing an AFOR.

1. **Condition No. 29**

For three years following the date the transaction closes, CenturyLink ILECs and Qwest are prohibited from increasing rates for retail residential customers purchasing flat, measured service offerings or for residential service bundles. For one year following the date the transaction closes, service elements (e.g. call waiting, call forwarding, local service, etc.) contained in residential bundled service offerings at the close of the transaction shall remain in the service bundles without change.

1. **Condition No. 30**

For three years following the date the transaction closes, CenturyLink ILECs and Qwest are prohibited from increasing retail rates for basic business services. The basic business service rates that shall be capped at levels in place at the close of the transaction are single and multiple line business rates, and PBX and Centrex services.

1. **Condition No. 31**

CenturyLink ILECs and Qwest may petition the Commission to seek recovery from the impact of exogenous events that materially affect their operations as a result of orders issued by the Federal Communications Commission ("FCC") or this Commission.

1. **Condition No. 32**

CenturyLink must offer customers of Qwest long distance services and packages the option to change long distance carriers without incurring a Primary Interexchange Carrier (PIC) charge for a minimum of ninety days after notification to the customer of the PIC charge waiver.

1. **Condition No. 43**

For a period of three years following the date the transaction closes, each CenturyLink ILEC and Qwest shall continue to make annual capital investments in Washington at a level that does not drop below the average annual investments made in Washington by the CenturyLink ILECs and Qwest, respectively, for the years 2005 through 2009.

1. **Condition No. 44**

For a period of three years following the date the transaction closes, each CenturyLink ILEC and Qwest shall continue to make annual maintenance expenditures in Washington at a level that does not drop below the average annual maintenance expenditure made in Washington by the CenturyLink ILECs and Qwest, respectively, for the years 2005 through 2009.

1. **Condition No. 45**

Capital investments and maintenance expenditures required to meet DSL Conditions specified above, shall be in addition to items required in Conditions 43 and 44 of this section.

**Q. What conditions does Staff Witness Rick Applegate recommend?**

A. Staff witness Rick Applegate recommends the following ten financial conditions:

1. **Condition No. 1**

For a period of five years following the date the transaction closes, CenturyLink, the parent, and its Washington local exchange carriers, CenturyTel of Washington, Inc., CenturyTel of Cowiche, Inc., CenturyTel of Inter-Island, Inc., and United Telephone Company of the Northwest (collectively the “CenturyLink ILECs”), and Qwest Communications International, Inc. (QCII) local exchange carrier operations in Washington, Qwest Corporation (Qwest), must submit quarterly reports to the Commission listing for each entity the account balances of intercompany receivables and payables, including the beginning balance of each, the change for the quarter and the ending balance. This report must also show for each quarter the dividend that CenturyLink declares to be paid to its shareholders (in total and per share).

1. **Condition No. 2**

The analysis of cost of capital for the purposes of any results of operations must be based upon “investment grade” debt and equity. CenturyLink currently enjoys an investment grade debt rating and Washington customers should not be required to bear higher capital costs due to lower ratings as a result of this transaction.

1. **Condition No. 4**

CenturyLink must report to the Commission synergy savings resulting from the proposed transaction for each six-month period as well as year-to-date. The synergy savings report must include the accounts receiving synergies benefits by company for CenturyLink ILECs and Qwest. The first report shall be filed six months after the transaction closes and should identify the method CenturyLink ILECs and Qwest used to calculate the synergies. Any subsequent methodology change to the synergy calculation will be identified and reported by CenturyLink explaining the change and its effect on the previous calculations. This report will be completed every 6 months after the date the transaction closes until all the synergies from this transaction have been realized, and shall contain the following information:

a. Costs and projected savings associated with each respective activity on a CenturyLink total company basis;

b. Consolidation and organizational changes to network operations and staffing levels in the Washington operations of CenturyLink ILECs and Qwest;

c. Impacts on Washington operations and customers.

1. **Condition No. 5**

CenturyLink ILECs and Qwest must hold retail and wholesale customers harmless for increases in overall management costs that result from the transaction.

1. **Condition No. 6**

CenturyLink ILECs and Qwest will not seek to recover from Washington wholesale and retail customers any separation, branding and transition costs. These costs will be borne by the CenturyLink stockholders. The types of costs in this category include, but are not limited to, transaction costs (accounting, banker, legal advisor, investment banker, and other fees), OSS conversion costs, severance costs (including “golden parachute” payments), new employee employment costs, executive bonuses for work associated with the transaction, and the costs of developing and establishing the brand name. CenturyLink will record these costs in separate subaccounts on the parent and the operating company’s accounting records. These costs shall be reported annually, on the anniversary date of the closing of the transaction, as long as the company is incurring integration costs.

1. **Condition No. 7**

CenturyLink may not encumber the Washington assets of CenturyLink ILECs or Qwest.

1. **Condition No. 8**

Within 30 days after the day the transaction closes, CenturyLink must notify Staff of the CenturyLink post-transaction consolidated Net Debt/EBITDA and the price per share used to determine transaction shares and the calculation of the share price.

1. **Condition No. 9**

For all affiliated interest transaction filings under WAC 480-120-375, CenturyLink ILECs and Qwest must:

1. Certify in the cover letter for the filing that the transaction complies with 47 C.F.R. 32.27 (“Transactions with affiliates”);
2. Determine that the cost of the transaction is reasonable and consistent with the public interest and, upon request of Staff, CenturyLink, a CenturyLink ILEC, or Qwest, provide cost support documentation prior to the effective date of the transaction.
3. **Condition No. 10**

The Joint Applicants must immediately notify the Commission of any material change to the transaction terms and conditions set forth in their application that: (1) occurs while a Commission order on the merits of the transaction is pending, or (2) occurs before the transaction closes but after the Commission issues its order on the merits of the transaction. The Joint Applicants also must submit a supplemental application for an amended Commission order in this docket if there is any change in substantive transaction conditions and terms that affect Commission-regulated services in Washington.

1. **Condition No. 11**

After the transaction closes, CenturyLink ILECs must maintain their books to ensure they will continue to report Washington operations to the Commission consistent with the Washington-specific data that is being reported currently by CenturyLink ILECs and Qwest.

**Q. What conditions does Staff witness Jing Lui recommend?**

A. Ms. Liu’s seven recommendations regarding DSL and Broadband services are as follows:

1. **Condition No. 14**

Within four years after the date the transaction closes, CenturyLink ILECs and Qwest shall make DSL available to at least 92% of residential households located in their respective service areas in Washington.

1. **Condition No. 15**

Within four years after the date the transaction closes, each CenturyLink ILEC and Qwest shall make DSL available to no less than 85% of all residential households in each wire center in Washington.

1. **Condition No. 16**

By the end of 2015, each CenturyLink ILEC and Qwest must make available retail broadband Internet access service with a minimum speed of 4 Mbps download and 1 Mbps upload to 85% of residential households.

1. **Condition No. 17**

Each CenturyLink ILEC and Qwest must submit an initial plan for broadband deployment within 90 days of the date the transaction closes. CenturyLink will consult with Staff regarding the geographic scope of the broadband deployment (including the specific wire centers to be included) and the timelines for its implementation.

1. **Condition No. 18**

Each CenturyLink ILEC and Qwest must file an annual progress report on broadband deployment with the Commission no later than May 1 of each succeeding year following the date the transaction closes until all goals specified in the approval order are achieved. The annual report must contain information on a wire center basis as of December 31 of the previous year. The following wire center-specific information shall be included:

1. The number of residential households and businesses, respectively;
2. The number of retail residential and business telephone subscriber lines, respectively, served by the company;
3. The number of broadband-capable subscriber lines shown by technology (DSL, FTTP and others);
4. The number of broadband subscribers by technology, including both subscribers of stand-alone broadband services and subscribers of bundles that contain broadband services; and
5. Total capital expenditures associated with new broadband deployment in the previous calendar year by technology.
6. **Condition No. 19**

Each CenturyLink ILEC and Qwest must offer stand-alone DSL.

1. **Condition No. 20**

Rates for DSL services, either as stand-alone DSL service or DSL as part of a services bundle, offered by CenturyLink ILECs or Qwest shall not be increased above pre-transaction levels for 36 months following the closing date of the transaction.

**Q. What conditions does Staff witness Kristen Russell recommend?**

A. Ms. Kristen Russell’s seven recommended conditions regarding service quality are as follows:

* + - 1. **Condition No. 21**

Within 30 days after the date the transaction closes, Qwest shall modify the Customer Service Guarantee Program (CSGP) by increasing the missed appointment/commitment credits for residential customers for both installation and repair appointments from $25 to $35.

* + - 1. **Condition No. 22**

Qwest shall continue the monthly service quality reporting required before the transaction; however, for a period of three years following the date the transaction closes, Qwest shall report payouts under the CSGP on a quarterly basis. After the expiration of this period, Qwest may revert back to the reporting requirements stipulated in the AFOR proceeding in UT-061625 (i.e., monthly service quality reporting as required by rule, and bi-annual reporting of Qwest’s CSGP).

* + - 1. **Condition No. 23**

Within 30 days after the date the transaction closes all CenturyLink ILECs shall offer the same CSGP in their respective tariffs as is now contained in Qwest’s Washington intrastate tariff.

* + - 1. **Condition No. 24**

CenturyLink ILECs shall continue to file monthly service quality reports as required by rule, and for a period of three years following the date the transaction closes, CenturyLink ILECs shall file quarterly reports of their CSGP. After the expiration of this period, CenturyLink ILECs may report payouts under the CSGP on a bi-annual basis.

* + - 1. **Condition No. 25**

CenturyLink ILECs operating in Washington shall provide service quality reports in the same manner and format as Qwest, specifically, a 90-day rolling installation report. This is an ongoing requirement.

* + - 1. **Condition No. 26**

CenturyLink ILECs must report on orders completed, which is similar to the treatment granted to Qwest in Docket UT-030704.

* + - 1. **Condition No. 27**

For three years following the date the transaction closes, if any CenturyLink ILEC or Qwest has service quality degradation that falls below the average level of retail service quality metrics reported for six months prior to the closing date of the transaction, Staff, at its discretion, can initiate a service quality investigation and, if warranted, will require the carrier to off-set the degradation in service quality by requiring the carrier to offer a service quality performance plan, similar to the requirements imposed on Qwest in Docket UT-991358.

**Q. What conditions does Staff witness Robert Williamson recommend?**

A. Mr. Williamson’s recommends six conditions regarding OSS and are as follows:

1. **Condition No. 33**

For five years after the closing date of the transaction, if CenturyLink wishes to integrate or move any OSS supporting retail services from legacy CenturyLink systems to legacy Qwest systems or vice versa, CenturyLink must prepare and submit to Staff and Public Counsel detailed OSS integration plan(s) at least 180 days prior to implementing the system(s) integration. CenturyLink’s integration plan will describe the specific OSS to be integrated or moved, the surviving OSS, and why the change is being made. The OSS integration plan will describe CenturyLink’s previous experience with the integration of the specific OSS in other jurisdictions, specifying any problems that occurred in that integration process and what has been done to avert those problems in Washington. CenturyLink’s OSS integration plan will also identify planned contingency actions in the event of CenturyLink encountering a difficulty, as part of the system integration process. The integration plan will be prepared by information technology professionals with detailed experience and knowledge regarding the systems integration process and requirements.

1. **Condition No. 34**

No transition from the Qwest wholesale OSS will occur for three years following the date the transaction closes. For an additional two years following the initial three year period, if CenturyLink plans to transition from or to any of its, or Qwest’s legacy wholesale OSS, CenturyLink will prepare and submit a detailed OSS integration plan to Staff , Public Counsel and CLECs. CenturyLink’s integration plan will describe the wholesale OSS to be replaced, the surviving OSS, and why the change is being made. The OSS integration plan will describe CenturyLink’s previous experience with integrating the wholesale OSS in other jurisdictions, specifying any problems that occurred in that integration process and what has been done to avert those problems in Washington. CenturyLink’s OSS integration plan will also identify planned contingency actions in the event of CenturyLink encountering a difficulty, as part of the system integration process. The integration plan will be prepared by information technology professionals with detailed experience and knowledge regarding the systems integration process and requirements. CenturyLink will also commit to provide this operations support plan to staff no less than 180 days prior to implementing the system transition.

1. **Condition No. 35**

CenturyLink shall give the CLECs 180 days of advanced notice of any wholesale OSS transitions from Qwest’s systems, and shall coordinate the transition with affected CLECs.

1. **Condition No. 36**

CenturyLink must maintain Qwest’s post-transaction wholesale operations support system performance at levels that are at least equal to those provided by Qwest before the transaction’s closing date.

1. **Condition No. 37**

If within the five years following the date the transaction closes, CenturyLink plans to make any rearrangements of major network components (including, but not limited to, business office and trouble reporting call centers, Network Operations Control Centers, E911 systems, access and local tandems), 90 days before the rearrangement commences, CenturyLink will provide Staff with a rearrangement plan discussing changes that will be made to the network including the timeframes in which the work will be completed.

1. **Condition No. 38**

CenturyLink will notify the Commission when the integration of OSS systems have been completed.

**Q. What conditions does Mr. John Cupp recommend?**

A. Mr. Cupp recommends the following four conditions regarding WTAP:

* + - 1. **Condition No. 28**

CenturyLink shall retain within Washington state personnel and expertise sufficient to respond to customer complaints that have been referred for resolution from the Commission to CenturyLink. This is an ongoing requirement.

* + - 1. **Condition No. 39**

After approval of the proposed transaction, CenturyLink ILECs and Qwest must provide a one-time $75 credit to any WTAP-qualified customer who fails to receive the appropriate discount, credit, or waiver of the deposit, within the first bill cycle after application, provided that the application is received 10 calendar days prior to the end of the bill cycle for an existing customer. This credit program shall remain in place for three years after the date the transaction closes.

* + - 1. **Condition No. 40**

Starting with the end of the first full month after the date the transaction closes, each CenturyLink ILEC and Qwest shall report every month to the Commission the following information:

1. Number of WTAP customers who applied for service within the month;

Date of each application;

1. Date DSHS was contacted and confirmed or denied WTAP eligibility
2. Date of the customer’s billing cycle (if the applicant is an existing customer);
3. Date WTAP credits were applied to the customer’s account;
4. Number of $75 WTAP credits applied to the customers’ accounts;
5. Number of customers denied WTAP credits and the reasons for denial.

**Q. What conditions does Ms. Rebecca Beaton recommend?**

A. Ms. Beaton recommends the following two conditions regarding 911 and rate center Consolidation:

1. **Condition No. 41**

Immediately upon closing of the proposed transaction, CenturyLink shall continue to honor all contractual agreements held by Qwest associated with the provision of 911 service consistent with all terms and conditions of those agreements (see Qwest Communications Contract with Washington State Military Department, Contract number E09-196).

1. **Condition No. 42**

Within one year of the close of the transaction, or by March 31, 2012, whichever date comes first, CenturyLink ILECs and Qwest shall complete rate center consolidations between all rate centers within and between the companies that have two-way, extended area local calling. All activities required for rate center consolidation, including distribution of timely notifications, shall be completed by this date.

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

A. Yes.

1. CenturyTel, Inc changed its name to CenturyLink, Inc. on May 20, 2010. [↑](#footnote-ref-1)
2. Docket UT-100820, *Application* at pp. 3-4, May 13, 2010. [↑](#footnote-ref-2)
3. Docket UT-100820, *Application* at Exhibit B. [↑](#footnote-ref-3)
4. Docket UT-100820, *Application* at p. 4. [↑](#footnote-ref-4)
5. See Docket UT-100820, Direct Testimony of G. Clay Bailey, Exhibit No. \_\_ (GCB-1T), at 8:17. [↑](#footnote-ref-5)
6. Docket UT-100820, Direct Testimony of Bailey, Exhibit No. \_\_ (GCB-1T), at 7:18-19. [↑](#footnote-ref-6)
7. Docket UT-100820, *Application* at pp. 4-5. [↑](#footnote-ref-7)
8. Docket UT-100820, *Application* at pp. 6-7. [↑](#footnote-ref-8)
9. Docket UT-100820, Direct Testimony of Mark S. Reynolds, Exhibit No. \_\_ (MSR-1T), at 11:8-10. [↑](#footnote-ref-9)
10. Docket UT-100820, *Application* at pp. 7-8. [↑](#footnote-ref-10)
11. Docket UT-100820, Direct Testimony of Reynolds, Exhibit No. \_\_ (MSR-1T), at 11:6-14. [↑](#footnote-ref-11)
12. Docket UT-100820, *Application* at p. 1. [↑](#footnote-ref-12)
13. Exhibit No. \_\_ (MJV-5), CenturyLink and Qwest Merger Transaction Overview at p. 7. [↑](#footnote-ref-13)
14. Docket UT-100820, Direct Testimony of Bailey, Exhibit No. \_\_ (GCB-1T), at 11:14-19. [↑](#footnote-ref-14)
15. Docket UT-100820, *Application* at p. 11. [↑](#footnote-ref-15)
16. Docket UT-100820, Direct Testimony of Reynolds, Exhibit No. \_\_ (MSR-1T), at 15:18-16:13. [↑](#footnote-ref-16)
17. Docket UT-100820, Direct Testimony of Reynolds, Exhibit No. \_\_ (MSR-1T), at 8:1-9. [↑](#footnote-ref-17)
18. Docket UT-100820, *Application* at p. 13. [↑](#footnote-ref-18)
19. Docket UT-100820, *Application* at p. 14. [↑](#footnote-ref-19)
20. Docket UT-100820, Direct Testimony of Reynolds, Exhibit No. \_\_ (MSR-1T), at 8:17-9:7. [↑](#footnote-ref-20)
21. Docket UT-100820, Direct Testimony of Bailey, Exhibit No. \_\_ (GCB-2), at p. 13. [↑](#footnote-ref-21)
22. Docket UT-100820, *Application* at p. 13. [↑](#footnote-ref-22)
23. “AFOR” is an abbreviation of “Alternative Form of Regulation.” Under RCW 80.36.135, carriers seeking relief from traditional rate-of-return regulation can petition the Commission for an AFOR. [↑](#footnote-ref-23)
24. Docket UT-082119, *Joint Application of Embarq Corporation (“Embarq”) and CenturyTel, Inc., for Approval of Transfer of Control of United Telephone Company of the Northwest d/b/a Embarq and Embarq Communications, Inc*., Settlement Agreement, at p. 6. [↑](#footnote-ref-24)
25. Docket UT-100820, Direct Testimony of Bailey, Exhibit No. \_\_ (GCB-1T), at p. 11. [↑](#footnote-ref-25)