

**Exhibit No. \_\_\_ T (MJV-1T)  
Docket UT-100820  
Witness: Mark J. Vasconi**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of the Joint Application of**

**DOCKET UT-100820**

**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.**

**TESTIMONY**

**OF**

**MARK J. VASCONI**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

**September 27, 2010**

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## **EXHIBIT LIST**

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| 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 I. INTRODUCTION

2  
3 Q. Please state your name and business address.

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

7  
8 Q. By whom are you employed and in what capacity?

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

11  
12 Q. Please state your qualifications to provide testimony in this proceeding.

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

14  
15 Q. Have you filed testimony before this Commission in other cases?

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

18  
19 Q. What is the scope of your testimony?

20 A. My testimony is four-fold. First, I provide a general overview of the proposed  
21 merger between CenturyLink, Inc. and Qwest Communications International, Inc.  
22 (the "Transaction"). Second, I will present the legal standard applied in Washington  
23 to transactions of this type. Third, I will discuss possible risks associated with the

1 proposed Transaction. Last, I will present conditions that I believe will mitigate  
2 potential risks. The foregoing provides a general framework for the testimony  
3

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

5 A. No. I don't believe the Transaction should be approved because the applicants have  
6 not adequately addressed risks to Washington customers that may result from the  
7 Transaction. CenturyLink, Inc. (CenturyLink) and Qwest Communications  
8 International, Inc. (QCII) (together the "Applicants") have indicated in numerous  
9 discovery responses that they do not have the necessary data to make decisions  
10 concerning post merger broadband deployment plans (UTC Staff Data Request 52),  
11 system integration (UTC Staff Data Requests 61, 76, 77, 84, and 90), workforce  
12 integration (UTC Staff Data Request 70); network integration (UTC Staff Data  
13 Requests 81 and 82) or Service Quality reporting (UTC Staff Data Request 113).  
14

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

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

**Table 1**

<b>Staff Witness</b>	<b>Subject(s)</b>
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

2

3

**II. SUMMARY OF THE TRANSACTION**

4

5

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

6

A. CenturyLink and QCII filed their "Joint Application for Expedited Approval and

7

Indirect Transfer of Control" ("Application") with the Commission on May 13,

8

2010. On April 21, 2010, QCII, CenturyTel, Inc. and a wholly owned subsidiary of

1 CenturyLink, SB44 Acquisition Company (“Acquisition Company”), entered into an  
2 Agreement and Plan of Merger (“Merger Agreement”). Under the terms of the  
3 Merger Agreement, QCII and Acquisition Company will merge, after which QCII  
4 will be the surviving entity and the separate existence of Acquisition Company will  
5 cease. CenturyLink<sup>1</sup> also indicates that as a result of the Transaction, QCII will  
6 become a wholly-owned, first tier subsidiary of CenturyLink and there will be no  
7 change in corporate structure of the respective CenturyLink and QCII operating  
8 entities. QCII’s operating subsidiaries, Qwest Corporation (“Qwest”), Qwest  
9 Communications Company, LLC (“QCC”), and Qwest LD Corp (“QLDC”), will  
10 remain subsidiaries of QCII. Moreover, since this Transaction combines parent  
11 companies only, it is not a transaction in which local exchanges, companies or assets  
12 are being sold, combined or transferred to a new service provider.<sup>2</sup> Exhibit No. \_\_  
13 (MJV-3) and Exhibit No. \_\_ (MJV-4) provide Organizational Diagrams of all of the  
14 Applicants’ pre-merger and post-merger entities, respectively.<sup>3</sup>

15 The Applicants also indicate that the Transaction is a tax free, stock-for-stock  
16 arrangement that requires no new debt or refinancing. QCII shareholders will receive  
17 .1664 shares of CenturyLink stock for every share of QCII common stock owned at  
18 closing. Upon closing, the shareholders of pre-merger CenturyLink will own about  
19 50.5% of post-merger CenturyLink while shareholders of pre-merger QCII will own  
20 approximately 49.5% of post-merger CenturyLink. CenturyLink will issue new stock  
21 to acquire QCII. CenturyLink is not paying cash nor will it be financing the

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<sup>1</sup> CenturyTel, Inc changed its name to CenturyLink, Inc. on May 20, 2010.

<sup>2</sup> Docket UT-100820, *Application* at pp. 3-4, May 13, 2010.

<sup>3</sup> Docket UT-100820, *Application* at Exhibit B.

1 Transaction through additional debt.<sup>4</sup> Significantly, CenturyLink will, as part of the  
2 transaction, assume QCII's debt of \$11.79 billion<sup>5</sup> which will be in addition to  
3 CenturyLink's own debt of \$7.59 billion<sup>6</sup> resulting in total debt after the transaction  
4 of \$19.38 billion. Staff witness Mr. Rick Applegate in his testimony examines the  
5 implications of this level of debt as well as the resulting financial condition of the  
6 post-merger company.

7 The incumbent local exchange carriers ("ILECs") operating in Washington  
8 that are affected by the proposed transaction are CenturyTel of Washington, Inc.,  
9 CenturyTel of Inter-Island, Inc., CenturyTel of Cowiche, Inc., United Telephone  
10 Company of the Northwest dba Embarq (collectively the "CenturyLink ILECs") and  
11 Qwest. Since the proposed transaction is a parent-level transfer of control of QCII  
12 only, each operating company will continue as a separate carrier and each will have  
13 the required managerial, technical and financial capabilities to provide service to its  
14 customers.<sup>7</sup>

15  
16 **Q. Please describe the operations of CenturyLink and Qwest respectively.**

17 A. CenturyLink is a publicly traded Louisiana corporation with its headquarters in  
18 Monroe, Louisiana. CenturyLink provides voice and broadband services to both  
19 residential and business customers in 33 states. As of December 31, 2009,  
20 CenturyLink served approximately 7 million access lines nationwide, 2.2 million  
21 broadband subscribers and over 553,000 video subscribers. In Washington,

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<sup>4</sup> Docket UT-100820, *Application* at p. 4.

<sup>5</sup> See Docket UT-100820, Direct Testimony of G. Clay Bailey, Exhibit No. \_\_ (GCB-1T), at 8:17.

<sup>6</sup> Docket UT-100820, Direct Testimony of Bailey, Exhibit No. \_\_ (GCB-1T), at 7:18-19.

<sup>7</sup> Docket UT-100820, *Application* at pp. 4-5.



1 CenturyLink ILECs provide local exchange service to approximately 200,000 access  
2 lines. CenturyLink also provides competitive local exchange carrier (“CLEC”) and  
3 interexchange carrier service in Washington. CenturyLink ILECs provide  
4 interconnection services to CLECs via numerous interconnection agreements  
5 approved by the Commission.<sup>8</sup> CenturyLink’s operations in Washington currently  
6 employ over 400 people and have over \$937 million in investment.<sup>9</sup>

7 Qwest is a subsidiary of QCII, which is a publicly traded Delaware  
8 corporation with headquarters in Denver, Colorado. As of December 31, 2009,  
9 Qwest provides incumbent local exchange services in 14 states, serving  
10 approximately 10.3 million local access lines. Qwest also provides intrastate  
11 interexchange services, and retail and wholesale services under the jurisdiction of the  
12 Commission as well as interconnection services to CLECs through numerous  
13 interconnection agreements that have been approved by the Commission.<sup>10</sup> In  
14 Washington, Qwest currently serves over 1.5 million access lines, employs over  
15 2,600 people and has over 6.1 billion in investment. Qwest’s network serves many of  
16 the larger urban areas of Washington such as Seattle, Tacoma, Olympia and Spokane  
17 as well as many other mid-size cities and rural areas. CenturyLink, on the other hand,  
18 serves many more rural areas, particularly in western, southern and mid-eastern  
19 Washington.<sup>11</sup>

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<sup>8</sup> Docket UT-100820, *Application* at pp. 6-7.

<sup>9</sup> Docket UT-100820, Direct Testimony of Mark S. Reynolds, Exhibit No. \_\_\_ (MSR-1T), at 11:8-10.

<sup>10</sup> Docket UT-100820, *Application* at pp. 7-8.

<sup>11</sup> Docket UT-100820, Direct Testimony of Reynolds, Exhibit No. \_\_\_ (MSR-1T), at 11:6-14.

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

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

5 greater network and financial resources to provide voice, broadband data and  
6 other advanced communications services to Washington customers. The  
7 combination will result in a company that will have national breadth and  
8 local depth to provide a compelling array of products and services to its  
9 customers.<sup>12</sup>

10  
11 Specific customer benefits touted by the Applicants are found in materials provided  
12 to Staff on May 5, 2010 and contained here as Exhibit No. \_\_ (MJV-5). These  
13 benefits are:

- 14 a) **Increased Capabilities**: Creates a stronger data/voice and long-haul  
15 competitor by expanding a robust, national fiber network that positions  
16 the company for greater customer reach and provides more diverse and  
17 customized product offerings;  
18  
19 b) **Expanded and Enhanced Consumer Offerings**: Increases the  
20 likelihood of faster, extended broadband deployment that enables video  
21 via IPTV and increased prominence in enterprise and government  
22 broadband markets;  
23  
24 c) **Customer Focus**: Transaction creates a local go-to-market focus that  
25 brings decisions closer to the needs of local customers and communities;  
26  
27 d) **Financial Strength and Flexibility**: Sound capital structure will support  
28 the ability to take advantage of new opportunities, while continuing to  
29 invest in core business.<sup>13</sup>

30  
31 **Q. Do the Applicants state any other benefits or reasons that the Transaction is in**  
32 **the public interest?**

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<sup>12</sup> Docket UT-100820, *Application* at p. 1.

<sup>13</sup> Exhibit No. \_\_ (MJV-5), CenturyLink and Qwest Merger Transaction Overview at p. 7.

1 A. Yes. CenturyLink indicates that the merged companies will achieve total synergies  
2 of \$625 million stemming from \$575 million in synergies from operating expenses  
3 over a three to five year period and another \$50 million in synergies coming from  
4 capital expenditure.<sup>14</sup>

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

- 7 a) CenturyLink's expertise in serving smaller, rural markets combined with  
8 Qwest's national fiber-optics network, its data centers and expertise in  
9 serving enterprise businesses positions the post-Transaction entity to  
10 better serve both rural and urban markets;<sup>15</sup>  
11  
12 b) There will be no material reduction in competition since there is virtually  
13 no overlap in the companies' incumbent local exchange operations and  
14 the incumbent local exchange companies serve predominantly  
15 complementary service areas;<sup>16</sup>  
16  
17 c) As a parent-level transaction, the Transaction will be transparent to  
18 customers other than a possible change in the names under which the  
19 companies are doing business and combinations of certain billing and  
20 billing operations.<sup>17</sup> Also, there is no change in services or rates as a  
21 result of the Transaction and Qwest, QCC, QLDC and the CenturyLink  
22 operating subsidiaries will continue to provide local exchange service and  
23 to offer long distance service subject to the same rules, regulations and  
24 applicable tariffs or catalog terms as they do now.<sup>18</sup>  
25  
26 d) The Transaction will in no way affect the obligations created in the  
27 CenturyTel/Embarq merger order. Neither will the Transaction affect any  
28 unexpired terms or conditions established in the Embarq separation  
29 docket.<sup>19</sup>  
30  
31 e) The transaction will not affect the operation of or any terms of the Qwest  
32 AFOR.<sup>20</sup>  
33

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<sup>14</sup> Docket UT-100820, Direct Testimony of Bailey, Exhibit No. \_\_\_ (GCB-1T), at 11:14-19.

<sup>15</sup> Docket UT-100820, *Application* at p. 11.

<sup>16</sup> Docket UT-100820, Direct Testimony of Reynolds, Exhibit No. \_\_\_ (MSR-1T), at 15:18-16:13.

<sup>17</sup> Docket UT-100820, Direct Testimony of Reynolds, Exhibit No. \_\_\_ (MSR-1T), at 8:1-9.

<sup>18</sup> Docket UT-100820, *Application* at p. 13.

<sup>19</sup> Docket UT-100820, *Application* at p. 14.

<sup>20</sup> Docket UT-100820, Direct Testimony of Reynolds, Exhibit No. \_\_\_ (MSR-1T), at 8:17-9:7.

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**III. RELEVANT LEGAL STANDARD**

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

A. 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.

**IV. 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

1 on-going service quality. Ms. Kristen M. Russell, in her testimony, addresses  
2 the risk to service quality resulting from the Transaction;

3  
4 d) Risk from Operational Support Systems (OSS) integration. Given the  
5 complexity of merging or replacing systems, and the lack of specificity  
6 regarding the transition process, there is risk that systems used in support of  
7 both retail and wholesale services will not be transitioned efficiently thereby  
8 disrupting service. These risks and potential harms are discussed in detail in  
9 Mr. Robert T. Williamson's testimony;

10  
11 e) Risk of improper compliance with Washington Telephone Assistance  
12 Program (WTAP) requirements. Numerous complaints against both Qwest  
13 and CenturyLink have been investigated in the past year and there is risk that  
14 these complaints will continue in the post-merger environment. These risks to  
15 WTAP compliance are presented in John Cupp's testimony;

16  
17 f) Risk of 911 failure is discussed in Ms. Rebecca Beaton's testimony. Ms.  
18 Beaton also presents the need for number conservation measures and  
19 specifically discusses rate center consolidations as an effective method of  
20 conserving telephone numbers.  
21

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

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

27  
28 **Q. What are your concerns regarding synergies?**

29 A. The Applicants indicate that the Transaction will result in synergy savings of \$575  
30 million in operating expenses over a three to five year period and another \$50  
31 million in savings regarding capital expenditures. Expense savings of \$575 million  
32 will come largely from savings in corporate overhead, network and operational  
33 efficiencies, Information Technologies (IT) support, increased purchasing power,

1 and advertising and marketing.<sup>21</sup> If these savings are actually realized, there is the  
2 risk that maintenance as well as investment in Washington will be reduced.

3  
4 **Q. What local services and rates are you specifically concerned about?**

5 A. While the Applicants have stated that, as a result of the Transaction, neither services  
6 nor rates will change,<sup>22</sup> I'm specifically concerned that the merged entity may  
7 attempt to recover costs associated with the Transaction through eventual rate  
8 increases for residential services or basic business services of single and multiple  
9 line offerings as well as PBX and Centrex charges. I'm also concerned that bundles  
10 of services may increase in price or that particular service components currently  
11 included in the bundles will be eliminated. If the rates for these services were to  
12 increase or if these services were to be eliminated, Washington customers would be  
13 harmed.

14  
15 **Q. Do you have any concerns regarding intrastate long distance services offered by**  
16 **Qwest?**

17 A. Yes, I do. While the intrastate long distance (LD) market in Washington has a  
18 number of competing providers, customers who currently take LD service from  
19 Qwest are hindered from choosing another LD provider due to a charge associated  
20 with changing a customer's Preferred Interexchange Carrier (PIC). While the  
21 Applicants have indicated that prices and services will not change as a result of the  
22 transaction, LD services are classified as competitive and prices could increase

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<sup>21</sup> Docket UT-100820, Direct Testimony of Bailey, Exhibit No. \_\_\_ (GCB-2), at p. 13.

<sup>22</sup> Docket UT-100820, *Application* at p. 13.

1 without the approval of the Commission. Therefore, I think that it is important for  
2 Qwest and CenturyLink ILECs to waive their PIC charges for at least a period of 90  
3 days so that customers wishing to change LD carriers are able to do so easily and  
4 without an additional charge.

5  
6 **Q. Are there any other concerns posed by the Transaction that you would like to**  
7 **address?**

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

16 My concerns with these AFORs are three-fold. First, from a practical  
17 perspective, the Qwest AFOR review is slated to start only seven weeks after  
18 hearings are to be concluded in this, the CenturyLink – Qwest Transaction. It may  
19 very well be that an Order in this proceeding will not even have issued by the time  
20 the review of the Qwest AFOR is slated to start. Second, if the Commission approves  
21 the Transaction, reviewing Qwest so soon after the Transaction’s approval will be

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<sup>23</sup> “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.

<sup>24</sup> 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.

1 pre-mature given changes in operations that Qwest may experience. For example, if  
2 synergies are to be realized, those savings likely will take a few years to develop.<sup>25</sup>  
3 Therefore, if Qwest's AFOR examination proceeds under the current time line, the  
4 full scope of synergies and operating changes will not be in place and a resulting  
5 AFOR might be not capture the full effect of the Transaction on Qwest's operations.  
6 Third, if the Transaction is approved, CenturyLink will clearly be the largest  
7 telecommunications carrier in Washington and its legacy operation possibly will  
8 change greatly in its efforts to realize synergies and properly address the needs of 1.7  
9 million customers versus the 200,000 that it serves currently. Therefore, given the  
10 linkage between CenturyLink and Qwest that will occur if the Transaction is  
11 approved, I think it is advisable for Qwest and CenturyLink to file one AFOR in  
12 2014 so that synergies from the Transaction can be realized and properly examined  
13 and so that markets served by the merged entity can be viewed in a holistic manner.  
14 To conduct separate AFOR proceedings would segment treatment of legacy Qwest  
15 from CenturyLink ILECs when in reality, the network and many of the systems  
16 serving Washington customers will be commonly operated and managed by  
17 CenturyLink. Therefore, I am recommending that the AFOR under which Qwest  
18 currently operates be effectively extended for three years past the closing date of the  
19 transaction and at that date, both Qwest and CenturyLink ILECs operating in  
20 Washington file an AFOR. Supporting information should include Pro Forma results  
21 of operations and investment grade cost of capital using combined Century ILECs  
22 and Qwest financial data. The AFOR should address rate design for residential and  
23 business services as well as intrastate access charges. I also believe that for the

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<sup>25</sup> Docket UT-100820, Direct Testimony of Bailey, Exhibit No. \_\_\_ (GCB-1T), at p. 11.



1 purpose of setting intrastate rates, CenturyLink ILECs and Qwest should be treated  
2 as one entity given the common ownership and common use of systems used to  
3 provide service to Washington customers.

4  
5 **V. STAFF CONDITIONS FOR THE TRANSACTION**

6  
7 **Q. If the Commission decides to approve the Transaction, does Staff have any**  
8 **recommended conditions that the Commission should require of the**  
9 **Applicants?**

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

- 16 1) Financial  
17 2) DSL/Broadband  
18 3) Retail Service Quality  
19 4) Retail Services and Retail Rates  
20 5) Operations Support Systems  
21 6) WTAP  
22 7) 911 Service  
23 8) Rate Center Consolidation

1                   9)     Capital Investment and Maintenance Expenditures

2  
3     **Q.     Has the Commission recently imposed conditions on transactions involving**  
4     **telecommunications companies operating in Washington?**

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

12  
13    **Q.     What do you believe is the major difference between this Transaction and the**  
14    **other two you just cited?**

15    A.     While every merger has its own unique set of characteristics, the major difference  
16    with this Transaction compared to the other two recent transfers is the size and scale  
17    of the merger. CenturyTel's transaction with Embarq, while significant, was between  
18    two entities that focused largely on rural markets and involved approximately  
19    225,000 access lines. Frontier's transaction with Verizon impacted approximately  
20    578,000 access lines. CenturyLink's Transaction with QCII involves the acquisition  
21    of the single largest telecommunications company operating in Washington, which  
22    serves approximately 1,500,000 access lines, provides service to most of  
23    Washington's urban centers and has significant relationships with most other major

1 telecommunications companies conducting business in Washington be they wireline,  
2 wireless or cable companies. The resulting entity will serve approximately 1,700,000  
3 access lines in Washington. Given the scope and scale of Qwest's presence in  
4 Washington, the potential harm to Washington customers exceeds that which was  
5 associated with other recent transactions.

6  
7 **Q. What specific conditions are you sponsoring?**

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

12 1) **Condition No. 3**

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

- 15 a. Pro forma results of operations. The results of operations will use the  
16 Commission's format using a historical test period with restating and pro  
17 forma adjustments to the test period. Restating adjustments will remove  
18 non-recurring transactions and other costs that are not appropriate for rate  
19 making purposes, such as integration costs. Pro forma adjustments will  
20 use the "known and measurable" standard.
- 21 b. AFOR plan. The filing must include a proposed plan for an alternative  
22 form of regulation (AFOR) in compliance with RCW 80.36.135 utilizing  
23 the principles established by this Commission in the Qwest AFOR,  
24 Docket UT-061625. The proposed plan shall address, at a minimum, rate  
25 design which includes retail rates for residential and business services and  
26 intrastate access charges. CenturyLink ILECs and Qwest will be treated  
27 as one entity for intrastate rate setting purposes, and the proposed plan  
28 must reflect this treatment.
- 29 c. Joint petition seeking an extension of the Qwest AFOR in Docket UT-  
30 061625. The petition will be supported by Staff and will request (1)

1 deferral of the AFOR review until the filing required by this condition is  
2 made and (2) extension of the AFOR period until the Commission issues  
3 an order on the filing required by this condition.

4 d. Joint petition seeking harmonization of the CenturyLink ILEC AFOR  
5 requirements in Docket UT-082119 (the CenturyTel-Embarq transaction)  
6 with this condition. The petition will be supported by Staff and will be  
7 filed only if necessary.

8 2) **Condition No. 12**

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

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

19 3) **Condition No. 13**

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

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

31 4) **Condition No. 29**

32 For three years following the date the transaction closes, CenturyLink ILECs  
33 and Qwest are prohibited from increasing rates for retail residential  
34 customers purchasing flat, measured service offerings or for residential  
35 service bundles. For one year following the date the transaction closes,

1 service elements (e.g. call waiting, call forwarding, local service, etc.)  
2 contained in residential bundled service offerings at the close of the  
3 transaction shall remain in the service bundles without change.

4 5) **Condition No. 30**

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

10 6) **Condition No. 31**

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

15 7) **Condition No. 32**

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

20 8) **Condition No. 43**

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

26 9) **Condition No. 44**

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

1           10)    **Condition No. 45**

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

5  
6    **Q.    What conditions does Staff Witness Rick Applegate recommend?**

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

8           1)    **Condition No. 1**

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

21          2)    **Condition No. 2**

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

27          3)    **Condition No. 4**

28                    CenturyLink must report to the Commission synergy savings resulting from  
29                    the proposed transaction for each six-month period as well as year-to-date.  
30                    The synergy savings report must include the accounts receiving synergies  
31                    benefits by company for CenturyLink ILECs and Qwest. The first report shall  
32                    be filed six months after the transaction closes and should identify the  
33                    method CenturyLink ILECs and Qwest used to calculate the synergies. Any  
34                    subsequent methodology change to the synergy calculation will be identified

1 and reported by CenturyLink explaining the change and its effect on the  
2 previous calculations. This report will be completed every 6 months after the  
3 date the transaction closes until all the synergies from this transaction have  
4 been realized, and shall contain the following information:

- 5  
6 a. Costs and projected savings associated with each respective activity on a  
7 CenturyLink total company basis;
- 8 b. Consolidation and organizational changes to network operations and  
9 staffing levels in the Washington operations of CenturyLink ILECs and  
10 Qwest;
- 11 c. Impacts on Washington operations and customers.

12 4) **Condition No. 5**

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

16 5) **Condition No. 6**

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

29 6) **Condition No. 7**

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

32 7) **Condition No. 8**

33 Within 30 days after the day the transaction closes, CenturyLink must notify  
34 Staff of the CenturyLink post-transaction consolidated Net Debt/EBITDA

1 and the price per share used to determine transaction shares and the  
2 calculation of the share price.

3 **8) Condition No. 9**

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

- 6 a. Certify in the cover letter for the filing that the transaction complies with  
7 47 C.F.R. 32.27 (“Transactions with affiliates”);
- 8 b. Determine that the cost of the transaction is reasonable and consistent  
9 with the public interest and, upon request of Staff, CenturyLink, a  
10 CenturyLink ILEC, or Qwest, provide cost support documentation prior  
11 to the effective date of the transaction.

12 **9) Condition No. 10**

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

22 **10) Condition No. 11**

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

27

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

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



- 1           1)     **Condition No. 14**
- 2                     Within four years after the date the transaction closes, CenturyLink ILECs  
3                     and Qwest shall make DSL available to at least 92% of residential  
4                     households located in their respective service areas in Washington.
- 5           2)     **Condition No. 15**
- 6                     Within four years after the date the transaction closes, each CenturyLink  
7                     ILEC and Qwest shall make DSL available to no less than 85% of all  
8                     residential households in each wire center in Washington.
- 9           3)     **Condition No. 16**
- 10                    By the end of 2015, each CenturyLink ILEC and Qwest must make available  
11                    retail broadband Internet access service with a minimum speed of 4 Mbps  
12                    download and 1 Mbps upload to 85% of residential households.
- 13           4)     **Condition No. 17**
- 14                    Each CenturyLink ILEC and Qwest must submit an initial plan for broadband  
15                    deployment within 90 days of the date the transaction closes. CenturyLink  
16                    will consult with Staff regarding the geographic scope of the broadband  
17                    deployment (including the specific wire centers to be included) and the  
18                    timelines for its implementation.
- 19           5)     **Condition No. 18**
- 20                    Each CenturyLink ILEC and Qwest must file an annual progress report on  
21                    broadband deployment with the Commission no later than May 1 of each  
22                    succeeding year following the date the transaction closes until all goals  
23                    specified in the approval order are achieved. The annual report must contain  
24                    information on a wire center basis as of December 31 of the previous year.  
25                    The following wire center-specific information shall be included:
- 26                    a. The number of residential households and businesses, respectively;
- 27                    b. The number of retail residential and business telephone subscriber lines,  
28                    respectively, served by the company;
- 29                    c. The number of broadband-capable subscriber lines shown by technology  
30                    (DSL, FTTP and others);
- 31                    d. The number of broadband subscribers by technology, including both  
32                    subscribers of stand-alone broadband services and subscribers of bundles  
33                    that contain broadband services; and
- 34                    e. Total capital expenditures associated with new broadband deployment in  
35                    the previous calendar year by technology.

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6) **Condition No. 19**

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

7) **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.

2) **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).

3) **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.

4) **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

1 CSGP. After the expiration of this period, CenturyLink ILECs may report  
2 payouts under the CSGP on a bi-annual basis.

3 5) **Condition No. 25**

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

7 6) **Condition No. 26**

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

10 7) **Condition No. 27**

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

19  
20 **Q. What conditions does Staff witness Robert Williamson recommend?**

21 **A.** Mr. Williamson's recommends six conditions regarding OSS and are as follows:

22 1) **Condition No. 33**

23 For five years after the closing date of the transaction, if CenturyLink wishes  
24 to integrate or move any OSS supporting retail services from legacy  
25 CenturyLink systems to legacy Qwest systems or vice versa, CenturyLink  
26 must prepare and submit to Staff and Public Counsel detailed OSS integration  
27 plan(s) at least 180 days prior to implementing the system(s) integration.  
28 CenturyLink's integration plan will describe the specific OSS to be integrated  
29 or moved, the surviving OSS, and why the change is being made. The OSS  
30 integration plan will describe CenturyLink's previous experience with the  
31 integration of the specific OSS in other jurisdictions, specifying any problems  
32 that occurred in that integration process and what has been done to avert  
33 those problems in Washington. CenturyLink's OSS integration plan will also  
34 identify planned contingency actions in the event of CenturyLink

1 encountering a difficulty, as part of the system integration process. The  
2 integration plan will be prepared by information technology professionals  
3 with detailed experience and knowledge regarding the systems integration  
4 process and requirements.

5 2) **Condition No. 34**

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

24 3) **Condition No. 35**

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

28 4) **Condition No. 36**

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

32 5) **Condition No. 37**

33 If within the five years following the date the transaction closes,  
34 CenturyLink plans to make any rearrangements of major network  
35 components (including, but not limited to, business office and trouble

1 reporting call centers, Network Operations Control Centers, E911 systems,  
2 access and local tandems), 90 days before the rearrangement commences,  
3 CenturyLink will provide Staff with a rearrangement plan discussing changes  
4 that will be made to the network including the timeframes in which the work  
5 will be completed.

6 6) **Condition No. 38**

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

9  
10 **Q. What conditions does Mr. John Cupp recommend?**

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

12 1) **Condition No. 28**

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

17 2) **Condition No. 39**

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

25 3) **Condition No. 40**

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

- 29 a. Number of WTAP customers who applied for service within the  
30 month;  
31 Date of each application;  
32 b. Date DSHS was contacted and confirmed or denied WTAP eligibility  
33 c. Date of the customer's billing cycle (if the applicant is an existing  
34 customer);

- 1 d. Date WTAP credits were applied to the customer's account;  
2 e. Number of \$75 WTAP credits applied to the customers' accounts;  
3 f. Number of customers denied WTAP credits and the reasons for  
4 denial.  
5  
6

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

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

10 1) **Condition No. 41**

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

16 2) **Condition No. 42**

17 Within one year of the close of the transaction, or by March 31, 2012,  
18 whichever date comes first, CenturyLink ILECs and Qwest shall complete  
19 rate center consolidations between all rate centers within and between the  
20 companies that have two-way, extended area local calling. All activities  
21 required for rate center consolidation, including distribution of timely  
22 notifications, shall be completed by this date.  
23

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

25 A. Yes.  
26  
27  
28  
29  
30  
31