

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the)
)
Merger of the Parent Corporations of) Docket No.

Qwest Communications Corporation,)
LCI International Telecom Corp.,)
USLD Communications, Inc.,)
Phoenix Network, Inc.)
and U S WEST Communications, Inc.)

DIRECT TESTIMONY OF

Theresa Jensen

Director – Washington Regulatory Affairs

U S WEST Communications, Inc.

August 31, 1999

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1 **I.INTRODUCTION**

2 Q. **PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION WITH**
3 **U S WEST COMMUNICATIONS, INC.**

4 A. My name is Theresa Jensen. I am the Director of Regulatory Affairs for U S WEST
5 Communications, Inc. ("U S WEST") in Washington. My business address is 1600 7th Ave.,
6 Room 3206, Seattle, Washington 98191.

7
8 Q. **PLEASE DESCRIBE YOUR BACKGROUND AND WORK EXPERIENCE.**

9 A. I have been employed by U S WEST or its predecessors since 1972 and in my current
10 assignment since 1991. I began my career in telecommunications in 1972 as a directory
11 assistance operator. I also worked as a customer service representative for about six years.
12 I then spent several years in Marketing holding various job responsibilities, including, market
13 administrator, account executive, sales manager, instructor, market manager, data systems
14 manager and product manager. From 1987 until 1991 I worked in Strategic Planning and
15 was responsible for developing and implementing U S WEST's Open Network Architecture
16 Plan. In my current assignment, I am responsible for regulatory issues, including,
17 rulemakings, service quality, product and service offerings, depreciation, petitions for
18 competitive classifications and the Washington financial results of operation.

19

20

21 Q. **HAVE YOU EVER APPEARED BEFORE THIS COMMISSION ON BEHALF OF**

1 **U S WEST?**

2 **A.** Yes. I have testified as a company policy witness in a number of proceedings before this
3 Commission.

4

5 **Q.** **PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.**

6 **A.** The purpose of my testimony is to demonstrate that when the two parent companies are
7 merged, all of their subsidiaries including -- Qwest Communications Corporation
8 (collectively "Qwest") and U S WEST-- will continue to provide customers throughout the
9 state of Washington with reliable, efficient telecommunications services. In fact, a merger
10 between the companies will enhance their ability to serve Washington's consumers. The
11 merged company will: (1) have increased incentives to provide interLATA services once
12 Section 271 authority is granted; (2) be more capable of deploying advanced data services;
13 and (3) be better able to compete against large telecommunications companies created by
14 recent mergers such as AT&T/TCI/MediaOne, MCI-Worldcom, SBC/Ameritech and Bell
15 Atlantic/GTE. Therefore, the merged company will be better positioned to offer a complete
16 package of telecommunications services. We expect that the merger will bring positive
17 benefits to consumers and result in a more capable and financially strong telecommunications
18 service provider. Accordingly, I urge the Commission to promptly approve the merger
19 between U S WEST, Inc. and Qwest Communications International Inc. ("Qwest Inc.")

20

21 **Q.** **PLEASE BRIEFLY DESCRIBE U S WEST'S OPERATIONS IN WASHINGTON.**

1 A. U S WEST provides local telecommunications services to approximately two million
2 customers in Washington. U S WEST provides a myriad of retail services to both business
3 and residential customers throughout the state. These services include basic local exchange
4 service, intraLATA long distance service, Megabit (digital subscriber line “DSL”) services,
5 Internet access, wireless services, vertical features and enhanced services such as voice
6 messaging. U S WEST also provides other telecommunications carriers with access to resold
7 services and network elements pursuant to Section 251 of the Telecommunications Act of
8 1996. In addition, U S WEST currently employs approximately 6,266 people in Washington.

9

10

II. PROPOSED MERGER

11 Q. **PLEASE DESCRIBE THE PROPOSED MERGER BETWEEN U S WEST, INC. AND**
12 **QWEST INC.**

13 A. On July 18, 1999 U S WEST, Inc. and Qwest Inc. announced that they had agreed to merge
14 and thereby bring together approximately 64,000 employees, more than 29 million customers
15 and 2.6 million domestic fiber miles. The merged company will be named Qwest
16 Communications International Inc. Both the U S WEST, Inc. and, as I understand it, Qwest
17 Inc. Board of Directors have approved the Agreement and Plan of Merger (“Merger
18 Agreement”). The proposed merger remains subject to approval by the shareholders of both
19 companies as well as to receipt of all required Department of Justice (“DOJ”) and state and
20 federal regulatory approvals. The consummation of the merger is also subject to a number
21 of additional requirements as specified in the Merger Agreement.

1

2 **Q. PLEASE DESCRIBE THE TECHNICALITIES OF HOW THE MERGER OF**
3 **THE TWO COMPANIES WILL OCCUR.**

4 **A.** Under the terms of the Merger Agreement, upon closing, U S WEST, Inc. will be merged
5 into Qwest Inc. and the separate corporate existence of U S WEST, Inc. will then cease.
6 Subsidiaries of U S WEST, Inc., like U S WEST, will become subsidiaries of the merged
7 company. No changes in the names of the subsidiaries or transfer of assets of those
8 subsidiaries are contemplated at this time.

9

10 **Q. PLEASE DISCUSS THE LEADERSHIP OF THE MERGED COMPANY.**

11 **A.** Upon consummation of the merger, Philip F. Anschutz, the current Chairman of the Board
12 of Directors of Qwest Inc. will become the Non-Executive Chairman of Qwest Inc. Joseph
13 P. Nacchio, currently the Chief Executive Officer of Qwest Inc. will continue as Chairman
14 and Chief Executive Officer of Qwest Inc. Solomon D. Trujillo, currently Chairman,
15 President and Chief Executive Officer of U S WEST, Inc., will be a Chairman of Qwest Inc.
16 and become the President of the Broadband Local and Wireless division of Qwest Inc.

17

18 The Board of Directors of Qwest Inc., following consummation of the merger, will consist
19 of fourteen members including Messrs. Anschutz, Nacchio and Trujillo, with a total of seven
20 members to be designated by each of Qwest Inc. and U S WEST, Inc. Additionally, Qwest
21 Inc. and U S WEST, Inc. designees on the Board of Directors will be represented equally on

1 all Board committees.

2

3 After the effective time of the merger, Qwest Inc. also will establish an Office of the
4 Chairman whose members will be Messrs. Anschutz, Nacchio and Trujillo. The Office of
5 the Chairman will act by majority vote and will have the exclusive power and final authority
6 with respect to enumerated corporate actions, including, among others, material acquisitions
7 and dispositions, the allocation of capital resources, roles of certain senior executive officers
8 and the setting of general corporate strategy.

9

10 **Q. WHERE WILL THE MERGED COMPANY'S HEADQUARTERS BE LOCATED?**

11 **A.** Both U S WEST, Inc. and Qwest Inc. currently have their headquarters in Denver, Colorado.
12 Part of the Merger Agreement includes a commitment to retain the corporate headquarters
13 in Denver, Colorado. This decision reflects both companies' commitment to the fourteen
14 states that comprise U S WEST's serving area.

15

16 **Q. WILL THE MERGED COMPANY CONTINUE TO SERVE ALL OF U S WEST'S**
17 **CURRENT CUSTOMERS AFTER THE MERGER?**

18 **A.** Post-merger, U S WEST will continue to serve its current customers in the State of
19 Washington as efficiently and effectively as possible. Customers throughout U S WEST's
20 serving area will continue to have access to at least the same products and services. Over
21 time the combined company will provide additional benefits for consumers.

1

2 Moreover, the merger does not involve any assignment of authorizations or licenses held by
3 operating subsidiaries of U S WEST, Inc., or Qwest Inc. including U S WEST and Qwest.
4 Similarly, the merger does not legally change or otherwise effect these subsidiaries. As a
5 result, U S WEST will continue to provide telecommunications services to the public
6 throughout its tariffed operating area in Washington. Therefore, the merger will be
7 transparent for U S WEST's current customers who do not wish to avail themselves of the
8 additional products and services that the merged company will offer.

9

10 **A. WHY DID U S WEST, INC. DECIDE TO MERGE WITH QWEST INC.?**

11 A. There are many strategic and competitive reasons for entering into a merger with Qwest Inc.
12 The reasons include, but are not limited to: (1) both companies will be able to grow faster
13 than they could alone; (2) the merger will enhance the companies' ability to deploy Internet-
14 based broadband services in targeted areas; and (3) the combined company will be able to
15 offer a broad array of voice and data services that will enhance the companies' ability to
16 successfully compete long-term.

17

18 **Q. PLEASE DESCRIBE SOME OF THE COMPETITIVE PRESSURES THAT**
19 **U S WEST CURRENTLY FACES.**

20 A. Since passage of the Telecommunications Act of 1996, competition has increased at all
21 levels. As a result of this competition, there is a need to expand the basic local exchange

1 business to more fully serve U S WEST's customers. Studies of consumer preferences have
2 indicated a strong demand for integrated service offerings. Through packages, customers
3 seek access to a range of telecommunications services, simplicity in obtaining these services,
4 and lower prices. A consumer survey by J. D. Power and Associates reveals that 65 percent
5 of consumers would be interested in purchasing *all* of their telecommunications services
6 from a single provider.¹

7
8 Mega-mergers throughout the telecommunications industry have also created competitive
9 pressures on U S WEST, Inc. and its subsidiaries. For example, once the SBC-Ameritech
10 merger is approved, they have promised to expand into fifteen new out-of-region cities
11 within eighteen months of merger closure. Overall, the SBC-Ameritech National-Local
12 strategy includes serving all fifty top markets nationwide; Seattle is one of several of these
13 markets that are within U S WEST's current fourteen state service territory.

14
15 Similarly, AT&T has acquired TCI and MediaOne, with the stated objective of serving
16 residential customers telecommunications needs throughout these companies serving
17 territories. The AT&T mergers will create additional competitive pressures in U S WEST's
18 current fourteen state territory. Thus, for U S WEST, growing its business

¹ "JD Power and Associates Analysis Reveals: Long Distance Carriers Prime for Local and Long Distance Telephone Market Share," *J. D. Power and Associates News & Information Release*, February 27, 1997.

1 to face the myriad of new competitors is important to ensure U S WEST's continued
2 financial health. The merger will, therefore, help to ensure that a healthy, viable local
3 telecommunications provider exists to serve customers in Washington.

4
5 Finally, U S WEST understands that it could better serve its customers by becoming a
6 national, and ultimately international, telecommunications provider. For example, all of the
7 telecommunications needs of a multi-state company headquartered in Seattle can be served
8 by a single telecommunications provider. This will provide customers with a single point of
9 contact, one salesperson, one service center and one bill. Having a local provider with a
10 national presence benefits both customers and the state economy, which is enhanced by
11 having a full-service national telecommunications provider as the principle local provider
12 in Washington.

13
14 **Q. IS THIS MERGER CONSISTENT WITH RECENT DEVELOPMENTS IN THE**
15 **TELECOMMUNICATIONS INDUSTRY?**

16 **A.** Yes. As discussed briefly above, hardly a week passes that the Wall Street Journal does not
17 contain an article on a proposed or speculated merger in the telecommunications industry.
18 Local exchange providers are combining with other local exchange providers and
19 interexchange carriers are combining with cable companies. Significant financial
20 investments are being infused into telecommunications companies by both national and
21 international telecommunication companies alike. Since the break-up of the Bell System in

1 1984, the industry has been transformed from a single monopoly telecommunication provider
2 in AT&T, to hundreds of companies offering a multitude of new services that were not even
3 contemplated fifteen years ago. One consequence of the Telecommunications Act of 1996
4 is that the largest players in the industry are getting even larger in market capitalization
5 through acquisitions and mergers. Given the rapid pace of change, U S WEST must grow
6 beyond a regional, local service provider to remain a strong and viable industry player.

7
8 The telecommunications industry mergers have created large, national and international, full-
9 package service providers. In order for U S WEST to stay competitive with larger providers,
10 the company must expand its focus, customer base, and service offerings. The merger of
11 U S WEST, Inc. and Qwest Inc. will bring together the world's most advanced network
12 providing broadband Internet communications, the most innovative local exchange provider,
13 and the nation's leader in providing high-speed Internet access through advanced DSL
14 technology. U S WEST believes that this combination will allow it to compete more
15 effectively in the marketplace, and thus better serve customers in Washington.

16
17 **Q. PLEASE DESCRIBE HOW THIS MERGER IS DIFFERENT FROM OTHER**
18 **RECENT TELECOMMUNICATIONS MERGERS AND HOW THIS RESULTS IN**
19 **ADDITIONAL CUSTOMER VALUE.**

20 **A.** The proposed merger will create a company envisioned by the Telecommunications Act of
21 1996 -- a full service local, long distance, and data provider. Currently, U S WEST and

1 Qwest serve different telecommunications markets rather than historically similar markets.
2 The merger will combine the service capabilities of two distinct providers, whose services
3 compliment one another. Combining these complementary resources will enable the merged
4 company to provide an array of services with maximum efficiency, which in turn will benefit
5 customers.

6
7 **Q. SEVERAL STATEMENTS IN THE MEDIA HAVE INDICATED THAT THE**
8 **MERGED COMPANY INTENDS TO EXPAND INTO TWENTY-FIVE CITIES**
9 **OUTSIDE OF THE CURRENT U S WEST FOURTEEN STATE REGION. HOW**
10 **WILL THIS EXPANSION AFFECT U S WEST'S ABILITY TO PROVIDE SERVICE**
11 **TO CUSTOMERS IN WASHINGTON?**

12 **A.** The expansion will benefit customers. As described above, the telecommunications industry
13 is in a rapid state of flux. U S WEST must change and adapt in order to remain a healthy,
14 viable company in this environment. Thus, the merger should actually help U S WEST
15 provide services to its customers on an ongoing basis.

16
17 Moreover, the combined company's planned expansion is not at the expense of or in lieu of
18 serving existing customers. Qwest has experience in serving customers throughout the
19 United States. This experience and presence will help the merged company expand into new
20 territories. Similarly, U S WEST has experience in serving customers throughout its fourteen
21 state region. It is this very customer base – twenty-five million strong - that provides the

1 merged company with a ready market to expand its current services. Thus, customers
2 throughout Washington and elsewhere in the fourteen state region, should be the first
3 beneficiaries of all of the benefits that this merger will bring.

4
5 **Q. U S WEST HAS BEEN A LEADER IN THE DEPLOYMENT OF ADVANCED**
6 **SERVICES THROUGHOUT ITS REGION. WILL THAT STRATEGY CONTINUE**
7 **AFTER THE MERGER?**

8 **A.** Yes. U S WEST, Inc. and Qwest Inc. have both been recognized for their innovative
9 products and services. The merged company should only further these efforts. For example,
10 the merger will foster competition because it is the merged companies' fiber and DSL
11 broadband technology that offers a distinct alternative to AT&T's cable-telephony service.
12 Currently, U S WEST, Inc. is the nation's leader in DSL high-speed Internet access with
13 deployment in more than forty cities in its fourteen state region. As expected demand for
14 data services increases, the merged company plans to expand its deployment in targeted
15 markets where economically feasible. In short, implementation of the shared growth strategy
16 of each company, will facilitate local broadband connectivity services for customers.

17
18 **I. PUBLIC INTEREST BENEFITS**

19 **A. HOW WILL CONSUMERS BENEFIT FROM THIS MERGER?**

20 **A.** The proposed merger will bring together Qwest Inc.'s advanced network and broadband
21 Internet service capability with U S WEST, Inc.'s innovative local communications and

1 broadband Internet access capabilities. Through this combination, we will be able to offer
2 customers more choices and greater access to next generation telecommunications and
3 broadband Internet based services including web hosting and value added web based
4 applications. There are few overlaps in services; therefore, the merged company will create
5 an increased ability to rapidly meet the evolving needs of both residential and business
6 customers.

7
8 **Q. WILL THE MERGER IMPACT U S WEST, INC.'S SUPPORT OF THE**
9 **COMMUNITIES IT SERVES IN WASHINGTON?**

10 **A.** U S WEST, Inc. has an established tradition of being a supportive and active corporate
11 citizen in the state of Washington. The company intends to maintain its commitment to the
12 community once it merges with Qwest Inc. The U S WEST Foundation has provided over
13 \$225 million in funding in local communities throughout U S WEST's fourteen state region
14 since 1989. The U S WEST Foundation invests over \$22 million annually via grants as well
15 as matching financial contributions and volunteer time donated by U S WEST's
16 employees. The Foundation also supports economic development programs in Washington
17 through small business grants and development grants. U S WEST anticipates donations of
18 this type to continue post-merger. The Widening our World or "WOW" van project has
19 visited Washington communities statewide. The WOW van offers free computer and
20 Internet training seminars to schools, senior citizens' centers and libraries.

21

1 **A. HOW WILL THE PROPOSED MERGER BENEFIT WASHINGTON'S ECONOMIC**
2 **DEVELOPMENT GOALS?**

3 **A.** It has been recognized that telecommunications availability is a key driver in the ability of
4 cities and states to retain or attract large corporations. Access to advanced, state-of-the-art
5 telecommunications services, nationally and internationally, benefits business, their
6 employees and the economy of the state of Washington. Increased geographic reach and
7 broadened product offerings strengthen the economies in states, like Washington, where the
8 company has considerable infrastructure investments.

9

10 **Q. HOW WILL THE MERGER IMPACT U S WEST'S EFFORTS TO OBTAIN**
11 **SECTION 271 APPROVAL?**

12 **A.** The purpose of the merger is to become an end-to-end facilities based company that provides
13 customers with a full range of telecommunications options. This is impossible without the
14 ability to offer interLATA services. As a result, both companies understand the importance
15 of obtaining Section 271 approval. Moreover, pre-271 approval, Qwest must cease providing
16 interLATA services in U S WEST's fourteen state region. U S WEST is already active in
17 Section 271 proceedings in Nebraska and Arizona. Thus, both companies will have greater
18 incentives to obtain approval in an expedited manner.

19

20 **Q. ONCE SECTION 271 APPROVAL IS RECEIVED, WHAT ADDITIONAL**
21 **BENEFITS WILL FLOW TO CUSTOMERS?**

1 A. Once U S WEST receives FCC Section 271 approval to provide interLATA services,
2 consumers throughout Washington will benefit in several ways. First, customers throughout
3 U S WEST's current serving territory will be able to obtain a full range of
4 telecommunications services from one provider. Second, because Qwest is the nation's
5 fourth largest long distance carrier with established sales and marketing expertise, consumers
6 will not experience the "growing pains" associated with a new service provider.

7

8

I.CUSTOMER IMPACTS

9 A. **HOW WILL THE MERGER AFFECT U S WEST'S OPERATIONS IN**
10 **WASHINGTON?**

11 A. The merger is expected to produce a more customer-focused and efficient company for
12 consumers. Naturally, the merged company will seek to take advantage of the best practices
13 of each company. U S WEST does not expect that implementing those best practices will
14 reflect any substantial change in the way the local operating company provides service. In
15 addition, the merger will not alter any of the responsibilities or commitments U S WEST has
16 made to state regulators or its customers. At this time, the merger will not require any
17 change in the rates, terms or conditions for the provision of any telecommunications services
18 provided in Washington.

19

20 A. **WILL U S WEST CONTINUE ITS COMMITMENT TO "LIFELINE", 911, AND**
21 **TELECOMMUNICATIONS RELAY SERVICES IN WASHINGTON?**

1 A. U S WEST will continue to satisfy its regulatory obligations in this area.

2

3 **Q. WILL U S WEST CONTINUE TO HONOR ITS CURRENT INTERCONNECTION**
4 **AGREEMENTS?**

5 A. Absolutely. U S WEST intends to honor all interconnection agreements in full force and
6 effect at the time the merger takes place based upon the provision in existing agreements.

7

8 **Q. HOW WILL THE MERGER AFFECT EMPLOYMENT AT U S WEST?**

9 A. For many employees, the merger will result in expanded job opportunities and very little
10 overlap in job responsibilities. In fact, it is anticipated there will be a need to continue hiring
11 customer contact sales people and network technicians. In those areas where there might be
12 overlapping skills between the companies, attempts will be made to reassign employees to
13 positions for which they are qualified. In addition, U S WEST remains committed to its
14 relationship with the Communications Workers of America and the union contract will be
15 honored by the merged company.

16

17

I.REGULATORY PROCESSES

18 **A. IN WHAT TIMEFRAME WILL THE MERGER BE COMPLETED?**

19 A. The companies anticipate completing the transaction as soon as possible but in any event,
20 no later than mid-year, 2000. In order to accomplish this goal, regulatory reviews need to
21 be completed significantly in advance of this date.

1

2 **Q, WHY ARE U S WEST, INC. AND QWEST INC. ASKING THE COMMISSION TO**
3 **APPROVE THE MERGER ON AN EXPEDITIOUS BASIS?**

4 **A.** The value of this transaction to customers depends on the ability of the merging companies
5 to capitalize quickly on market changes. Delay and uncertainty could potentially diminish
6 the value of the merger to both shareowners and customers. The joint merger application and
7 supporting testimony demonstrate that the merger is in the public interest and will provide
8 consumers in Washington a greater array of telecommunication products and services.

9

10

VI.CONCLUSION

11 **A. WILL YOU PLEASE SUMMARIZE YOUR TESTIMONY?**

12 **A.** When U S WEST, Inc. and Qwest Inc. are merged, the merged company and its subsidiaries
13 will continue to provide customers in the state of Washington with reliable, efficient
14 telecommunications service. In fact, the merger will enhance U S WEST's ability to serve
15 customers in the future. The proposed merger will create the kind of company envisioned by
16 the Telecommunications Act of 1996 – a full service local, long distance and data provider.
17 U S WEST, Inc. and Qwest Inc. have both been recognized for their innovative advanced
18 products and services.

19

20 U S WEST and Qwest are committed to making this merger transaction seamless for their
21 customers. U S WEST firmly believes that this merger will strengthen the value of its

1 service as well as its ability to serve its customers. The joint merger application and
2 supporting testimony demonstrates that the merger is in the public interest and will improve
3 the merged company's ability to provide consumers in the state of Washington with a greater
4 array of telecommunications products and services.

5

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

7 **A.** Yes it does.