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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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IN THE MATTER OF QWEST COMMUNICA-
TIONS INTERNATIONAL, INC.'S, QWEST
SERVICES CORPORATION'S, AND QWEST
CORPORATION'S NOTICE OF SALE, REQUEST
FOR WAIVER, OR APPLICATION FOR
APPROVAL OF THE SALE OF THE ARIZONA
OPERATIONS OF QWEST DEX, INC.

Docket No. T-01051B-02-0666

NOTICE OF FILING DIRECT
TESTIMONY

Please take notice that Dex Holdings LLC, through undersigned counsel, hereby files
the direct testimony of William Kennard in the above-captioned matter, a copy of which is
attached.

RESPECTFULLY SUBMITTED January 28, 2003.

DEX HOLDINGS LLC

By

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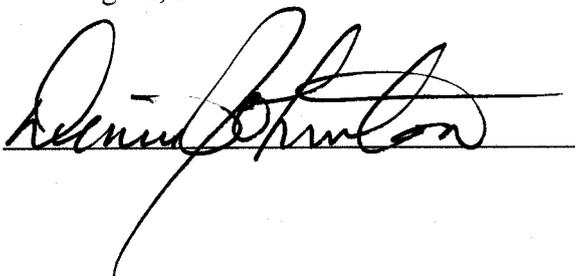
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS:

MARC SPITZER, CHAIRMAN
JIM IRVIN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON

IN THE MATTER OF QWEST COMMUNICA-
TIONS INTERNATIONAL, INC.'S, QWEST
SERVICES CORPORATION'S, AND QWEST
CORPORATION'S NOTICE OF SALE, REQUEST
FOR WAIVER, OR APPLICATION FOR
APPROVAL OF THE SALE OF THE ARIZONA
OPERATIONS OF QWEST DEX, INC.

DOCKET No. T-01051B-02-0666

DIRECT TESTIMONY OF
WILLIAM E. KENNARD
ON BEHALF OF
DEX HOLDINGS LLC

JANUARY 28, 2003

1 Washington, D.C. law firm of Verner, Liipfert, Bernhard, McPherson & Hand. From
2 July 1983 through April 1984, I was the Assistant General Counsel of the National
3 Association of Broadcasters. From September 1982 to July 1983, I was an associate
4 attorney at the Verner, Liipfert firm. I received a one-year legal fellowship from the
5 National Association of Broadcasters between September 1981 and September 1982.

6 Q. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND
7 BRIEFLY?

8 A. I received my Juris Doctor degree from the Yale Law School in May 1981. I received an
9 A.B. with distinction in communications from Stanford University in 1978.

10 Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?

11 A. Yes. I am admitted to the bar in the state of California and in the District of Columbia.

12 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

13 A. I will address three areas. First, I will show that the Buyer is exceptionally well qualified
14 to own and operate Dex. Second, I will discuss the reasons why the Buyer will have
15 incentives to ensure that it provides the full range of high-quality services necessary for
16 Qwest Corporation to meet its directory publishing obligations. Third, I will address
17 certain reasons why the proposed sale of Qwest Dex as provided in the Rodney
18 Agreement and related transaction documents is in the public interest.

19 Q. DO YOU INTEND TO ADDRESS THE FINANCIAL IMPACTS OF THE TRANS-
20 ACTIONS TO QWEST?

21 A. No. I believe that Qwest is in a better position to address the financial impacts of this
22 transaction to itself. Moreover, I understand that Qwest will address this issue in this
23 proceeding.

1 Q. PLEASE DESCRIBE THE PROPOSED SALE VERY BRIEFLY AS BACKGROUND
2 TO YOUR TESTIMONY.

3 A. The sale is structured to take place in two parts. In the first phase of the transaction,
4 under the Dexter Agreement, Dex Media East, LLC, a subsidiary of Dex Media, Inc.
5 (“Dex Media”), and an indirect subsidiary of Dex Holdings LLC (the “Buyer”), acquired
6 the operations of Qwest Dex in the eastern portion of Qwest’s local exchange operating
7 territory, including the states of Colorado, Iowa, Minnesota, Nebraska, New Mexico,
8 North Dakota, and South Dakota. That phase of the sale closed on November 8, 2002.
9 Just prior to that closing, Qwest Dex, Inc. transferred its assets and liabilities in each of
10 those states to its newly created subsidiary, SGN LLC. At the closing, the ownership of
11 SGN LLC transferred from Qwest Dex to Dex Media East. The Rodney Agreement
12 provides for a similar course of events to take place just prior to and at the closing of the
13 Dex Media West phase of the transaction. At the Dex Media West closing, Qwest Dex,
14 Inc. will transfer its remaining assets and liabilities, including those in Washington,
15 Arizona, Idaho, Montana, Oregon, Utah, and Wyoming, to GPP LLC, a separate newly-
16 created subsidiary of Qwest Dex, Inc., and transfer ownership of GPP LLC to Dex Media
17 West, LLC, also a subsidiary of Dex Media and an indirect subsidiary of Dex Holdings
18 LLC.

19 **II.**

20 **BUYER’S QUALIFICATIONS/REGULATORY COMPLIANCE**

21 Q. PLEASE IDENTIFY THE BUYER.

22 A. Dex Holdings LLC, the Buyer, is a Delaware limited liability company recently formed
23 for the purpose of purchasing the Dex publishing business. The Buyer is owned by The
24 Carlyle Group (“Carlyle”) and Welsh, Carson, Anderson & Stowe (“WCAS”)
25 (collectively, the “Owners”). The Owners are established private equity investment
26 companies.

1 Q. WOULD YOU ALSO PROVIDE SOME BACKGROUND REGARDING THE
2 OWNERS?

3 A. Carlyle is a private global investment firm that originates, structures and acts as lead
4 equity investor in management-led buyouts, strategic minority equity investments, equity
5 private placements, consolidations and buildups, and growth capital financings. Since its
6 inception, the firm has invested more than \$7.2 billion of equity in 263 transactions with
7 an aggregate acquisition value of over \$19 billion. As of September 30, 2002, the firm
8 had more than \$13.9 billion of committed capital under management. We are
9 headquartered in Washington, DC, and serve a diverse base of more than 550 investors in
10 55 countries worldwide. Carlyle has deep knowledge and experience across disciplines
11 and industries that give it a competitive edge in all the markets in which it operates.

12 WCAS is one of the oldest and largest private equity investment firms in the
13 United States. Founded in 1979, it has raised 12 investment partnerships with total
14 capital of \$12 billion. Its investment activities are exclusively focused in three industries:
15 communications, information services, and healthcare. WCAS has completed over 100
16 buyouts and over 650 add-on acquisitions since its founding. Combined, Carlyle and
17 WCAS have over \$25 billion of committed capital under management. The Buyer's
18 ability to raise the large amounts of capital needed to purchase, fund, and operate Dex has
19 already been demonstrated in funding and closing the Dexter portion of the transaction,
20 which required \$2.75 billion in debt and equity capital.

21 Q. WHAT EXPERIENCE DO THE OWNERS HAVE IN OWNING AND MANAGING
22 COMMUNICATIONS-RELATED BUSINESSES?

23 A. Carlyle and WCAS are among the largest and most successful private equity investment
24 firms in the world. Their successes in communications investing result from investment
25 professionals who have deep understanding of and respect for the unique responsibilities
26 of owning regulated businesses. At Carlyle, one of my partners is James A. Attwood,

1 who formerly served as Verizon's Executive Vice President for Strategy and served in
2 that same capacity for GTE. Mr. Attwood is Co-Chairman of the Board of Directors of
3 the Buyer. I also serve on the Buyer's board as a director and member of the Audit
4 Committee. Other senior partners of Carlyle include former Secretary of State, Secretary
5 of the Treasury, and White House Chief of Staff James A. Baker III and former Securities
6 and Exchange Commission Chairman Arthur Levitt. At WCAS, Anthony J. De Nicola
7 serves as Co-Chair of the Buyer's board of directors and brings several years of
8 experience in overseeing WCAS's communications investments. WCAS's portfolio
9 companies in telecommunications include Centennial Communications (a provider of
10 rural wireless services), Valor Telecommunications (a rural wireline provider), and
11 Amdocs (a provider of OSS and billing software to the communications industry).
12 Carlyle also has extensive experience as a successful investor in communications and
13 publishing. Its ownership experience includes Pacific Telecom (submarine fiber-optic
14 cable), Neptune Communications (high-speed undersea fiber-optic networks), Genesis
15 Cable (a U.S. cable television operator), Prime Cable (cable television operator in
16 Montgomery County, Maryland, and Arlington County, Virginia), Entertainment
17 Publications, Inc. (promotional coupon publishing and advertising), Taiwan Broadband
18 (largest cable television provider in Taiwan), eAccess Broadband Services (Japanese
19 ADSL provider), and Videotron Telecom Ltée (Canadian facilities-based CLEC).

20 III.

21 BUYER'S PLANS TO PROVIDE HIGH-QUALITY 22 SERVICES TO QWEST CORPORATION

23 Q. HOW CAN THE COMMISSION BE CERTAIN THAT QWEST CORPORATION
24 WILL BE ABLE TO CONTINUE TO MEET ALL OF ITS REGULATORY
25 OBLIGATIONS AND OTHER RESPONSIBILITIES REGARDING LISTINGS AND
26 DIRECTORY PUBLICATION AND DISTRIBUTION AFTER DEX IS SOLD?

1 A. There are several reasons. First, no change in the management of Dex is contemplated as
2 a result of this transaction. The current management will stay on and is very experienced
3 in publishing and distributing directories in compliance with regulatory requirements.
4 The testimony filed in this docket by George Burnett, the Chief Executive Officer of Dex,
5 describes his qualifications as well as some of the accomplishments of Dex. Second, as I
6 described earlier, both of the Owners have extensive experience in managing communi-
7 cations-related businesses, and understand the important position that the Commission's
8 directory publishing requirements occupy. Finally, the penalty for the Buyer's failure to
9 perform the publishing agreement at a level sufficient to meet Qwest's regulatory
10 responsibilities would be severe – potential termination of the publishing agreement.

11 Q. YOU DISCUSSED THE LEADERSHIP OF DEX, DEX HOLDINGS, AND ITS
12 OWNERS AFTER THE TRANSACTION. WHAT ABOUT THE RANK AND FILE
13 WORKERS AT DEX?

14 A. One of the critical assets that we are acquiring is the existing management and staff at
15 Dex. We do not want to jeopardize those human assets by engaging in shortsighted and
16 imprudent cost-cutting measures, because the value of that human capital cannot be
17 overstated. Dex is already one of the most efficient directory publishers in the country.
18 In addition, we plan to accept the collective bargaining agreements with the two unions
19 that represent Dex workers. In fact, Qwest Dex and Dex Media recently agreed with the
20 International Brotherhood of Electrical Workers ("IBEW") to extend the current
21 agreement from May 2003 to May 2006. The agreement, which has been ratified by the
22 IBEW, is binding on Dex Media and provides that there will be no material changes in
23 compensation or benefits through the end of the extended term. Further, for the
24 Communications Workers of America and other non-IBEW employees, Dex Media will
25 keep in place, or put in place, pension, medical, life, and other benefit plans that are
26 comparable to Qwest's current plans.

1 Q. WHAT ARE THE BUYER'S PLANS FOR QWEST DEX?

2 A. Dex Media East has already acquired Qwest's directory business in the eastern half of the
3 Qwest states. The best way to characterize how things are working is "business as
4 usual." The same will hold true after Dex Media West acquires the remaining Dex
5 operations in the western region. We plan to continue to publish the high quality white
6 and yellow pages that are familiar to Qwest's local exchange customers and other
7 directory users. We do not plan any major changes to the directories. Qwest subscribers
8 and other directory users will continue to see the same familiar look and contents of the
9 product. Dex Holdings' operating subsidiaries will continue to include the government
10 listings, community information, and other features on which directory users have come
11 to rely. While we plan to continue to refine and improve the Dex directories and to
12 pursue expansion in related areas, such as Internet directory publishing, changes will be
13 incremental, not radical.

14 Q. WHAT ENSURES THAT DEX WILL CONTINUE TO MEET REGULATORY
15 REQUIREMENTS AND QWEST'S OTHER DIRECTORY RESPONSIBILITIES?

16 A. The Buyer is contractually bound to provide services necessary to enable Qwest to satisfy
17 its directory publishing obligations, including obligations that exist under its inter-
18 connection agreements with CLECs. More importantly, Dex's reputation and substantial
19 goodwill are based on the public's perception that its directories are accurate and
20 complete and on advertisers' confidence that the directories are widely distributed. This
21 is an asset that the Buyer will protect above all by taking great pains to ensure full and
22 complete listings and full and widespread distribution of the directories themselves,
23 including placement at payphone stations. Thus, Dex will continue to include CLEC
24 listings on the same basis as Qwest's own, and will ensure that every customer within the
25 coverage area of the directory is able to obtain a copy of the directory, without regard for
26 the identity of the subscriber's local exchange carrier ("LEC").

1 Q. WHAT IS THE BUYER'S PLAN REGARDING PUBLISHING SCHEDULES?

2 A. We do not plan to change publishing intervals. Most directories are published annually.
3 We plan to continue with the current intervals, unless the public interest requires a
4 change.

5 Q. WHAT WOULD BE AN EXAMPLE OF A NECESSARY CHANGE TO A
6 PUBLISHING SCHEDULE?

7 A. If the area covered by a directory were undergoing a massive numbering change or the
8 introduction of a new NPA, then it might be prudent to either delay or advance the
9 publication of the directory or directories for that area.

10 Q. WHAT IS THE LIKELY COMPETITIVE IMPACT OF THE DIRECTORY
11 PUBLISHING AGREEMENT BETWEEN QWEST AND DEX HOLDINGS?

12 A. The publishing agreement and related documents ensure that no LEC will have any
13 competitive advantage or be subject to any disadvantage. The agreements provide that all
14 of the obligations that would have applied to Qwest Dex will continue to be met pursuant
15 to the publishing agreement between Dex Holdings and Qwest Corporation. Included in
16 those obligations are provisions to ensure that both Qwest's and CLECs' customers are
17 properly listed. In the CLECs' case, the publishing agreement ensures that the Buyer will
18 take actions necessary to ensure that Qwest Corporation meets its obligations in its
19 interconnection agreements with CLECs. Again, not only will Qwest's local exchange
20 customers not notice a change upon closing of the sale, CLECs likewise will experience
21 no material change in how their local exchange customers' listings are handled. As an
22 independent publisher, we have an incentive to be even-handed in our treatment of all
23 carriers.

1 Q. ARE THERE OTHER PUBLIC INTEREST BENEFITS OF THIS TRANSACTION?

2 A. Yes. I see benefits flowing merely from the fact that the new owner is not affiliated with
3 an incumbent LEC. As the Buyer innovates and responds to increasing competition in
4 the directory business, it will look at the business from the consumer's perspective and
5 that of its advertising customers, rather than the perspective of a telecommunications
6 provider. Today, Dex operates as part of an overall enterprise that includes local
7 exchange, interexchange, and other operating entities. That enterprise is financially
8 obligated to use the Dex profits to service a substantial debt load and to subsidize local
9 exchange rates.

10 As an independent entity, Dex will have the ability to use the profits from its
11 directory publishing business to research and develop new and improved products,
12 maximizing the value of the directory publishing assets and providing new services to
13 consumers and advertisers alike. In the past few years, we have all seen how the value of
14 noncore assets can be maximized and services provided more efficiently and in a more
15 competitively neutral way when those assets are divested from large ILECs. For
16 example, we have seen these benefits in the wireless tower, billing services, and customer
17 care sectors.

18 IV.
19 CONCLUSION

20 Q. COULD YOU SUMMARIZE YOUR TESTIMONY FROM THE PERSPECTIVE OF A
21 REGULATORY REVIEW OF THE PROPOSED SALE UNDER A "PUBLIC
22 INTEREST" STANDARD?

23 A. I appreciate that the Commission wants to make sure that it is doing everything that it can
24 to protect the interests of Qwest's local exchange customers. But the Commission has
25 every reason to find the transaction to be in the public interest and no reasons, other than
26 speculative ones, to find that it is not. The Buyer is well qualified to own Dex and is well

1 positioned to invest in this business and improve its products and services. The Buyer
2 will thus be able to maximize the value of the Dex assets and to do so in a way that is
3 competitively neutral and thereby further other important policy goals. For these reasons,
4 this transaction is the right thing at the right time from a public interest standpoint. The
5 directories will only get better. All regulatory requirements for publishing and
6 distributing directories will be met, and there is no reason to believe that Qwest and its
7 local exchange customers would be better off financially if Qwest retained Dex.

8 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

9 A. Yes. Thank you.