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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

**DEX HOLDINGS LLC'S
POST-HEARING BRIEF**

Dex Holdings LLC ("Dex Holdings") submits its post-hearing brief in support of the sale of the directory publishing assets and operations of Qwest Dex, Inc. ("Dex") by Qwest Communications International Inc., Qwest Services Corporation and Qwest Dex, Inc. to Dex Holdings pursuant to the terms of the settlement agreement between the Qwest Corporation ("Qwest") and the Staff of the Arizona Corporation Commission ("Staff"), filed in this docket on April 18, 2003 (the "Settlement").

INTRODUCTION

The focus of the hearing in this docket has been on the appropriate terms for the sale of Dex. In particular, the parties have debated the amount of sale proceeds that should be provided to Qwest's Arizona customers, either through increased imputation or direct bill credits.

However, there has been no dispute that Dex Holdings is a well-qualified buyer. The parties also have not disputed that Dex Holdings will operate Dex in a manner that will continue to benefit Arizona. Moreover, no party has seriously disputed the propriety of sale price for Dex.

1 equity investments, equity private placements, consolidations and buildups, and growth
2 capital financings. [Ex. DH-1 at 4:1-11] Since its inception, Carlyle has invested more
3 than \$7.2 billion of equity in 263 transactions with an aggregate acquisition value of over
4 \$19 billion. [Id.] As of September 30, 2002, the firm had more than \$13.9 billion of
5 committed capital under management. [Id.] WCAS is one of the oldest and largest private
6 equity investment firms in the United States. Founded in 1979, WCAS has raised 12
7 investment partnerships with total capital of \$12 billion. [Id. at 4:12-16] Its investment
8 activities are exclusively focused in three industries: communications, information
9 services, and healthcare. [Id.] Combined, Carlyle and WCAS have over \$25 billion of
10 committed capital under management. [Id. at 4:16-20] Dex Holdings' ability to raise the
11 large amounts of capital, through Carlyle and WCAS, needed to purchase, fund, and operate
12 Dex has already been demonstrated in funding and closing the Dexter portion of the
13 transaction, which required \$2.75 billion in debt and equity capital. [Id.]

14 Carlyle and WCAS have demonstrated success in communications investing because
15 they possess investment professionals who have deep understanding of and respect for the
16 unique responsibilities of owning regulated businesses. For example, William Kennard,
17 former Chairman of the FCC, now serves as Managing Director of the Telecommunications
18 and Media Group at Carlyle and is a member of the board of directors of Dex Holdings.
19 [Ex. DH-1 at 2:7-26] Another Carlyle partner, who serves as Co-Chairman of the Board of
20 Directors of Dex Holdings, James A. Attwood, formerly served as Verizon's Executive
21 Vice President for Strategy and served in that same capacity for GTE. [Id. at 4:26 - 5:3]
22 Other senior partners of Carlyle include former Secretary of State, Secretary of the
23 Treasury, and White House Chief of Staff James A. Baker III and former Securities and
24 Exchange Commission Chairman Arthur Levitt. [Id. at 5:4-6] At WCAS, Anthony J. De
25 Nicola serves as Co-Chair of Dex Holdings' board of directors and brings many years of
26 experience in overseeing WCAS's communications investments. [Id. at 5:6-8] WCAS's
27 portfolio companies in telecommunications include Centennial Communications (a provider

1 of rural wireless services), Valor Telecommunications (a rural wireline provider), and
2 Amdocs (a provider of OSS and billing software to the communications industry). [Id. at
3 5:9-11] Carlyle management also has extensive experience as a successful investor in
4 communications and publishing, including Pacific Telecom (submarine fiber-optic cable),
5 Neptune Communications (high-speed undersea fiber-optic networks), Genesis Cable (a
6 U.S. cable television operator), Prime Cable (cable television operator in Montgomery
7 County, Maryland, and Arlington County, Virginia), Entertainment Publications, Inc.
8 (promotional coupon publishing and advertising), Taiwan Broadband (largest cable
9 television provider in Taiwan), eAccess Broadband Services (Japanese ADSL provider),
10 and Videotron Telecom Ltée (Canadian facilities-based CLEC). [Id. at 5:12-19]

11 As a result, Dex Holdings will bring the financial and technical capabilities of its
12 owners (as well as the Dex management and employees) to bear on those operations in a
13 manner that serves the public interest.

14 **2. Dex Holdings will Operate Dex in a Manner that Benefits the**
15 **Public.**

16 As set forth in the record, the sale transaction is structured to ensure that Dex will
17 continue to operate at the same – or higher – level upon the close of the transaction. The
18 sale of Dex is structured to take place in two parts. In the first phase of the transaction,
19 under the Dexter Agreement, Dex Media East, LLC, a subsidiary of Dex Media, Inc., and
20 an indirect subsidiary of Dex Holdings, acquired the operations of Dex in the eastern
21 portion of Qwest's local exchange operating territory, including the states of Colorado,
22 Iowa, Minnesota, Nebraska, New Mexico, North Dakota, and South Dakota. [Ex. DH-1 at
23 3:1-8] That phase of the sale closed on November 8, 2002. [Id.] Just prior to that closing,
24 Dex, Inc. transferred its assets and liabilities in each of those states to its newly created
25 subsidiary, SGN LLC. [Id. at 3:9-11] At the closing, the ownership of SGN LLC
26 transferred from Dex to Dex Media East. [Id.] The Rodney Agreement provides for a
27 similar course of events to take place just prior to and at the closing of the Dex Media West

1 phase of the transaction. At the Dex Media West closing, Dex, Inc. will transfer its
2 remaining assets and liabilities, including those in Washington, Arizona, Idaho, Montana,
3 Oregon, Utah, and Wyoming, to GPP LLC, a separate newly-created subsidiary of Dex,
4 Inc., and transfer ownership of GPP LLC to Dex Media West, LLC, also a subsidiary of
5 Dex Media and an indirect subsidiary of Dex Holdings. [Id. at 3:13-18]

6 a. Continuity of Dex Management and Operations

7 Dex Holdings does not intend to change the management of Dex as a result of this
8 transaction. The current management will stay on and is very experienced in publishing and
9 distributing directories in compliance with regulatory requirements. [Ex. DH-1 at 6:1-5]
10 One of the critical assets that Dex Holdings is acquiring is the existing management and
11 staff at Dex. [Id. at 6:14-17] Dex is already one of the most efficient directory publishers
12 in the country and Dex Holdings does not want to jeopardize those human assets by
13 engaging in shortsighted and imprudent cost-cutting measures, because the value of that
14 human capital cannot be overstated. [Id.] Dex Holdings intends to accept the collective
15 bargaining agreements with the two unions that represent Dex workers. [Id. at 6:18-26]
16 Moreover, unlike Qwest, Dex Holdings is in a position to hire additional employees at Dex
17 to improve growth opportunities. [Hearing Transcript ("Tr.") at 92:11-18]

18 There is already existing proof of Dex Holdings' intent for the continued high-
19 quality operation of Dex. One of Dex Holding's operating subsidiaries, Dex Media East,
20 has already acquired Qwest's directory business in the eastern half of the Qwest states and
21 the best way to characterize how things are working is "business as usual." [Ex. DH-1 at
22 7:1-13] The same will hold true after Dex Media West acquires the remaining Dex
23 operations in the western region. [Id.] Dex Holdings plans to continue to publish the high
24 quality white and yellow pages that are familiar to Qwest's local exchange customers and
25 other directory users. Qwest subscribers and other directory users will continue to see the
26 same familiar look and contents of the product. [Id.] Dex Holdings' operating subsidiaries
27

1 will continue to include the government listings, community information, and other features
2 on which directory users have come to rely. [Id.]

3 Moreover, Dex Holdings intends to continue to refine and improve the Dex
4 directories and to pursue expansion in related areas, such as Internet directory publishing.
5 [Ex. DH-1 at 7:11-13] For example, Dex Media East has published a bilingual directory in
6 Pueblo Colorado that contains a Spanish-language yellow pages. [Tr. at 94:11 - 95:11]
7 This type of innovation is critical for Dex to remain competitive and profitable in the future.
8 Dex Holdings has the necessary resources and focus to continue to innovate and improve
9 the directories.

10 **b. Meeting Qwest's Directory Publishing Obligations**

11 Dex Holdings is contractually bound to provide services necessary to enable Qwest
12 to satisfy its directory publishing obligations, including obligations that exist under its inter-
13 connection agreements with CLECs. [Ex. DH-1 at 7:14-18] Dex Holdings takes this
14 contractual commitment, and the underlying directory publishing obligations, very seriously
15 and it will therefore take great care to publish directories that enable Qwest to meet these
16 obligations. Indeed, Dex Holdings has every incentive to meet its obligations to Qwest
17 because the penalty for failure to perform the publishing agreement at a level sufficient to
18 meet Qwest's regulatory responsibilities would be severe – potential termination of the
19 publishing agreement. [Id. at 6:8-10]

20 Moreover, Dex's reputation and substantial goodwill are based on the public's
21 perception that its directories are accurate and complete and on advertisers' confidence that
22 the directories are widely distributed. [Ex. DH-1 at 7:18-26] This is an asset that Dex
23 Holdings will protect above all by taking great pains to ensure full and complete listings and
24 full and widespread distribution of the directories themselves, including placement at
25 payphone stations. [Id.] Thus, Dex will continue to include CLEC listings on the same
26 basis as Qwest's own, and will ensure that every customer within the coverage area of the
27

1 directory is able to obtain a copy of the directory, without regard for the identity of the
2 subscriber's local exchange carrier ("LEC"). [Id.]

3 **c. Continuing Cooperation with the Commission**

4 Although Dex Holdings and its affiliates are not "telecommunications carriers" or
5 "public service corporations," Dex Holdings intends to work with the Commission to meet
6 any Commission concerns regarding directories in Arizona. [Tr. at 100:5-21, 101:3 -
7 102:21] Dex Holdings will abide by any applicable laws regarding its operation of Dex.
8 [See Tr. at 99:4-13, 100:23 - 101:2, 103:2-15] Moreover, although Dex Holdings is not
9 subject to the direct jurisdiction of the Commission, Dex Holdings is contractually obligated
10 to implement Qwest's legal and regulatory obligations concerning directories, even if those
11 obligations change over time. [Ex. DH-1 at 7:14-18]

12 **d. No Improper Competitive Advantage to Qwest**

13 The publishing agreement between Dex Holdings and Qwest (and related docu-
14 ments) ensure that no LEC will have any competitive advantage or be subject to any
15 disadvantage. [Ex. DH-1 at 8:10-23] The agreements provide that all of the obligations
16 that would have applied to Dex will continue to be met pursuant to the publishing
17 agreement between Dex Holdings and Qwest Corporation. [Id.] Included in those
18 obligations are provisions to ensure that both Qwest's and CLECs' customers are properly
19 listed. [Id.] In the CLECs' case, the publishing agreement ensures that Dex Holdings will
20 take actions necessary to ensure that Qwest Corporation meets its obligations in its
21 interconnection agreements with CLECs. [Id.] Not only will Qwest's local exchange
22 customers not notice a change upon closing of the sale, CLECs likewise will experience no
23 material change in how their local exchange customers' listings are handled. [Id.] Indeed,
24 as an independent publisher, Dex Holdings has an incentive to be even-handed in its
25 treatment of all carriers. [Id.] The minimal participation by the CLEC community in this
26 docket confirms that the CLECs' interests will be served by Dex Holdings' obligations to
27 Qwest as a result of the transaction and related publishing agreement.

1 **B. The Proposed Sale Pursuant to the Settlement is in the Public Interest.**

2 Several factors confirm that the sale of Dex pursuant to the Settlement is in the
3 public interest. First, it is an opportune time for the sale. Competition in the directory
4 business is increasing rapidly. Directory services are being offered in areas historically
5 served by Dex by such entities as Yahoo!, Google, other internet search engines or directory
6 services, and wireless companies. [Tr. at 104:13-19] That competition may devalue Dex
7 unless the owner has sufficient resources and ability to timely respond to competitive
8 pressures. Given Qwest's precarious financial circumstances, Qwest may not be able to
9 provide the necessary funding and take the necessary risks to meet that competition. The
10 intersection of Qwest's financial circumstances and the rapidly-emerging directory competi-
11 tion facing Qwest dictates that the sale should take place now. Moreover, no party has
12 seriously challenged the overall sales price for Dex. The record confirms that the potential
13 sale of Dex attracted a number of qualified buyers for the unique asset. [Tr. at 133:6-18]
14 Ultimately, the auction process whittled down the number of prospective buyers to two and
15 the resulting negotiations over the final sale terms were protracted. [Id.] The uniqueness
16 and quality of the asset lead to a fair market price that was not influenced by Qwest's
17 financial circumstances. [Id.]

18 Second, the settlement presents a fair balance between Qwest and Arizona
19 consumers of the distribution of the gains from the sale, particularly in light of the legal
20 landscape underlying directory imputation in Arizona. Presently, Qwest is obligated to
21 impute \$43 million annually from directory revenues. The settlement increases that
22 imputation amount substantially – indeed, the increase from \$43 million to \$72 million
23 exceeds the rate of inflation since 1984. [See RUCO Post-Hearing Exhibit, p.1] The
24 Settlement is also structured that Arizona consumers will realize immediate benefits from
25 that increased imputation in light of the upcoming review of the Qwest Price Cap Plan. In
26 assessing the appropriate financial allocation, the Commission should keep in mind the
27 principal reason behind the sale – to improve Qwest's financial condition to help Qwest

1 avoid bankruptcy. That increased financial stability benefits Arizona consumers. [Tr. at
2 106:18-25] The Commission also retains full control over the disposition of other Qwest
3 assets, which may not be the case if the bankruptcy court takes control of the Qwest estate.
4 [Id.] As such, every dollar reserved to Qwest from the sale serves those long-term public
5 interests. On the other hand, increasing the allocation to consumers may create a short-term
6 financial benefit to consumers, but may also result in detrimental long-term effects.

7 Third, Dex Holdings submits that there are substantial benefits flowing merely from
8 the fact that the new owner is not affiliated with an incumbent LEC. As it innovates and
9 responds to increasing competition in the directory business, Dex Holdings will look at the
10 business from the consumer's perspective and that of its advertising customers, rather than
11 the perspective of a telecommunications provider. [Ex. DH-1 at 9:1-6] Today, Dex
12 operates as part of an overall enterprise that includes local exchange, interexchange, and
13 other operating entities. [Id. at 9:6-9] That enterprise is financially obligated to use the
14 Dex profits to service a substantial debt load and to subsidize local exchange rates. [Id.]
15 As an independent entity, Dex will have the ability to use the profits from its directory
16 publishing business to research and develop new and improved products, maximizing the
17 value of the directory publishing assets and providing new services to consumers and
18 advertisers alike. [Id. at 9:10-13] Dex Holdings will not be burdened with the financial
19 difficulties of its parent company and the cash flow from the business can be reinvested in
20 new and innovative products that will benefit consumers. [Tr. at 93:10-21]

21 Finally, local exchange competition can benefit from the sale of Dex. Dex will no
22 longer be controlled by the ILEC and will have more incentive to work with CLECs to
23 create innovative products or opportunities to allow the CLECs to compete more
24 effectively. [Ex. DH-1 at 9:1-6; Tr. at 100:8-15] Moreover, the imputation subsidy that
25 lowers certain Qwest rates eventually will end, thus removing an artificial implicit subsidy
26 that today makes it more difficult for CLECs to compete. [Tr. at 97:2-21] Vigorous
27 competition in telecommunications markets brings well-recognized benefits to consumers

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1 through increases in quality, new service offerings, and lower prices, and such competition
2 can flourish best only when such subsidies are removed from the rate structure.

3 CONCLUSION

4 Dex Holdings is well-qualified to own and operate Dex and is well positioned to
5 invest in the business and improve its products and services. It will thus be able to
6 maximize the value of the Dex assets and to do so in a way that is competitively neutral and
7 thereby further other important policy goals. All regulatory requirements for publishing and
8 distributing directories will continue to be met. For these reasons, this transaction is the
9 right thing at the right time from a public interest standpoint. The directories will only get
10 better and there is no reason to believe that Qwest and its local exchange customers would
11 be better off financially if Qwest retained Dex, particularly if that retention ultimately leads
12 to the filing of bankruptcy by Qwest.

13
14 RESPECTFULLY SUBMITTED June 24, 2003.

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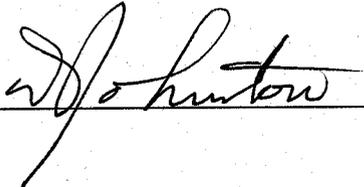
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