0000089382

Transcript Exhibit(s)

Docket #(s): T-01051B-07-0527

T-04190A-07-0527

Exhibit # : Q1-Q4, S1

BEFORE THE ARIZONA CORPORATION COMMISSION

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2008 JUN -2 P 4:50

AZ CORP COMMISSION
DOCKET CONTROL

MIKE GLEASON
Chairman
WILLIAM MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE MERGER OF QWEST CORPORATION AND QWEST LD CORP., CANCELLATION OF QWEST LD CORP.'S CERTIFICATE OF CONVENIENCE AND NECESSITY, AND APPLICATION FOR APPROVAL OF A LIMITED WAIVER FROM A.A.C. R14-2-1901 ET SEQ.

DOCKET NO. T-01051B-07-0527
T-04190A-07-0527

SECOND AMENDED JOINT NOTICE OF MERGER; APPLICATION FOR CANCELLATION OF QWEST LD CORP'S CC&N AND APPROVAL OF A LIMITED WAIVER FROM A.A.C. R14-2-1901 ET. SEQ.

AMENDED JOINT NOTICE OF MERGER

Pursuant to a procedural conference held on May 21, 2008 in the above-captioned matter, Qwest Corporation ("QC") and Qwest LD Corp. ("QLDC") hereby submit this Second Amended Joint Notice of Merger, Application for Cancellation of Certificate of Convenience and Necessity and for Waiver from the requirements of A.A.C. R14-2-1901 *et seq*. ("Amended Application"). With this Amended Application, QC and QLDC seek an Order from the Arizona Corporation Commission ("Commission") approving the merger pursuant to A.R.S. § 40-285(D), canceling QLDC's certificate of convenience and necessity ("CC&N") approved in Decision No. 66613 (December 9, 2003), and granting a waiver from certain authorization and notice provisions of A.A.C. R14-2-1901 *et seq*.

On May 15, 2008, Commission Staff submitted a Staff Report recommending approval of the underlying transactions, subject to certain conditions, and that an expedited hearing be held. This Amended Application is being filed to accurately reflect the relief sought by QC and QLDC in its original application, and therefore should not be considered an impediment to conducting an expedited hearing in this matter.

EXHIBIT
Q-1
admitted 10/2/08

I. THE PARTIES

QC provides local exchange telephone services in many parts of Arizona, and is the incumbent local exchange carrier under the federal Communications Act of 1934, as amended by the Telecommunications Act of 1996. QC is an indirect subsidiary of Qwest Communications International, Inc. ("QCII"), a publicly traded corporation, which is a public utility holding company under the meaning of the Commission's affiliated interest rules.

QLDC was created as a QC affiliate in order to satisfy the legal requirements of sections 271 and 272 of the federal Telecommunications Act of 1996. QLDC serves its customers by reselling services it purchases from Qwest Communications Corporation ("QCC"), another Qwest affiliate and certificated interexchange carrier. QLDC's customer base is "mass market" -- consumer residential and small business. QLDC does not sell any local services. QLDC provides services only in the service territory where QC provides local exchange services as an incumbent in fourteen western states, including Arizona. As of August 31, 2007, QLDC provided interexchange services to approximately 770,000 customers in Arizona. The Commission approved the long distance reseller CC&N for QLDC in Decision No. 66613 (December 9, 2003).

Both QC and QLDC are affiliates within the overall Qwest corporate structure. At the top of Qwest's corporate structure is the parent holding company, Qwest Communications International Inc., or "QCII." Directly below QCII is Qwest Services Corporation, or "QSC". QSC is also the sole shareholder of QC, QLDC, and other Qwest entities.

II. THE TRANSACTION

The consolidation of QLDC into QC will be accomplished by a merger with QC as the surviving entity, and the outstanding QLDC stock being cancelled.

III. STANDARD OF REVIEW

The statutory requirement for approval by the Commission of the transaction is A.R.S. § 40-285(D). Because QLDC and QC are both public service corporations existing under the laws of Arizona, A.R.S. § 40-285(D) requires that the Commission authorize the merger. The law states that "A public service corporation shall not purchase, acquire, take or hold any part of the capital stock of any other public service corporation organized or existing under the laws of this state without a permit from the commission."

As a Class "A" investor-owned utility subject to Commission jurisdiction, the merger constitutes a reorganization under the Commission's affiliated interest rule A.A.C. R14-2-803. However, QC and its affiliates have been granted a limited waiver from the requirements of A.A.C. R14-2-803, and must file a notice of intent to reorganize in instances where the reorganization is likely to: (1) result in increased capital costs to QC; (2) result in additional costs allocated to the Arizona jurisdiction; or (3) result in a reduction of QC's net operating income. Decision No. 64654 (March 25, 2002). None of these factors is likely to result from the merger.

Under A.R.S. § 40-285(D), the Commission must determine whether the merger will serve the public interest.

IV. THE MERGER IS IN THE PUBLIC INTEREST

QC's acquisition of QLDC will serve the public interest, and the transaction should be approved accordingly. The merger will not impair QC's financial status, otherwise prevent it from attracting capital on fair and reasonable terms, nor impair QC's ability to provide safe, reasonable and adequate service to existing customers. The following information is provided in support of the merger.

1. Benefit to Customers.

Combining QLDC and QC should be invisible to customers and not result in any immediate material impact. QLDC customers will see no changes in their offerings or rates, and they will continue to receive services under the "Qwest" brand. Currently, QLDC customers see the charges for QLDC services as charges for "Qwest Long Distance" on their bills. The merger will not change these bill descriptions. Moreover, all services and rates that are available to customers of QLDC and QC shall continue to be available post-merger.[1] The QLDC tariffs, in their entirety, will be added as QC tariff filings once the merger is finalized.

From a practical perspective, all customers will see little if any immediate difference in service other than the simplification of dealing with one corporate entity. QC currently performs billing functions for all QLDC customers such that QLDC charges are presently reflected in QC bills. This will not change. In the future, the merger will allow QC to package local and long distance service in a similar fashion to that which is currently being done by Cox and other QC competitors. This consolidation also will simplify the legal relationships because customers will be subscribing from a single legal entity where before there were two.

2. *Benefits to the Companies.*

The merger of QC and QLDC is driven by the sunset of Qwest's obligations under Section 272 of the Telecommunications Act. Section 272 required that a separate corporate affiliate be maintained to provide interLATA services after Qwest obtained the authority under Section 271 to provide interLATA services. With the recent sunset of several of QC's obligations under Section 272, the applicants desire to move the long distance affiliate QLDC into QC, thereby simplifying and unifying local and long distance voice services for mass market customers into a single provider.

The elimination of an affiliate will reduce administrative burden, record-keeping, and the number of affiliate transactions.

3. *The Merger Will Have No Impact on the Method of Financing or the Capital Structure of the Holding Company QCII.*

The merger will have no impact on the method of financing or the capital structure of the holding company QCII.

---

[1] Any subsequent post merger tariff changes affecting these services would be subject to and filed in accordance with Commission rules.

FENNEMORE CRAIG
PROFESSIONAL CORPORATION
PHOENIX

4. *The Merger Will Have A Positive Equity Impact on QC's Capital Structure.*

QC estimates that the equity component of QC's capital structure will increase by approximately $50M on total corporate basis as a result of the QLDC-QC merger. The debt component of QC's capital structure is unchanged by this transaction.

5. *The Merger Will Not Alter the Method of Allocating Income Taxes.*

The method of allocating federal and state income taxes to the subsidiaries of QCII will remain the same.

6. *The Merger Will Not Change QC's Cost of Service and Cost of Capital.*

QC does not anticipate that there will be a change to its cost of capital or an increase in its cost of service attributable to the merger. The post-merger company anticipates that it will be able to continue to attract capital on terms no less favorable than prior to the merger, and that adequate capital will be available for construction of necessary new utility plant and for improvements in existing utility plant at no greater cost than today. QC and its affiliates will continue to make investments in the ordinary course of their businesses. These investments will not increase the risks of investment in QC or its cost of capital.

7. *The Merger Is Not Part of Any Diversification Plan.*

QC and its affiliates have no current plans to diversify beyond the fields in which they are currently engaged.

8. *The Merger Does Not Depend Upon Approval By Any Other Government Agencies.*

Neither Applicant contemplates the need for any approvals from the Securities and Exchange Commission, or any other federal or state agencies in connection with this transaction. However, should any such filings for approval be made, copies of the filings will be provided to the Commission.

9. *The Merger Will Not Result in a Reduction In the Current Number of Employees In Arizona.*

QLDC does not have any employees in Arizona. The merger will not affect the number of Qwest employees in Arizona.

V. CANCELLATION OF QLDC'S CC&N IS IN THE PUBLIC INTEREST

Once QLDC ceases to exist as a corporate entity, there will no longer be a need for the CC&N granted to QLDC in Decision No. 66613 (December 9, 2003). Former QLDC customers will be migrated to QC, which is now authorized to provide long-distance service directly to them, in a seamless transition that should be invisible to all customers, subject to any notice requirements imposed by the Commission. In order to properly effectuate the cancellation of QLDC's CC&N, Applicants propose that any decision cancelling QLDC's CC&N become effective upon written notice by QC to the Commission that the merger is complete.

VI. A LIMITED WAIVER FROM THE COMMISSION'S ANTI-SLAMMING RULES IS IN THE PUBLIC INTEREST

The purpose and scope of the Commission's anti-slamming rules is to protect consumers from an unauthorized change in their intraLATA or interLATA long-distance telecommunications company. A.A.C. R14-2-1902. In order to protect consumers from the effects of "slamming," telecommunication carriers are required to go through a list of verification and notification procedures designed to ensure that long-distance customers are aware, and consent to, the switch of long-distance providers. A.A.C. R14-2-1905, 1906 and 1908. Qwest asserts that a limited waiver from the Commission's anti-slamming rules is warranted specifically in connection with the transaction.

Combining QLDC and QC should be invisible to customers and not result in any material impact in service. QLDC customers will see no changes in their offerings or rates, and they will continue to receive services under the "Qwest" brand. Currently, QLDC customers see the charges for QLDC services as charges for "Qwest Long Distance" on their bills. The merger will not change these bill descriptions. Moreover, all services and rates that are available to customers of QLDC and QC shall continue to be available post-merger. The QLDC tariffs, in their entirety, would be added as QC tariff filings.

From a practical perspective, customers will see little if any difference, other than the simplification of dealing with one corporate entity. For all of QLDC customers, QC currently performs billing functions such that QLDC charges are presently reflected in QC bills. This will not change. This consolidation will also simplify consumer relationships. QLDC customers will no longer have to deal with separate corporate entities for local and long distance services. If a consumer buys "Qwest" local or long distance service after the merger, only one entity is involved.

Requiring QC to obtain individual authorization and verification for each customer migrating from QLDC, as is currently required under the Commission's anti-slamming rules, would be unduly burdensome, uneconomic and may cause confusion for customers. As noted by the Federal Communications Commission in its First Report and Order in CC Docket No. 00-257 and Fourth Report and Order in CC Docket No. 94-129[2] (May 15, 2001)("Order"), "a change in corporate structure that is invisible to the affected subscribers does not constitute a sale or transfer for purposes of section 258 that implicates this streamlined process. FN – Indeed, in such cases, requiring notice of a change that is imperceptible to the affected subscriber might cause confusion where there would otherwise be none." Order at ¶ 13, FN 24.

QC asserts that the effects of the merger will be imperceptible to QLDC's customers since the transfer involves what can be termed a 'pro-forma' transfer of control between QLDC and QC. The need to provide notice to QLDC's customers is outweighed in this very limited instance by the potential confusion caused by such a notice. Moreover, the 'pro-forma' nature of the transfer of customers does not implicate the potential for fraud and misrepresentation the Commission's anti-slamming rules are

[2] 2000 Biennial Review – Review of Policies and Rules Concerning Unauthorized Changes of Consumer Long Distance Carriers; Implementation of the Subscriber Carrier Selection Changes Provisions of the Telecommunications Act of 1996.

designed to prevent. As such, following the authorization and verification procedures in this instance would be unduly burdensome and time consuming, and represents an economic burden that, in QC's determination, would not serve the public interest.

RELIEF REQUESTED

Applicants respectfully request the following relief:

A. That the Commission proceed to consider and act upon the Amended Application as timely as possible without a hearing;

B. That upon completion of review and recommendations made by Commission Staff, or if a hearing is required then upon completion of such hearing, that the Commission enter an Order authorizing: (1) the merger of QLDC and QC in accordance with A.R.S. § 40-285(D); (2) the cancellation of QLDC's CC&N established in Decision No. 66613 upon written notification that the merger is finalized; and (3) a limited waiver from the requirements of A.A.C. R14-2-1901 *et* seq.; and

C. That the Commission grant such other and further relief to the Applicants as may be appropriate under the circumstances herein.

RESPECTFULLY SUBMITTED this 2nd day of June, 2008.

QWEST CORPORATION
and QWEST LD CORP.

By (Patrick Black on behalf of)

Norman Curtright
20 E. Thomas Road, 16th Floor
Phoenix, AZ 85012
(602) 630-2187

-and-

FENNEMORE CRAIG, P.C.

By

Timothy Berg
Theresa Dwyer
Patrick J. Black
3003 N. Central Ave, Suite 2600
Phoenix, Arizona 85012
(602) 916-5421

Attorneys for Qwest Corporation and Qwest LD Corp.

ORIGINAL and 15 copies hand-delivered for filing this 2nd day of June, 2008, to:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007

COPY hand-delivered this 2nd day of June, 2008, to:

Ernest Johnson
Utilities Director
Arizona Corporation Commission
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Phoenix, Arizona 85007

Janice Alward
Acting Chief, Legal Division
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Maureen Scott
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Maria San Jose

2068589.1/67817.411

FENNEMORE CRAIG
PROFESSIONAL CORPORATION
PHOENIX

MIKE GLEASON
Chairman
WILLIAM MUNDELL
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Commissioner
GARY PIERCE
Commissioner

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AZ CORP COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE MERGER OF QWEST CORPORATION AND QWEST LD CORP., CANCELLATION OF QWEST LD CORP.'S CERTIFICATE OF CONVENIENCE AND NECESSITY, AND APPLICATION FOR APPROVAL OF A LIMITED WAIVER FROM A.A.C. R14-2-1901 ET SEQ.	DOCKET NO. T-01051B-07-0527 T-04190A-07-0527 **NOTICE OF FILING**

Qwest Corporation ("QC") and Qwest LD Corp. ("QLDC") hereby submit this Notice of Filing Rebuttal Testimony in the above-referenced matter. Specifically, filed herewith is David Ziegler's Rebuttal Testimony in Support of the Second Amended Application on behalf of Qwest Corporation and Qwest LD Corp.

DATED this 2nd day of June, 2008.

QWEST CORPORATION
and QWEST LD CORP.

By ______________ (Patrick Black on behalf of)
Norman Curtright
20 E. Thomas Road, 16th Floor
Phoenix, AZ 85012
(602) 630-2187

-and-

EXHIBIT
Q-2
admitted 6/2/08

FENNEMORE CRAIG, P.C.

By [signature]
Timothy Berg
Theresa Dwyer
Patrick J. Black
3003 N. Central Ave, Suite 2600
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(602) 916-5421

Attorneys for Qwest Corporation and Qwest LD Corp.

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Phoenix, Arizona 85007

Maria San Jose

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BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman

WILLIAM MUNDELL
Commissioner

JEFF HATCH-MILLER
Commissioner

KRISTIN K. MAYES
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IN THE MATTER THE MERGER OF QWEST CORPORATION AND QWEST LD CORP., CANCELLATION OF QWEST LD CORP.'S CERTIFICATE OF CONVENIENCE AND NECESSITY, AND APPLICATION FOR APPROVAL OF A LIMITED WAIVER FROM A.A.C. R14-2-1901 ET SEQ.	DOCKET NO. T-01051B-07-0527 T-04190A-07-0527

DAVID ZIEGLER

REBUTTAL TESTIMONY IN SUPPORT OF

THE SECOND AMENDED APPLICATION

ON BEHALF OF

QWEST CORPORATION

AND QWEST LD CORP.

JUNE 2, 2008

TABLE OF CONTENTS

Page

I. IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND CURRENT POSITION.

A. My name is David Ziegler. I am employed by Qwest Corporation as Assistant Vice President – Arizona Public Policy. My business address is 20 East Thomas Road, Phoenix, Arizona 85012. I am providing this testimony on behalf of both Qwest Corporation ("Qwest"), and Qwest LD Corp.

Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES?

A. I am responsible for regulatory, legislative and community affairs in Arizona.

Q. PLEASE REVIEW YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.

A. I received a Bachelor of Science degree in Business Administration from Columbia College in 1988 and have also attended numerous industry seminars on economics, management, marketing and technical courses. In addition, I have over 30 years of service with Qwest and its predecessors (Mountain Bell / US WEST). I began my career in 1978 in the business office. In 1980, I accepted the position of Manager - Residence Operations, where I was responsible for developing methods and procedures for billing and collections. In 1986, I moved to Strategy Development, where I was responsible for cost of service studies and economic regulatory issues. In 1994, I accepted the position of Manager-Regulatory Affairs in Colorado Regulatory where I was responsible for managing regulatory issues before the Colorado Public Utilities Commission. In 1997, I accepted the position of Director -

Regulatory Affairs in Colorado Regulatory. In 2001, I accepted the position of Regional Director – Out of Region, where I was responsible for regulatory and legislative activities in a 14-state area. In 2002, I accepted my current position.

Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THE ARIZONA CORPORATION COMMISSION OR OTHER PUBLIC UTILITY COMMISSIONS AS A WITNESS IN REGULATORY PROCEEDINGS?

A. I have testified before the Arizona Corporation Commission (the "Commission") in the hearing on the proposed settlement in Docket No. RT-00000F-02-271, Docket No. T-00000A-97-0238, and Docket No. T-00151B-02-0871 (consolidated). I have testified on the proposed settlement agreement in Docket No.T-0151B-03-0454, Docket No. T-00000D-00-0672 (consolidated). In addition, I have also testified before the Colorado Public Utilities Commission on numerous occasions and the Illinois Commerce Commission.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to support the second amended application filed by Qwest Corporation and Qwest LD Corp. to respond to the Staff Report in this proceeding, and to request Commission approval of the second amended application.

Q. ARE YOU FAMILIAR WITH THE STATEMENTS MADE IN THE SECOND AMENDED APPLICATION?

A. Yes, I am.

Q. ARE THOSE STATEMENTS TRUE TO THE BEST OF YOUR KNOWLEDGE?

A. Yes, the statements in the Seconded Amended application are true to the best of my knowledge.

Q. IS THE PROPOSED MERGER IN THE PUBLIC INTEREST?

A. Yes. The proposed merger is in the public interest for the reasons delineated in the amended merger application.

III. RESPONSE TO STAFF RECOMMENDATIONS

Q. WHAT IS QWEST'S POSITION REGARDING STAFF RECOMMENDATION NUMBER ONE REGARDING NOT CHARGING CUSTOMERS A PIC CHARGE TO CHANGE THEIR PRESUBSCRIBED CARRIER FROM QLDC TO QC?

A. Qwest agrees that customers should not and will not be charged a PIC charge to change their prescribed carrier from QLDC to QC as a result of the merger.

Q. WHAT IS QWEST'S POSITION REGARDING STAFF RECOMMENDATION NUMBER TWO REGARDING INCORPORATING THE EXISTING QLDC TARIFF WITH ITS EXISTING RATES AND TARIFFS INTO THE QC TARIFF?

A. Qwest Corporation currently has multiple tariffs on file with the Commission for different services. QC intends to adopt the existing QLDC rates and tariffs as a stand alone QC tariff and apply them to the former QLDC customers, without changing the other tariffs QC has on file with the Commission.

Q. PLEASE DESCRIBE QWEST'S POSITION WITH RESPECT TO STAFF RECOMMENDATION NUMBER THREE REGARDING PROVIDING WRITTEN NOTIFICATION OF ANY PLANNED ARIZONA WORKFORCE LAYOFFS ASSOCIATED WITH THIS TRANSACTION FOR ONE YEAR FOLLOWING A DECISION IN THIS MATTER.

A. QLDC has zero employees in Arizona and therefore no potential for any layoffs in Arizona as a result of this transaction. QC does not anticipate any layoffs in Arizona as a result of this transaction. However, Qwest agrees to provide written notification to the Director of the Utilities Division and the individual members of the Commission, at least 60 days in advance, of any planned Arizona workforce reductions associated with this transaction for one year following a decision in this matter.

Q. WHAT IS QWEST'S POSITION WITH RESPECT TO STAFF RECOMMENDATION NUMBER FOUR THAT QLDC'S CC&N BE CANCELLED?

A. Qwest concurs that QLDC's CC&N should be cancelled upon Qwest's notification to the Commission that the merger transaction has closed. The CC&N should not be cancelled prior to closing the merger transaction. Qwest has amended its application to request cancellation of QLDC's CC&N upon notice of the merger transaction.

Q. PLEASE DESCRIBE QWEST'S POSITION REGARDING STAFF RECOMMENDATION NUMBER FIVE THAT A DECISION IN THIS MATTER SHOULD NOT BE CONSIDERED TO MODIFY THE TERMS AND CONDITIONS ORDERED IN DECISION NO. 68604.

A. Qwest agrees that a decision in this matter should not be considered to modify the terms and conditions ordered in Decision No. 68604.

Q. DOES QWEST AGREE WITH STAFF RECOMMENDATION NUMBER SIX REGARDING NOTIFICATION TO THE COMMISSION ONCE THE MERGER HAS BEEN CONSUMATED?

A. Yes, Qwest agrees that it should file notice with the Commission as I previously stated so that QLDC's CC&N may be cancelled at the appropriate time and not prematurely.

Q. DOES QWEST AGREE TO PUBLISH NOTICE OF THE PROPOSED TRANSACTION AND THE TIME AND PLACE FOR THE HEARING IN STAFF RECOMMENDATION NUMBER SEVEN?

A. Yes, Qwest agrees to publish notice as directed by the Hearing Division and the Administrative Law Judge in this proceeding.

Q. WHAT IS QWEST'S POSITION WITH RESPECT TO STAFF RECOMMENDATION NUMBER EIGHT THAT THE CUSTOMER NOTICE REQUIREMENTS OF A.A.C. R14-2-1107 SHOULD NOT APPLY IN THIS MATTER?

A. Qwest concurs that the customer notice requirements of A.A.C. R14-2-1107 should not apply in this matter. The notice requirements of A.A.C. R14-2-1107 were designed to address situations where a company is abandoning or discontinuing service. That is not the case here. QLDC is merging into QC and the existing QLDC customers will continue to be served at the same rates and charges under QC, the surviving entity.

Q. DOES QWEST AGREE WITH STAFF'S RECOMMENDATION THAT THE COMMISSION'S ANTI-SLAMMING RULES SHOULD BE WAIVED?

A. Yes, the anti-slamming rules are designed to prevent providers from switching a customer's account from their selected provider to a new provider without authorization. This process is called "slamming". That is not the case here. The QLDC customers are already Qwest customers and appear on the Qwest bill today. The only thing that is happening is an internal Qwest transaction to eliminate an affiliate that is no longer required under the FCC's rules.

Q. WHEN DOES QWEST EXPECT TO COMPLETE THE MERGER?

A. Qwest hopes to complete the merger transaction in the fall of 2008.

IV. CONCLUSION AND RECOMMENDATION

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE MERGER APPLICATION?

A. My recommendation is that the Commission find that the proposed merger is in the public interest and approve the proposed merger as amended by the parties.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE MERGER OF QWEST CORPORATION AND QWEST LD CORP., CANCELLATION OF QWEST LD CORP.'S CERTIFICATE OF CONVENIENCE AND NECESSITY, AND APPLICATION FOR APPROVAL OF A LIMITED WAIVER FROM A.A.C. R14-2-1901 ET SEQ.	DOCKET NO. T-01051B-07-0527 DOCKET NO. T-04190A-07-0527

STATE OF ARIZONA
COUNTY OF MARICOPA

AFFIDAVIT OF
DAVID L. ZIEGLER

: **SS**

David L. Ziegler, of lawful age being first duly sworn, deposes and states:

1. My name is David L. Ziegler. I am Assistant Vice President – for Qwest Corporation in Phoenix, Arizona. I have caused to be filed written direct testimony in Docket No. T-01051B-07-0527 and T-04190A-07-0527.

2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

David L. Ziegler

David L. Ziegler

SUBSCRIBED AND SWORN to before me this 2nd day of June, 2008.

DEBORAH L STATT
Notary Public - Arizona
Maricopa County
My Comm. Expires Mar 31, 2012

Deborah L Statt

Notary Public

My Commission Expires: March 31, 2012

BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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MIKE GLEASON
Chairman
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Commissioner

IN THE MATTER OF THE MERGER OF QWEST CORPORATION AND QWEST LD CORP., CANCELLATION OF QWEST LD CORP.'S CERTIFICATE OF CONVENIENCE AND NECESSITY, AND APPLICATION FOR APPROVAL OF A LIMITED WAIVER FROM A.A.C. R14-2-1901 ET. SEQ.

DOCKET NO. T-01051B-07-0527
T-04190A-07-0527

NOTICE OF FILING

Pursuant to the July 24, 2008 Procedural Order in the above-referenced proceeding, Qwest hereby files the attached Affidavit of Publication which attests to the fact that the notice required in the Procedural Order was published in the Arizona Republic on August 18, 2008.

DATED this 26th day of August, 2008.

QWEST CORPORATION

By: [signature]
Norman G. Curtright
Corporate Counsel
20 East Thomas Road, 16th Floor
Phoenix, Arizona 85012
Telephone: (602) 630-2187

and

EXHIBIT
Q-3
admitted 10/2/08

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Attorneys for Qwest Corporation

ORIGINAL and 13 copies of the foregoing hand-delivered this 26th day of August, 2008, to:

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ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

COPY of the foregoing mailed this 26th day of August, 2008, to:

Ernest Johnson
Utilities Director
Arizona Corporation Commission
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Phoenix, AZ 85007

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Acting Chief, Legal Division
Arizona Corporation Commission
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Phoenix, AZ 85007

Terri Ford
Utilities Division
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Maureen A. Scott, Esq.
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

Diane Hyman

AFFIDAVIT OF PUBLICATION

THE ARIZONA REPUBLIC

STATE OF ARIZONA
COUNTY OF MARICOPA } SS.

Mark Gilmore, being first duly sworn, upon oath deposes and says: That he is a legal advertising representative of the Arizona Business Gazette, a newspaper of general circulation in the county of Maricopa, State of Arizona, published at Phoenix, Arizona, by Phoenix Newspapers Inc., which also publishes The Arizona Republic, and that the copy hereto attached is a true copy of the advertisement published in the said paper on the dates as indicated.

The Arizona Republic

ugust 18, 2008

Sworn to before me this
19TH day of
August A.D. 2008

Marilyn Greenwood
Notary Public
Maricopa County, Arizona
My Comm. Expires 05-23-11

Notary Public

N THE MATTER OF THE ERGER OF QWEST CORPO-RATION AND QWEST LD ORP., CANCELLATION OF WEST LD CORP.'S CERTIFI-ATE OF CONVENIENCE AND IECESSITY, AND APPLICA-ION FOR APPROVAL OF A LIMITED WAIVER FROM A.A.C. R14-2-1901 ET SEQ. cket No. T-01051B-07-0527)

nmary

June 2, 2008, Qwest Corpo-tion ("Qwest") and Qwest Corp. ("Qwest LD") (joint-"the Qwest entities") filed ith the Arizona Corporation ommission ("Commission") second amended applica-on requesting (1) approval f the merger of Qwest and west LD, with Qwest as the urviving entity; (2) cancella-on of Qwest LD's Certificate f Convenience and Necessi-y to provide long distance elecommunications services n Arizona; and (3) a limited vaiver from certain authori-ati notice provisions of a Administrative Coc .C.") R14-2-1901 et seq. the anti-slamming rules"). If the application were granted, after the merger, Qwest LD's custom-ers would receive their long distance services from Qwest under the same rates, terms, and conditions cur-rently applied by Qwest LD. The Qwest entities have as-serted that the merger and service transition should be invisible to Qwest LD's cus-tomers.

The Commission's Utilities Di-vision Staff ("Staff") has rec-ommended approval of the Qwest entities' application, subject to certain conditions, and has recommended that a hearing be held in this mat-ter. The Commission will de-termine the appropriate re-lief to be granted based on the evidence of record in the proceeding. The Commission is not bound by the propos-als made by the Qwest enti-ties, Staff, or any intervenors.

How You Can View or Obtain a Copy of the Application and Other Documents

Copies of the application, the Staff Report, and the other documents filed in this mat-ter are available at the Qwest entities' offices, 20 E. Thomas Road, Phoenix Arizo-na; at the Commission's Docket Control Center at 1200 West Washington, Phoenix, Arizona, for public inspection during regular business hours; and on the Internet via the Commis-sion's website (www.azcc.gov) using the e-Docket function.

Arizona Corporation Commis-sion Public Hearing Informa-tion

The Commission will hold a hearing on this matter begin-ning October 2, 2008, at 10:00 a.m., in Hearing Room #1 at the Commission's offices, 1200 West Washington Street, Phoenix, Arizona. Public comments will be tak-en on the first day of the hearing. Written public com-ments may be submitted by mailing a letter referencing Docket No. T-01051B-07-0527 et al. to Arizona Corporation Commission, Consumer Services Section, 1200 West Washington, Phoenix, AZ 85007, or by e-mail. For a form to use and instructions on how to e-mail comments to the Commission, go to http://www.azcc.gov/divisions/utilities/forms/public_comment.pdf. If you require as-sistance, you may contact the Consumer Services Sec-tion at 1-800-222-7000.

About Intervention

The law provides for an open public hearing at which, un-der appropriate circumstan-ces, interested parties may intervene. Any person or en-tity entitled by law to inter-vene and having a direct and substantial interest in the matter will be permitted to intervene. If you desire to in-tervene, you must file a writ-ten motion to intervene with the Commission no later than September 11, 2008. You must send a copy of the motion to intervene to the Qwest entities or their coun-sel and to all parties of re-cord. Your motion to inter-vene must contain the fol-lowing:

1. Your name, address, and telephone number and the name, address, and tele-phone number of any party upon whom service of docu-ments is to be made, if not yourself;
2. A short statement of your interest in the proceeding (e.g., a customer of Qwest or Qwest LD, etc.); and
3. A statement certifying that you have mailed a copy of the motion to intervene to the Qwest entities or their counsel and to all parties of record in the case.

The granting of motions to in-tervene shall be governed by A.A.C. R14-3-105, except that all motions to intervene must be filed on or before September 11, 2008. If repre-sentation by counsel is re-quired by Rule 31 of the Rules of the Arizona Su-preme Court, intervention will be conditioned upon the intervenor's obtaining coun-sel to represent the intervenor. For information about requesting interven-tion, visit the Commission's website at http://www.azcc.gov/divisions/utilities/forms/interven.pdf. The granting of interven-tion, among other things, en-titles a party to present sworn evidence at the hear-ing and to cross-examine other witnesses. However, failure to intervene will not preclude any interested per-son or entity from appearing at the hearing and providing public comment on the appli-cation or from filing written comments in the record of the case.

ADA/Equal Access Informa-tion

The Commission does not dis-criminate on the basis of dis-ability in admission to its public meetings. Persons with a disability may request a reasonable accommoda-tion such as a sign language interpreter, as well as re-quest this document in an al-ternative format, by contact-ing the ADA Coordinator, Lin-da Hogan, at LHogan@azcc.gov, voice phone number (602) 542-3931. Requests should be made as early as possible to allow time to arrange the ac-commodation.

Published: August 18, 2008

BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE MERGER OF QWEST CORPORATION AND QWEST LD CORP., CANCELLATION OF QWEST LD CORP.'S CERTIFICATE OF CONVENIENCE AND NECESSITY, AND APPLICATION FOR APPROVAL OF A LIMITED WAIVER FROM A.A.C. R14-2-1901 ET. SEQ.	DOCKET NO. T-01051B-07-0527 T-04190A-07-0527 **NOTICE OF FILING**

The proposed merger between Qwest Corporation ("Qwest") and Qwest LD Corp. ("Qwest LD") (the "Joint Applicants") has been the subject of regulatory action in several states in the Qwest fourteen state region. Uniformly, state commissions have approved the relief requested. The Joint Applicants hereby file the following regulatory commission orders from other states:

<u>Colorado PUC Waiver of Customer Notice Requirements</u>

Attached to this Notice and marked as Exhibit 1, is a copy of the Colorado PUC's Order Granting Waiver, Decision No. C08-0874, in Docket No. 08V-138T, waiving the Colorado PUC's anti-slamming and customer notice rules, as those rules may apply to the proposed merger.

EXHIBIT
Q-4
admitted 10/2/08

Nebraska PUC Order Approving Merger and Granting Waiver of Customer Notice Requirements

Attached to this Notice and marked as Exhibit 2, is a copy of the Nebraska PSC's Order granting the relief requested in the Joint Application, entered March 18, 2008 in Application No. C-3898 in which the Joint Applicants sought approval of the Nebraska PUC of the merger if approval is required, and a determination that the customer notification and anti-slamming requirements of the Nebraska rule do not apply or that such requirements shall be waived with respect to the proposed merger.

Minnesota PUC Approval of Reorganization

Attached to this Notice and marked as Exhibit 3, is the notice of decision issued April 3, 2008, by the Minnesota PUC in Docket no. P421, 6237/PA-08-156, approving the merger.

Utah Notification of Intended Merger

Attached to this Notice and marked as Exhibit 4 is the Order Approving Transfer of Control issued by the Utah PUC in Docket No. 08-049-15, on June 24, 2008, approving the proposed merger, and waiving the Utah anti-slamming statute and rule for good cause shown.

Respectfully submitted, this 30th day of September, 2008.

QWEST CORPORATION

By: Norman G. Curtright

Norman G. Curtright
Corporate Counsel
20 East Thomas Road, 16th Floor
Phoenix, Arizona 85012
Telephone: (602) 630-2187

and

Fennemore Craig, P.C.
Timothy Berg
Theresa Dwyer
Patrick J. Black
3003 N. Central Avenue, Suite 2600
Phoenix, AZ 85012
(602) 916-5421

Attorneys for Qwest Corporation

ORIGINAL and 13 copies of the foregoing hand-delivered this 30th day of September, 2008, to:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

COPY of the foregoing mailed this 30th day of September, 2008, to:

Ernest Johnson
Utilities Director
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Janice Alward
Acting Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Terri Ford
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Maureen A. Scott, Esq.
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

Diane Kyman

EXHIBIT 1

Decision No. C08-0874

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

DOCKET NO. 08V-138T

IN THE MATTER OF THE JOINT APPLICATION OF QWEST CORPORATION AND QWEST LD CORP. FOR APPROVAL OF A WAIVER FROM THE REQUIREMENTS OF 4 CCR 723-2-2311(B)(I), (II)(A) AND (C) PURSUANT TO 4 CCR 723-2-2311(G) AND FOR A WAIVER OF THE CUSTOMER NOTICE REQUIREMENTS OF 4 CCR 723-2-2311(G)(I)(A) AND (B).

ORDER GRANTING WAIVER

Mailed Date: August 19, 2008
Adopted Date: July 30, 2008

I. <u>BY THE COMMISSION</u>

A. Statement, Findings, and Conclusions

1. This matter comes before the Commission for consideration of a joint application for a waiver of certain requirements of Rule 2311 of the *Rules Regulating Telecommunications Providers, Services, and Products*, 4 *Code of Colorado Regulations* (CCR) 723-2, filed on April 25, 2008 by Qwest Corporation (Qwest) and Qwest LD Corp. (QLDC).

2. Generally, Rule 2311 relates to the unauthorized change of a subscriber's provider and/or carrier presubscription (slamming). Rule 2311(g) provides for a waiver of Rules 2311(b)(II)(II)(A) and (C) and allows for a notice to subscribers to be provided at least 45 days prior to the transfer or sale of part or all of another carrier's subscriber base.

3. Qwest is the local exchange telecommunications provider and is an incumbent local exchange carrier (ILEC). QLDC was created as an affiliate of Qwest in order to satisfy the legal requirements of §§ 271 and 272 of the Federal Telecommunications Act of 1996. QLDC is

a registered toll reseller and provides this service to Qwest customers who are presubscribed to Qwest as its long distance carrier.

4. Because QLDC is a toll reseller and is not regulated by this Commission, a transfer application is not required to be filed in order to transfer the customer base. Qwest currently performs all billing functions for QLDC customers, such that QLDC charges are reflected on the customer's Qwest bill as "Qwest Long Distance" and this description will not change after the transfer occurs. Upon the transfer, customers will see no changes in the offerings or rates and will continue to receive services under the "Qwest" brand.

5. The joint applicants state that requiring Qwest to provide notice to each QLDC customer will cause confusion and serve no practical purpose, as combining Qwest and QLDC will be invisible to customers and will have no impact on services provided. They further state this will be a *'pro forma'* transfer of control, and the nature of this transfer of customers does not implicate the potential for fraud or misrepresentation of the anti-slamming statutes or Commission rules. Joint applicants maintain that following the customer notice requirements and provisions in this instance would not serve the public interest.

6. The joint applicants seek a waiver of Rules 2311(g) and 2311(g)(I)(A) and (B) which require notice to customers. They state that any waivers would terminate once the transfer of customers from QLDC to Qwest Corp. has been completed.

7. We find that the joint applicants provided sufficient support for their request for a waiver of the requirements of Rules 2311(g)(I)(B), 2311(g)(I)(B)(vi), and 2002(d)(I) through (XII) and that the waiver is not contrary to public interest. We therefore grant the requested waiver. Qwest and QLDC are immune from any slamming complaints filed with the Commission pursuant to the waived rules for this transaction.

II. ORDER

A. The Commission Orders That:

1. Consistent with the discussion above, the application for a waiver of the requirements of Rules 2311(g)(I)(B), 2311(g)(I)(B)(vi) and 2002(d)(I) through (XII) by Qwest Corporation and Qwest LD Corp., is granted.

2. This Order is effective upon its Mailed Date.

B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING July 30, 2008.

(S E A L)

ATTEST: A TRUE COPY

Doug Dean,
Director

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

RONALD J. BINZ

JAMES K. TARPEY

MATT BAKER

Commissioners

EXHIBIT 2

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the joint Application of Qwest Corporation, Denver, Colorado, and Qwest LD Corporation, Denver, Colorado, seeking approval of Merger and Motion for Clarification and/or Waiver of Anti-Slamming Rules.	Application No. C-3898 GRANTED Entered: March 18, 2008

BY THE COMMISSION:

On January 24, 2008, an application was filed by Qwest Corporation (QC), Denver Colorado, and Qwest LD Corporation (QLDC), Denver, Colorado, seeking approval of a merger and waiver of Anti-Slamming Rules. Notice of the application was published in The Daily Record, Omaha, Nebraska, on January 31, 2008. No protests were filed; therefore, this application is processed pursuant to the Commission's Rule of Modified Procedure.

O P I N I O N A N D F I N D I N G S

QC provides local exchange telephone service in parts of Nebraska and is an indirect subsidiary of Qwest Communications International, Inc. (Qwest), a publicly traded corporation. QC is an incumbent local exchange carrier.

QLDC is a reseller of long distance services and serves its customers by reselling services it purchases from Qwest Communications Corporation; another Qwest affiliate and certificated interexchange carrier.

Qwest proposes to merge QLDC into QC with all outstanding QLDC stock being canceled. This will cause QLDC to cease to exist and leave QC as the surviving entity. Qwest requests that QLDC's Certificate of Convenience and Necessity be canceled.

The proposed transaction will improve business operations and will not affect the services provided to customers. The merger of QC and QLDC should be invisible to customers and should see no change in any of their services or rates.

Applicant also requests that the Commission waive the requirement of *Neb. Rev. Stat.* § 86-205 and Title 291 Neb. Admin. Code, Chapter 5, § 004, that require customer authorization in the event of a change in that customer's telecommunications provider. Applicant believes that it is prudent to waive the requirement because the change is a result of an internal Qwest reorganization between commonly owned affiliates and will be invisible and transparent to customers. Applicant references FCC rulings on similar matters that have held that the federal rules are not applicable in these circumstances.

Based on the evidence, we find the application to be fair and reasonable and in the public interest. The application for merger and waiver of Anti-Slamming rules should be granted.

O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that Application No. C-3898, be, and it is hereby, granted.

IT IS FURTHER ORDERED that *Neb. Rev. Stat.* § 86-201 and Title 291 Neb. Admin. Code, Chapter 5, § 004 of the Commission's rules are waived for this specific merger.

IT IS FURTHER ORDERED that Qwest LD Corporation's Certificate of Public Convenience and Necessity granted in Docket C-2820 is cancelled.

MADE AND ENTERED at Lincoln, Nebraska, this 18th day of March, 2008.

NEBRASKA PUBLIC SERVICE COMMISSION

COMMISSIONERS CONCURRING:

Anne C. Boyle

Chair

ATTEST:

Executive Director

//s// Anne C. Boyle
//s// Frank E. Landis

EXHIBIT 3

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer	Chair
David Boyd	Commissioner
Marshall Johnson	Commissioner
Thomas Pugh	Commissioner
Phyllis Reha	Commissioner

Service Date: APR 03 2008
Docket No. P421,6237/PA-08-156

RECEIVED

APR 03 2008

To: Jason D. Topp
Qwest Corporation
Law Department
200 South 5th Street, Room 2200
Minneapolis, Minnesota 55402

In the Matter of the Application for Approval of a Corporate Reorganization of Qwest Corporation and Qwest LD Corp. and Petition for Surrender of Qwest LD Corp.'s Certificate of Authority.

The above-entitled matter has been considered by the Commission and the following disposition made:

- **Approved the merger of Qwest Corporation and Qwest LD Corp. and cancel Qwest LD Corp.'s certificate of authority upon completion of the proposed reorganization and satisfaction of the specified compliance requirements.**
- **Qwest Corporation should file a revised tariff to incorporate Qwest LD Corp.'s catalogs and rate lists.**
- **Qwest Corporation is responsible for any remaining regulatory assessments as well as the filing of 2007 and 2008 jurisdictional annual reports for Qwest LD Corp.**
- **Applicants shall inform the Commission within 20 days of the closing of the merger.**

The Commission agrees with and adopts the recommendations of the Department of Commerce which are attached and hereby incorporated in this Order.

This decision is issued by the Commission's consent calendar subcommittee, under a delegation of authority granted under Minn. Stat. §216A.03, subd. 8 (a). Unless a party, a participant, or a Commissioner files an objection to this decision within 10 days of receiving it, it will become the Order of the full Commission under Minn. Stat. §216A.03, subd. 8 (b).

BY ORDER OF THE COMMISSION

Burl W. Haar

Burl W. Haar
Executive Secretary

(S E A L)

This document can be made available in alternative formats (i.e., large print or audio tape) by calling (651) 297-4596 (Voice). Citizens with hearing or speech disabilities may call us through Minnesota Relay at 1-800-627-3529 or by dialing 711.

MINNESOTA
DEPARTMENT OF
COMMERCE

85 7th Place East, Suite 500
St. Paul, Minnesota 55101-2198
www.commerce.state.mn.us
651.296.4026 FAX 651.296.1959
An equal opportunity employer

March 26, 2008

PUBLIC DOCUMENT

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: Replacement **PUBLIC Comments of the Minnesota Department of Commerce**
Docket No. P421,6237/PA-08-156

Dear Dr. Haar:

Attached are the replacement **PUBLIC** comments of the Minnesota Department of Commerce in the following matter:

> The Application for Approval of a Corporate Reorganization of Qwest Corporation and Qwest LD Corp. and Petition for Surrender of Qwest LD Corp.'s Certificate of Authority.

The reference to Minn. Stat. §237.16, subd. 13 is deleted.

The petition was filed on February 7, 2008 by:

> Jason D. Topp
> Qwest Corporation
> Law Department
> 200 South 5th Street, Room 2200
> Minneapolis, Minnesota 55402

The Department recommends **approval** and is available to answer any questions the Commission may have.

Sincerely,

/s/ BRUCE L. LINSCHEID
Financial Analyst

BLL/ja

Attachment

PUBLIC DOCUMENT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

PUBLIC COMMENTS OF THE MINNESOTA DEPARTMENT OF COMMERCE

DOCKET NO. P421,6237/PA-08-156

I. BACKGROUND

On February 7, 2008, the Minnesota Department of Commerce (Department) received a copy of a joint application for Minnesota Public Utilities Commission (Commission) approval of a corporate reorganization whereby the long distance operations of Qwest LD Corp (QLDC) will be merged into those of Qwest Corporation (QC) and a request to relinquish the operating authority of QLDC (Application and together, QC and QLDC, the Applicants).

A. PETITIONERS

QLDC has interexchange or long distance authority, and QC is a regional Bell operating company (RBOC) authorized as an incumbent local exchange carrier (ILEC) under Minn. Stat. § 237.01 and certificates of authority originally issued to each exchange of QC's predecessor, Northwestern Bell, in 1962. QLDC serves its customer by reselling services it purchases from an affiliate, Qwest Communications Corporation (QCC), and provides residential and small business long distance services in the service territory where QC provides local exchange services as an incumbent in fourteen western states, including Minnesota. QC, QCC and QCLD are indirect subsidiaries of the non-regulated parent holding company, Qwest Communications International Inc. (QCII) and direct subsidiaries of Qwest Services Corporation (QSC), a wholly owned subsidiary of QCII.[1]

B. THE TRANSACTION

Applicants state that the consolidation of QC and QLDC is made possible by the sunset of QC's obligations under Section 272 of the Telecommunications Act of 1996. Section 272 required that

[1] Application at 3-4.

a separate corporate affiliate be maintained to provide interLATA services after QC obtained the authority under Section 271 to provide interLATA services.[2]

The proposed transaction will be undertaken to implement an internal corporate restructuring of QC and QLDC, and the Applicants request that the Commission approve the voluntary surrender of QLDC's certificate of authority. The proposed corporate restructuring will consolidate QC's and QLDC's operations into a single entity in Minnesota. The Applicants do not plan to continue QLDC's operations under its existing Certificate of Authority. The proposed restructuring will merge QLDC into QC, with QC emerging as the surviving corporation.[3]

C. *PUBLIC INTEREST*

The proposed reorganization is not expected to impair QC's financial status, prevent it from attracting capital, or impair its ability to provide service to its customers. No impact on the method of financing or the capital structure of QCII is expected. QC does not anticipate that there will be a change to its capital structure or an increase in its cost of service attributable to the merger.

QLDC customers are not expected to experience changes in their offerings or rates, and they will continue to receive services under the "Qwest" brand, and no customer notice requirements are anticipated. Currently, QLDC customers see the charges for QLDC services as charges for "Qwest Long Distance" on their bills, and the reorganization is not expected to change these bill descriptions. QLDC catalog and rate lists are planned to be added as QC catalogs and rate lists once the reorganization is finalized.[4]

II. STATEMENT OF ISSUES

A. Does the proposed transaction require Commission approval?

B. Is the proposed transaction in the public interest?

C. Have the Applicants complied with Minnesota law requiring prior Commission approval for the proposed transaction?

D. Should QLDC's authority be cancelled?

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[2] *Ibid.* at 5.
[3] *Ibid.* at 1 and 3.
[4] *Ibid.* at 5-7.

III. LEGAL REFERENCES

Minn. Stat. §237.23 states that it shall be unlawful for any telephone company, corporation, person, partnership, or association subject to the provisions of this chapter to purchase or acquire the property, capital stock, bonds, securities, or other obligations, or the franchises, rights, privileges, and immunities of any telephone company doing business within the state without first obtaining the consent of the commission thereto.

Minn. Stat. §237.74, subd. 12 provides that no telecommunications carrier shall construct or operate any line, plant, or system, or any extension of it, or acquire ownership or control of it, either directly or indirectly, without first obtaining from the commission a determination that the present or future public convenience and necessity require or will require the construction, operation, or acquisition, and a new certificate of territorial authority.

IV. ANALYSIS

A. COMMISSION ACTION IS NEEDED FOR THIS TRANSACTION

The Applicants argue that Commission approval is not required for corporate restructuring where no change of ownership occurs.[5] Commission approval has not been required in cases of corporate reorganizations when no change of ownership occurs or the operating company is not affected.[6] Commission approval is required for transactions when an operating company is affected, and QLDC customers will be served by QC as a result of the proposed transaction. The Commission should review the transaction to determine if it is in the public interest.

B. THE PROPOSED TRANSFER IS IN THE PUBLIC INTEREST

QC was required to establish a separate affiliate to provide long distance services. Section 272 required RBOCs subject to the requirements of section 251(c) of Title 47 of the United States Code of Federal Regulations (CFR) to establish separate affiliates for the provision of competitive activities, such as the origination of interLATA or long distance telecommunications services.[7] The provisions of this section cease to apply with respect to the interLATA

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[5] *Ibid.* at 1 and 3.
[6] *In the Matter of an Application for Approval of a Corporate Reorganization by Winstar Wireless, Inc.*, Docket No P5246/PA-00-925, August 25, 2000.
[7] 47CFR272(a).

telecommunications services of a RBOC three years after the date such RBOC or any RBOC affiliate is authorized to provide interLATA telecommunications services.[8]

QC's obligation to provide long distance services through a separate affiliate has expired. The application to consolidate the operations of QC and QLDC into a single entity, with QC emerging as the surviving corporation complies with federal law and Federal Communications Commission (FCC) requirements. The FCC made the following statements regarding the sunset of the section 272 requirements for RBOCs to establish separate affiliate for the provision of competitive activities:

> As of December 3, 2003, the FCC had granted all of the RBOCs section 271 authorization for the provision of in-region interLATA services in all of the RBOCs' territories nationwide. The FCC did not extend the period for which section 272 safeguards apply, and section 272 requirements had sunset by operation of law throughout all RBOC regions. Section 272 does not preclude the RBOCs from providing in-region, interLATA, long distance services either directly or through an affiliate that is not a section 272 separate affiliate in all their in-region states.[9]
>
> On August 31, 2007, the FCC adopted a new regulatory framework under which AT&T, Qwest, and Verizon may provide in-region, interstate, long distance services either directly or through affiliates that are neither section 272 separate affiliates nor rule 64.1903 separate affiliates, subject to non-dominant carrier regulation, as long as they comply with certain targeted safeguards and other continuing statutory and regulatory obligations.[10]

Despite a working capital deficit and weak capital position, QC has the performance and the resources to provide reliable long distance services currently provided through QLDC. QC reported an $858 million working capital deficit, $7.5 billion of long-term borrowings and $977 million of stockholders' equity on December 31, 2007. It reported a net income of $1.5 billion and positive operating cash flows of $3.3 billion for the fiscal year ended December 31, 2007.[11]

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[8] *Ibid.* at (f).

[9] FCC Common Carrier Bureau Section 271 Application Home Page, BOC Authorization to Provide In-region, InterLATA Services Under Sections 271 and 272.

[10] *Ibid.*

[11] United States Securities and Exchange Commission Form 10-K for Qwest Corporation for the fiscal year ended December 31, 2007 at 41-43.

- QC had $283 million in cash and cash equivalents available at December 31, 2007. Its working capital deficit, or the amount by which its current liabilities exceeded its current assets, was $858 million and $647 million as of December 31, 2007 and 2006, respectively. Its working capital deficit was primarily caused by dividends paid to QSC and the repayment and a reclassification of long-term debt to current debt.[12] QC continues to produce significant cash from operating activities ($3.3 billion and $3.1 billion for the years ended December 31, 2007 and 2006, respectively).[13]

- QC has historically operated with a working capital deficit due to its practice of declaring and paying regular cash dividends, and it expects to operate with a working capital deficit in the future. Despite the working capital deficit, QC's management believes that its current cash position, cash flows from operations and continued access to capital markets to refinance its current portion of debt should allow QC to meet its cash requirements for the foreseeable future.[14]

- QC has $7.5 billion of long-term borrowings.[15] On June 7, 2007, Standard and Poor's (S&P) raised QC's credit rating from BB+ to BBB- reflecting the only change in QC's credit rating since December 31, 2006. An S&P rating of BBB on a company's long-term obligation indicates that there are currently expectations of low credit risk if there are no adverse changes in circumstances and economic conditions, whereas a BB rating indicates the issuer currently has the capacity to meet its financial commitment on the obligation; however, it faces major ongoing uncertainties that could lead to an inability to meet its financial commitment on the obligation.[16]

QC is a wholly owned subsidiary of QSC, which is wholly owned by QCII, and QCII's liquidity and capital resources could have material impacts on QC.

- QCII, like QC, reported a working capital deficit and weak capital structure on December 31, 2007. Its current liabilities exceeded its current assets by $636 million and $1.5 billion on December 31, 2007 and 2006, respectively. QCII and its consolidated subsidiaries had total borrowings of $14.3 billion at December 31, 2007 and $14.9 billion at December 31, 2006. Its stockholders' equity was $563 million on December 31, 2007, and it reported a stockholders' deficit of $1.4 billion on December 31, 2006.[17]

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[12] *Ibid.* at 30.
[13] *Ibid.* at 43.
[14] *Ibid.* at 31.
[15] *Ibid.* at 42.
[16] *Ibid.* at 33.
[17] United States Securities and Exchange Commission Form 10-K for Qwest Communications International, Inc. for the fiscal year ended December 31, 2007 at 56 and 74-5.

- QCII, like QC, also reported profitable operations and positive net operating cash flows. Its 2007 net income was $2.9 million, and its net operation cash flows were $3.0 billion.[18]

- QCII has $850 million available to it under a revolving credit facility, which was undrawn on September 30, 2007 and expires in October 2010.[19]

- QCII reported $2.1 billion of long distance revenues or approximately 15 percent of total revenues of $13.9 billion in 2007. Reported long-distance services revenue decreased from $2.3 billion or approximately 16 percent of total revenues in 2006 primarily due to declining volumes in its wholesale channel as industry consolidation.[20]

- QCII, like QC, has a BBB- credit rating from S&P[21] reflecting the credit rating agency's evaluation of QCII's consolidated operations and its ability to meet its long-term debt obligations.

The proposed transaction is in the public interest. The impact of the proposed reorganization should not adversely affect QC's ability to continue providing reliable services to its customers, as well as the long distance customers acquired from QLDC.

- Neither QCII nor QC will be harmed financially. The proposed reorganization shuffles the contents of QCII's consolidated operations so that QLDC's operations will be reported within QC's operations. Long-distance operations represented $2.1 billion or approximately 15 percent of QCII's $13.9 billion in total 2007 revenues, and local voice revenues totaled $8.1 billion or approximately 58 percent of total QCII 2007 revenues.[22] QCII and QC currently have the same credit ratings,[23] and reporting QLDC's long-distance operations either inside or outside of QC's operations should have little effect upon the credit ratings of either QC or QCII.

- The Applicants submit that the elimination of QLDC will reduce the administration burden, record-keeping, and the number of affiliate transactions. QC currently performs billing functions for QLDC, and it is already authorized to provide long distance services. QLDC customers will see no changes in their offerings or rates,

[18] *Ibid.* at 55 and 57.
[19] *Ibid.* at 42.
[20] *Ibid.* at 29.
[21] *Ibid.* at 45.
[22] *Ibid.* at 29
[23] United States Securities and Exchange Commission Form 10-K for Qwest Communications International, Inc. for the fiscal year ended December 31, 2007 at 45; and United States Securities and Exchange Commission Form 10-K for Qwest Corporation for the fiscal year ended December 31, 2007 at 33.

and the reorganization will not change the description of their service provider on the bills they receive.[24] It should be transparent to QLDC customers, and no requirement for customer notice exists.

C. THE APPLICANTS HAVE COMPLIED WITH THE REQUIREMENT TO REQUEST PRIOR COMMISSION APPROVAL FOR THE PROPOSED TRANSACTION

The Applicants filed the Application on February 7, 2006, and the internal reorganization that will result in the merger of QC and QLDC into a single entity has not occurred. **[TRADE SECRET DATA HAS BEEN EXCISED]**. The Applicants do not plan to close the transaction without Commission approval, and no violation of Minn. Stat. §§ 237.23 or 237.74, subd. 12 is expected to occur.

D. QLDC'S OPERATING AUTHORITY SHOULD BE CANCELLED UPON THE COMMISSION'S APPROVAL OF THE PROPOSED MERGER AND THE CLOSING OF THE TRANSACTION

QLDC does not plan to continue operating under its existing Certificate of Authority and customer notice is not required. Applicants state that the proposed corporate restructuring will consolidate QC and QLDC operations into a single entity in Minnesota, with QC emerging as the surviving corporation.[25] QLDC customers currently receive charges for QLDC services as charges for "Qwest Long Distance" that are reflected in QC bills, and the reorganization will not change these bill descriptions.[26] Customer notice may confuse customers because the transaction is expected to be transparent from their perspective. QC reports no plans to reuse QLDC for business purposes in future operations.[27] Upon approval of the proposed merger by the Commission and the closing of the transaction, QLDC's certificate should be relinquished subject to the following conditions (see attached Relinquishment Checklist):

- QC should file a revised tariff to incorporate QLDC's catalogs and rate lists.
- QC is responsible for any remaining regulatory assessments as well as the filing of 2007 and 2008 jurisdictional annual reports for QLDC.
- Applicants shall inform the Commission within 20 days of the closing of the merger.

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[24] Application at 5.
[25] Application at 1 and 3.
[26] *Ibid.* at 4.
[27] February 14, 2008 electronic reply by QC in response to the Department's February 14, 2008 electronic information request asking if QC intended to use the name, QLDC, for business purposes in future operations.

PUBLIC DOCUMENT

V. COMMISSION ALTERNATIVES

- Approve the merger of Qwest Corporation and Qwest LD Corp. and cancel QLDC's certificate of authority upon completion of the proposed reorganization and satisfaction of the specified compliance requirements.
  - QC should file a revised tariff to incorporate QLDC's catalogs and rate lists.
  - QC is responsible for any remaining regulatory assessments as well as the filing of 2007 and 2008 jurisdictional annual reports for QLDC.
  - Applicants shall inform the Commission within 20 days of the closing of the merger.
- Approve the Application with Modifications.
- Reject the Application.

VI. RECOMMENDATION

- Approve the merger of Qwest Corporation and Qwest LD Corp. and cancel Qwest LD Corp.'s certificate of authority upon completion of the proposed reorganization and satisfaction of the specified compliance requirements.
- Qwest Corporation should file a revised tariff to incorporate Qwest LD Corp.'s catalogs and rate lists.
- Qwest Corporation is responsible for any remaining regulatory assessments as well as the filing of 2007 and 2008 jurisdictional annual reports for Qwest LD Corp.
- Applicants shall inform the Commission within 20 days of the closing of the merger.

/ja

EXHIBIT 4

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Notification of Qwest Corporation's Intended Merger with QLDC	))))))	DOCKET NO. 08-049-15 ORDER APPROVING TRANSFER OF CONTROL

SYNOPSIS

The Commission finds the proposed merger of Qwest Corporation and QLDC to be in the public interest and approves the same.

ISSUED: June 24, 2008

By The Commission:

PROCEDURAL HISTORY

On April 10, 2008, Applicant Qwest Corporation ("QC") filed a Notification of Qwest Corporation's Intended Merger with QLDC ("Notification") seeking Commission waiver of the customer notice requirements of *Utah Code Ann.* § 54-8b-18 and Commission Rule 746-349-5, as well as an indication by the Commission of its agreement with the legal rationale contained in the Notification pertaining to the proposed merger. In addition, once QLDC ceases to exist as a corporate entity, there will no longer be a need for QLDC to be registered as a telecommunications company. Accordingly, QLDC requests cancellation of its registration.

On June 3, 2008, the Division of Public Utilities ("Division") filed a memorandum of its investigation of the proposed merger recommending approval of the same.

DISCUSSION, FINDINGS, AND CONCLUSIONS

QC is an incumbent local exchange carrier and regional Bell operating company authorized to provide telecommunications services in Utah. QC is a Colorado corporation with its principal office and place of business in Denver, Colorado, and is an indirect subsidiary of Qwest Communications International, Inc.

QLDC was created as a QC affiliate in order to satisfy the legal requirements of Sections 271 and 272 of the federal Telecommunications Act of 1996 ("Act") for the provision of interLATA interexchange services. QLDC serves its customers by reselling services it purchases from Qwest Communications Corporation ("QCC"), another affiliate of QC and a registered telecommunications carrier. QLDC's customer base is consumer residential and small business. QLDC does not sell any local services. QLDC provides services only in the service territory where QC provides local exchange services as an incumbent in fourteen western states, including Utah.

The proposed merger will be undertaken to effectuate an internal corporate restructuring of QC and QLDC whereby QC and QLDC will be consolidated into a single entity with QC as the surviving entity. Applicant states this restructuring will serve the public interest by allowing QC the flexibility to package local and long distance service in a similar fashion to that which is currently being done by QC's competitors. It will also simplify legal relationships because customers will be subscribing from a single legal entity where before there were two.

Applicant also states the restructuring should be invisible to customers and not result in any immediate material impact as QLDC customers will see no changes in offerings or rates and will continue to receive services under the "Qwest" brand. All services and rates that are available to customers of QLDC and QC shall continue to be available post-reorganization.

Applicant notes the consolidation of QC and QLDC is made possible by the sunset of Qwest's obligations under Section 272 of the Act which required that a separate corporate affiliate be maintained to provide interLATA services after Qwest obtained the authority under Section 271 to provide interLATA services. With the sunset of this requirement, QC plans to move the long distance affiliate QLDC into QC, thereby simplifying and unifying local and long distance voice services for mass market customers into a single provider while reducing administrative burden, record-keeping, and the number of affiliate transactions.

The Division concludes the proposed restructuring is in the public interest. Given that the transaction will be transparent to consumers, the Division concurs with QC that the anti-slamming protections set forth in *Utah Code Ann.* § 54-8b-18 and -29 Commission Rule 746-349-5 would only cause customer confusion. The Division also notes the Federal Communications Commission has held it is not necessary to notify customers in connection with this type of restructuring pursuant to 47 CFR § 64.1120(e)(3). The Division therefore recommends the Commission waive its anti-slamming requirements.

Utah Administrative Code Rule 746-110-1, authorizes the Commission to adjudicate a matter informally under *Utah Code Ann.* § 63-46b-5 when the Commission "determines that the matter can reasonably be expected to be unopposed and uncontested." We note that in the months since filing of the Notification no party has sought intervention in this matter. We therefore view this matter as unopposed and uncontested and conclude it is in the public interest to proceed informally without hearing. Pursuant to Rule 746-110-2, we conclude good cause exists to waive the 20-day tentative period for an order issued in an informally adjudicated proceeding. Accordingly, this order will become effective on the date of issuance.

Based upon the evidence submitted by Applicants, as well as the Division's recommendation, and pursuant to *Utah Code Ann.* § 54-4-28, we find and conclude that the proposed merger will not harm and can provide benefits to the State of Utah, its citizens, and to Applicant's Utah customers and is in the public interest. We further find and conclude good cause exists to waive the requirements of *Utah Code Ann.* § 54-8b-18 and Commission Rule 746-349-5. Finally, although QLDC has requested cancellation of its "registration" upon approval of the proposed merger, we note QLDC is not a certificated telecommunications provider within the state of Utah such that we need take no action regarding said request.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

1. This matter be, and it is, converted to an informal proceeding pursuant to §63-46b-4(3), UCA 1953, as amended.

2. The proposed merger between Qwest Communications and QLDC is approved. The anti-slamming requirements contained in *Utah Code Ann.* § 54-8b-18 and Commission Rule 746-349-5 are waived.

3. The approval granted herein is effective as of the date of this Order.

Pursuant to Utah Code §§63-46b-12 and 54-7-15, agency review or rehearing of this order may be obtained by filing a request for review or rehearing with the Commission within 30 days after the effective date of the order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission fails to grant a request for review or rehearing within 20 days after the filing of a request for review or rehearing, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a Petition for Review with the Utah Supreme Court within 30 days after final agency action. Any Petition for Review must comply with the requirements of Utah Code §§63-46b-14, 63-46b-16 and the Utah Rules of Appellate Procedure.

DATED at Salt Lake City, Utah, this 24th day of June, 2008.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
G#57851

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ARIZ. CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

MEMORANDUM

TO: Docket Control

EA for EGJ

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: May 15, 2008

RE: IN THE MATTER OF THE APPLICATION OF QWEST CORPORATION AND QWEST LD CORP., CANCELLATION OF QWEST LD CORP.'S CERTIFICATE OF CONVENIENCE AND NECESSITY AND APPLICATION FOR APPROVAL OF A LIMITED WAIVER (DOCKET NOS. T-01051B-07-0527 AND T-04190A-07-0527)

Attached is the Staff Report for the above referenced application. Staff believes the Commission approval of this transaction should be subject to certain Staff recommended conditions. Staff further recommends approval of the request for a waiver of A.A.C. R14-1901, et. seq. and recommends that an expedited hearing be held in this matter.

EGJ:AFF:tdp

Originator: Armando Fimbres

3

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EXHIBIT
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admitted 10-2-08

SERVICE LIST FOR: QWEST CORPORATION AND QWEST LD CORP.
DOCKET NOS: T-01051B-07-0527 and T-04190A-07-0527

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Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF QWEST CORPORATION AND QWEST LD CORP., CANCELLATION OF QWEST LD CORP.'S CERTIFICATE OF CONVENIENCE AND NECESSITY AND APPLICATION FOR APPROVAL OF A LIMITED WAIVER

DOCKET NOS. T-01051B-07-0527 AND T-04190A-07-0527

MAY 15, 2008

STAFF ACKNOWLEDGMENT

The Staff Report in the Matter of the Application of Qwest Corporation and Qwest LD Corp., Cancellation of Qwest LD Corp.'s Certificate of Convenience and Necessity and Application for Approval of a Limited Waiver, Docket Nos. T-01051B-07-0527 and T-04190A-07-0527, was the responsibility of the Staff member listed below:

Armando Fimbres
Utilities Analyst V

EXECUTIVE SUMMARY

IN THE MATTER OF THE APPLICATION OF QWEST CORPORATION AND QWEST LD CORP., CANCELLATION OF QWEST LD CORP.'S CERTIFICATE OF CONVENIENCE AND NECESSITY AND APPLICATION FOR APPROVAL OF A LIMITED WAIVER

DOCKET NOS. T-01051B-07-0527 AND T-04190A-07-0527

In their Joint Application, Qwest Corporation ("QC") and Qwest LD Corp ("QLDC"), together the ("Joint Applicants"), request authorization by the Arizona Corporation Commission ("Arizona Commission") or ("ACC") to merger, with QC as the surviving entity. QLDC originally was formed to comply with Section 272 of the Telecommunications Act of 1996 ("1996 Act") which required Qwest, once it received Section 271 long distance authorization, to provide its interLata long distance service through a separate subsidiary subject to certain safeguards.

Staff recommends that an expedited hearing be held in this matter so that a full record can be developed with respect to this proposed merger. Staff proposes the following schedule:

Staff Report:	May 15, 2008
Joint Applicants Response:	May 29, 2008
Hearing:	As Soon As Possible, at a time and date convenient to the Hearing Division.

Staff recommends approval of the transaction conditioned on the following:

1. That QC not charge QLDC customers a PIC charge to change their presubscribed carrier from QLDC to QC.

2. That QC be required to incorporate the existing QLDC tariff with its existing rates and tariffs into the QC tariff.

3. That for one-year following a decision in this matter, QC provide written notification to the Director of the Utilities Division and to the individual members of the Commission, at least 60 days in advance, of any planned Arizona workforce layoffs associated with this transaction.

4. That QLDC's CC&N approved in Decision No. 66613 on December 9, 2003 be cancelled. Upon cancellation of its CC&N, QLDC will no longer be authorized to provide telecommunications services in the State of Arizona.

5. That a decision in this matter should not be interpreted or considered to modify the terms and conditions ordered by Decision No. 68604, *In the Matter of Qwest Corporation's Filing of Renewed Price Regulation Plan; In the Matter of the Investigation of the Cost of Telecommunications Access,* (March 23, 2006).

6. That QC file notice with the Commission once the merger has been consummated.

7. That the Joint Applicants be required to publish notice of the proposed transaction and the time and place for the expedited hearing. Any futher notice requirements should be the subject of discussion at the hearing.

8. That the customer notice requirements of A.A.C. R14-2-1107 should not apply in this matter.

Staff also recommends approval of the Joint Applicants' request for a wavier of the A.A.C. R14-1901, et. seq., the Commission's anti-slamming rules.

TABLE OF CONTENTS

I. Introduction

On September 14, 2007, Qwest Corporation ("QC") and Qwest LD Corp. ("QLDC") filed a Joint Notice of Merger, Application for Cancellation of Certificate of Convenience and Necessity ("CC&N").

QC and QLDC requested an order from the Arizona Corporation Commission ("Commission") approving the merger pursuant to A.R.S. §40-285(D), canceling QLDC's CC&N approved in Decision No. 66613 (December 9, 2003), and granting a waiver from certain authorization and notice provisions of A.A.C. R14-2-1901 et. seq.

On February 4, 2008, the Applicants submitted an Amended Application to withdraw that portion of its Application to cancel QLDC's CC&N.

II. Background

QC is a subsidiary of Qwest Communications International, Inc. ("QCII"), formerly USWEST[1], a publicly traded corporation. QC provides local exchange telephone services in many parts of Arizona as the dominant incumbent local exchange carrier ("ILEC") under the Federal Communications Act of 1934, as amended by the Telecommunications Act of 1996 ("the Act"). QCII is the parent holding company in the overall Qwest corporate structure. Directly below QCII is Qwest Services Corporation ("QSC"). QSC is the sole shareholder of QC, QLDC, and other Qwest entities.

QLDC is a QC affiliate that was created to satisfy the legal requirements of Sections 271 and 272 of the Act and serves customers by reselling interexchange services purchased from Qwest Communications Corporation ("QCC"), another Qwest affiliate and certificated interexchange carrier. QLDC does not sell any local exchange services. QLDC's customer base consists of residential and small business customers, generally understood as "mass market" customers, in the fourteen western states in which QC provides ILEC services, including Arizona. The Commission approved QLDC's application for a CC&N to provided resold long distance service in Decision No. 66613, dated December 9, 2003. As of August 31, 2007, QLDC provided interexchange services to approximately 770,000 customers in Arizona.[2] QLDC annual revenues are less than 10%[3] of the resulting total QC revenues. All QLDC customers are currently QC local exchange customers.

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[1] Acquisition of U S WEST by Qwest approved by Decision 62672, dated June 30, 2000.
[2] Joint Application, page 2; Amended Application page 2.
[3] Confidential information was provided in response to STF 1.3.

III. Staff's Discussion and Analysis

A. The Proposed Merger

QLDC was formed by Qwest to comply with 47 U.S.C. Section 272 which required a Bell Operating Company ("BOC") to provide its in-region InterLata service through separate affiliate once it received Section 272 authorization.

The separate affiliate requirement of 47 U.S.C. Section 272 sunset after 3 years unless extended by the Federal Communications Commission ("FCC"). The FCC did not extend the 3 year period and thus, as of December, 3, 2006, the Section 272 requirements, other than those in Section 272(e), sunset by operation of law throughout all BOC regions. Accordingly, Section 272 no longer precluded the BOCs from providing in-region, interLATA, long distance services, either directly or through an affiliate that is not a Section 272 separate affiliate in all their in-region states.

Despite the sunset of Section 272's requirements in 2006, however, the BOCs continued to provide virtually all of their in-region, interstate, interLATA, long distance services through their Section 272 separate affiliates. Under the FCC's rules at the time, a BOC was allowed to choose between two different regulatory regimes in providing in-region, long distance services: (1) the BOC could provide these services on a nondominant carrier basis through a Section 272 separate affiliate, or (2) it could provide these services directly or through an affiliate that is not a Section 272 separate affiliate subject to dominant carrier regulation, including rate regulation and tariff-filing requirements.

On August 31, 2007, the FCC adopted yet another regulatory framework. Under this framework, AT&T, Qwest, and Verizon can provide in-region, interstate, long distance services either directly or through affiliates that are neither Section 272 separate affiliates nor Rule 64.1903 separate affiliates, subject to nondominant carrier regulation, as long as they comply with certain targeted safeguards and other continuing statutory and regulatory obligations.

QC and QLDC in their Joint Application represent that the proposed transaction is in the Public Interest for the following[4] reasons:

The Joint Applicants desire to move the long distance affiliate QLDC into QC, thereby simplifying and unifying local and long distance voice services for mass market customers into a single provider. The merger will allow QC to package local and long distance service in a similar fashion to that which is currently being done by Cox and other QC competitors. The elimination of an affiliate will reduce administrative burden, record-keeping, and the number of affiliate transactions.

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[4] Joint Application, pages 3 – 7; Amended Application pages 3 – 7.

QLDC customers will see no changes in their offerings or rates, and they will continue to receive services under the "Qwest" brand. All services and rates that are available to customers of QLDC and QC shall continue to be available post-merger.

QLDC states in response to Staff Data Request STF1.10 that it has "zero" employees in Arizona. Additionally, in response to Staff Data Request STF1.12, the Applicants stated that "No force reductions in Arizona are planned as a direct result of the merger of QLDC into QC."

Staff believes that subject to certain conditions, the merger is in the Public Interest for the reasons stated by the Joint Applicants. However, Staff believes an expedited hearing is necessary to create a full record with respect to the merger and its impacts.

B. Notice

A.A.C. R14-2-1107 requires that customers be notified of any discontinuation of service. Staff believes that since the legal entity that is QLDC will no longer be providing service to customers, Qwest should publish notice of the transaction and the time and place for hearing in this matter. However, A.A.C R14-2-1107 also requires that customers be notified of the discontinuation of service by one party and be provided with options for alternative services rather than simply be transferred to the acquiring party. Given the unique nature of this transaction, Staff believes nothing will be gained by such a notice.

Providing customer notice to a customer base potentially exceeding 770,000[5] is not a condition anticipated by A.A.C. R-14-2-1107 which was intended to address the public interest concerns of end-users who would be displaced by companies exiting local or long distance service and provide competitive alternatives.

Customers are not being displaced in this transaction as customers will continue to receive service under the "Qwest" brand. All QLDC customers are currently QC local exchange customers. Both providers currently show upon the customers' bill.

Since considerable end-user confusion could result from a notice to several hundred thousand customers who would not experience any change in service, rates or brand marketing, Staff believes that the customer notice requirements of A.A.C R14-2-1107 should not apply in this matter.

C. Waiver of Anti-Slamming Rules

The Applicants seek a waiver of the Commission's anti-slamming rules in A.A.C. R14-2-1901, et. seq. Staff recommends approval of the waiver for the following reasons:

1. The services and rates provided to current QLDC customers will not change.

[5] Joint Application, page 2; Amended Application page 2.

2. The only change in customer records will be a change in the customers presubscribed interexchange carrier from QLDC (PIC code 0236) to QC (PIC code 5123).

3. The proposed changes will not impact any competitive providers.

D. Affiliated Interest Rules

The Joint Applicants' merger will have no impact on the method of financing or the capital structure of the holding company QCII. QC estimates that the equity component of QC's capital structure will increase by approximately $50M on total corporate basis as a result of the QLDC-QC merger. The debt component of QC's capital structure is unchanged by this transaction. The method of allocating federal and state income taxes to the subsidiaries of QCII will remain the same. QC does not anticipate that there will be a change to its cost of capital or an increase in its cost of service attributable to the merger. QC and its affiliates have no current plans to diversify beyond the fields in which they are currently engaged. Neither Applicant contemplates the need for any approvals from the Securities and Exchange Commission, or any other federal or state agencies in connection with this transaction.

Staff does not believe the integration of QLDC with QC is likely to (1) result in increased capital costs to QC; (2) result in additional costs allocated to the Arizona jurisdiction; or (3) result in a reduction of QC's net operating income since QLDC will contribute $50M in capital to QC, not change the QC debt component and add positive net income to the QC bottom line.[6] As such, Staff believes that the QC has met the limited waiver requirements of A.A.C. R14-2-803 contained in Decision No. 64654, dated March 25, 2002.

E. Customer Complaint History

The Compliance and Consumer Services Sections of the Commission have found QC and QLDC to be in compliance with Commission decisions and requirements and in good standing regarding customer complaints.

Staff is not aware of any parties that have intervened or filed comments objecting to the proposed transaction.

IV. <u>Staff's Recommendations</u>

Staff recommends that an expedited hearing be held in this matter so that a full record can be developed with respect to this proposed merger. Staff proposes the following schedule:

Staff Report:	May 15, 2008
Joint Applicants Response:	May 29, 2008

[6] The Applicants provided confidential financial information

Hearing: As Soon As Possible, at a time and date convenient to the Hearing Division.

Staff recommends approval of the transaction conditioned on the following:

1. That QC not charge QLDC customers a PIC charge to change their presubscribed carrier from QLDC to QC.

2. That QC be required to incorporate the existing QLDC tariff with its existing rates and tariffs into the QC tariff.

3. That for one-year following a decision in this matter, QC provide written notification to the Director of the Utilities Division and to the individual members of the Commission, at least 60 days in advance, of any planned Arizona workforce layoffs associated with this transaction.

4. That QLDC's CC&N approved in Decision No. 66613 on December 9, 2003 be cancelled. Upon cancellation of its CC&N, QLDC will no longer be authorized to provide telecommunications services in the State of Arizona.

5. That a decision in this matter should not be interpreted or considered to modify the terms and conditions ordered by Decision No. 68604, *In the Matter of Qwest Corporation's Filing of Renewed Price Regulation Plan; In the Matter of the Investigation of the Cost of Telecommunications Access,* (March 23, 2006).

6. That QC file notice with the Commission once the merger has been consummated.

7. That the Joint Applicants be required to publish notice of the proposed transaction and the time and place for the expedited hearing.

8. That the customer notice requirements of A.A.C. R14-2-1107 should not apply in this matter.

Staff also recommends approval of the Joint Applicants' request for a wavier of the A.A.C. R14-1901, et. seq., the Commission's anti-slamming rules.