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BEFORE THE ARIZONA CORPORATIO

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COMMISSIONERS

KRISTIN K. MAYES - CHAIRMAN
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE JOINT NOTICE AND)	DOCKET NOS. T-01051B-10-0194
APPLICATION OF QWEST CORPORATION,)	T-02811B-10-0194
QWEST COMMUNICATIONS COMPANY, LLC,)	T-04190A-10-0194
QWEST LD CORP., EMBARQ)	T-20443A-10-0194
COMMUNICATIONS, INC. D/B/A CENTURY)	T-03555A-10-0194
LINK COMMUNICATIONS, EMBARQ)	T-03902A-10-0194
PAYPHONE SERVICES, INC. D/B/A)	
CENTURYLINK, AND CENTURYTEL)	
SOLUTIONS, LLC FOR APPROVAL OF THE)	
PROPOSED MERGER OF THEIR PARENT)	
CORPORATIONS QWEST COMMUNICATIONS)	
INTERNATIONAL INC. AND CENTURYTEL,)	
INC.)	

Arizona Corporation Commission
DOCKETED

SEP 27 2010

DOCKETED BY

NOTICE OF FILING DIRECT TESTIMONY

Eschelon Telecom of Arizona, Inc., Electric Lightwave, LLC and Mountain Telecommunications of Arizona, Inc. dba Integra Telecom, Level 3 Communications, LLC, McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services, and tw telecom of arizona llc hereby give notice that they are filing the attached Direct Testimony of Dr. August H. Ankum.

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RESPECTFULLY SUBMITTED this 27th day of September 2010.

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN MAYES, Chairman
GARY PIERCE, Commissioner
SANDRA KENNEDY, Commissioner
PAUL NEWMAN, Commissioner
BOB STUMP, Commissioner

JOINT NOTICE AND APPLICATION OF)	
QWEST CORPORATION, QWEST)	
COMMUNICATIONS COMPANY, LLC,)	
QWEST LD CORP., EMBARQ	)	Docket No. T-01051B-10-0194
COMMUNICATIONS, INC. D/B/A	)	Docket No. T-02811B-10-0194
CENTURYLINK COMMUNICATIONS,	)	Docket No. T-04190A-10-0194
EMBARQ PAYPHONE SERVICES, INC.	)	Docket No. T-20443A-10-0194
D/B/A CENTURYLINK, AND CENTURYTEL	)	Docket No. T-03555A-10-0194
SOLUTIONS, LLC FOR APPROVAL OF THE	)	Docket No. T-03902A-10-0194
PROPOSED MERGER OF THEIR PARENT)	
CORPORATIONS QWEST)	
COMMUNICATIONS INTERNATIONAL INC.))	
AND CENTURYTEL, INC.)	

DIRECT TESTIMONY

OF

DR. AUGUST H. ANKUM

ON BEHALF OF

**Eschelon Telecom of Arizona, Inc., Electric Lightwave, LLC, Mountain
Telecommunications of Arizona, Inc. d/b/a Integra Telecom;
tw telecom of arizona llc; Level 3 Communications, LLC; and
McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services**

September 27, 2010

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Exhibits

- Exhibit AA-1 – *Curriculum Vitae* of August H. Ankum, Ph.D.
- Exhibit AA-2 – The Promises vs. Realities of Recent ILEC Mergers and Acquisitions
- Exhibit AA-3 – Discovery Responses Demonstrating the Significant Uncertainty Resulting from the Proposed Transaction
- Exhibit AA-4 – Applicants Claims’ About Alleged Benefits Resulting From the Merger Compared to Their Discovery Responses
- Exhibit AA-5 – Re: Qwest Tariff F.C.C. No. 1 (interstate access tariff) – Qwest’s Product Notification and Integra’s correspondence with Qwest
- Exhibit AA-6 – Integra’s May 13, 2010 Ex Parte filing in FCC WC Dkt. No. 09-95

1 **I. PROFESSIONAL QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is August H. Ankum. My business address is QSI Consulting, 150
4 Cambridge Street, Suite A603, Cambridge, Massachusetts, 02141.

5 **Q. WHAT IS QSI CONSULTING, INC. AND WHAT IS YOUR POSITION**
6 **WITH THE FIRM?**

7 A. QSI Consulting, Inc. (“QSI”) is a consulting firm specializing in regulatory and
8 litigation support, economic and financial modeling, and business plan modeling
9 and development. QSI provides consulting services for regulated utilities,
10 competitive providers, government agencies (including public utility
11 commissions, attorneys general and consumer councils) and industry
12 organizations. I am a founding partner and currently serve as Senior Vice
13 President.

14 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
15 **WORK EXPERIENCE.**

16 A. I received a Ph.D. in Economics from the University of Texas at Austin in 1992,
17 an M.A. in Economics from the University of Texas at Austin in 1987, and a B.A.
18 in Economics from Quincy College, Illinois, in 1982.

19 My professional background covers work experiences in private industry and at
20 state regulatory agencies. As a consultant, I have worked with large companies,
21 such as AT&T, AT&T Wireless, Bell Canada and MCI WorldCom (“MCIW”), as

1 well as with smaller carriers, including a variety of competitive local exchange
2 carriers (“CLECs”) and wireless carriers. I have worked on many of the
3 arbitration proceedings between new entrants and incumbent local exchange
4 carriers (“ILECs”). Specifically, I have been involved in arbitrations between
5 new entrants and NYNEX, Bell Atlantic, USWEST, BellSouth, Ameritech, SBC,
6 GTE and Puerto Rico Telephone. Prior to practicing as a telecommunications
7 consultant, I worked for MCI Telecommunications Corporation (“MCI”) as a
8 senior economist. At MCI, I provided expert witness testimony and conducted
9 economic analyses for internal purposes. Before I joined MCI in early 1995, I
10 worked for Teleport Communications Group, Inc. (“TCG”), as a Manager in the
11 Regulatory and External Affairs Division. In this capacity, I testified on behalf of
12 TCG in proceedings concerning local exchange competition issues, such as
13 Ameritech’s Customer First proceeding in Illinois. From 1986 until early 1994, I
14 was employed as an economist by the Public Utility Commission of Texas
15 (“PUCT”) where I worked on a variety of electric power and telecommunications
16 issues. During my last year at the PUCT, I held the position of chief economist.
17 Prior to joining the PUCT, I taught undergraduate courses in economics as an
18 Assistant Instructor at the University of Texas from 1984 to 1986.

19 A list of proceedings in which I have filed testimony is attached hereto as Exhibit
20 AA-1.

21 **Q. DO YOU HAVE EXPERIENCE WITH THE ISSUES IN THIS**
22 **PROCEEDING?**

1 A. Yes. I have been involved in telecommunications since 1988, and over the course
2 of my career, I have worked and testified on virtually all issues pertaining to the
3 regulation of incumbent local exchange companies, including those governing
4 their wholesale relationship with dependent competitors, such as competitive local
5 exchange carriers (“CLECs”). I have also worked on numerous proceedings
6 involving competitive and market dominance issues, including those pertaining to
7 the FCC’s triennial review cases and merger analyses.

8 **Q. ON WHOSE BEHALF ARE YOU FILING THIS DIRECT TESTIMONY?**

9 A. My testimony is being filed on behalf of a number of CLECs: Eschelon Telecom
10 of Arizona, Inc., Electric Lightwave, LLC, Mountain Telecommunications of
11 Arizona, Inc. d/b/a Integra Telecom; tw telecom of arizona llc; Level 3
12 Communications, LLC; and McLeodUSA Telecommunications Services, Inc.
13 d/b/a PAETEC Business Services (collectively referred to in my testimony as
14 “Joint CLECs”).

15 **II. PURPOSE AND SUMMARY**

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A. The purpose of my testimony is to evaluate whether the proposed merger between
18 CenturyLink¹ and Qwest is in the public interest.

¹ I will use CenturyLink (as opposed to CenturyTel) to refer to the company seeking to acquire Qwest, unless referring specifically to the legacy CenturyTel company that existed prior to the merger with Embarq. When referring to both CenturyLink and Qwest in the context of the proposed merger, I will use the term “the Companies” or “the Applicants.”

1 Having reviewed the companies' Arizona Joint Application,² supporting
2 testimony and data request responses, I believe it is not. As I will demonstrate,
3 the proposed transaction should either be rejected *in total* or in the alternative,
4 approved only if and when the Commission has imposed firm, specific, and
5 enforceable conditions on CenturyLink and Qwest (hereafter "the Joint
6 Applicants" or "the Companies") in order to safeguard the state of competition
7 and wholesale customers.

8 **Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.**

9 A. As discussed herein, and in the testimony of my colleague Mr. Timothy Gates, the
10 information provided by CenturyLink and Qwest is inadequate to demonstrate
11 that the proposed transaction is in the public interest. Moreover, the information
12 indicates that the proposed transaction would post a serious risk to wholesale
13 customers, such as CLECs, when CenturyLink and Qwest seek to integrate their
14 two companies post-merger. The proposed transaction will potentially jeopardize
15 the viability of CLECs and will likely harm competition in Arizona.

16 Specifically, my testimony will discuss the following:

- 17
- 18 • The economic incentives underlying mergers.
 - 19 • A brief overview of past mergers in the telecommunications industry,
demonstrating a troublesome history of mergers and the likelihood of failure.

² Arizona telephone operating subsidiaries of Qwest Communications International, Inc. ("QCII") Qwest Corporation ("QC"), Qwest Communications Company LLC ("QCC"), and Qwest LD Corp., ("QLDC") (collectively "Qwest") and the Arizona telephone operating subsidiaries of CenturyTel, Inc. ("CenturyLink"), Embarq Communications, Inc. d/b/a CenturyLink Communications, Embarq Payphone Services, Inc. d/b/a CenturyLink, and CenturyTel Solutions, LLC, (collectively "CenturyLink"), Joint Notice and Application for Expedited Approval of Proposed Merger, filed May 13, 2010 ("Arizona Joint Application").

- 1 • The potential harm and absence of any public benefit from the proposed
2 transaction.
- 3 • The need for conditions and commitments to prevent or mitigate the risk of
4 harm to competition resulting from the proposed transaction and ensure that
5 the merger is in the public interest.
- 6 • Some specific conditions and commitments that should be required of
7 CenturyLink and Qwest as prerequisites for approving the merger. (A
8 complete list is provided by Mr. Gates.)

9 **Q. DO YOU HAVE SOME PRELIMINARY OBSERVATIONS REGARDING**
10 **THE PROPOSED TRANSACTION?**

11 A. Yes. Mergers are often seen as a means of expeditiously growing a company, not
12 organically (through competitive success and customer acquisitions with superior
13 product offerings), but by means of a short cut: by buying another company and
14 its products and customers. While proposed mergers are invariably touted by the
15 merging companies as generating significant benefits, through potential synergies,
16 increased economies of scale and scope, etc., in practice, it is very difficult to
17 predict which mergers will be successful and which ones will not. An interesting,
18 in retrospect ironic, example of supposed experts misjudging mergers is found in
19 an issue of the *Harvard Business Review* dedicated to mergers and acquisitions,
20 which published the minutes of a roundtable discussion on the resurgence of
21 mergers and acquisitions in the late nineties as follows:³

22 **Moderator:** The announcement in January of the merger between
23 *America Online* and *Time Warner* marked the convergence of the two
24 most important business trends of the last five years: the rise of the
25 internet and the resurgence of mergers and acquisitions. [...]
26

³ Dennis Carey, "Lessons from Master Acquirers: A CEO Roundtable on Making Mergers Succeed," *Harvard Business Review on Mergers and Acquisitions*, 2001, at pp. 2-3.

1 **Moderator:** I'm sure some of you are familiar with the studies
2 suggesting that most mergers and acquisitions do not pan out as well
3 as expected. Has that been your experience...Are mergers and
4 acquisitions worth it?
5

6 **Participant:** I would take issue with the idea that most mergers end up
7 being failures. I know there are studies from the 1970's and '80's that
8 will tell you that. But when I look at many companies today – in
9 particular new economy companies like Cisco and WorldCom – I have
10 a hard time dismissing the strategic power of M&A.

11 Rather than illustrate the success of mergers, the examples cited in this discussion
12 show the opposite. Of the three companies mentioned (AOL/Time Warner,
13 Cisco, and WorldCom), two were brought down by failed mergers, while the
14 third, Cisco, is still prospering after its mergers, putting the failure rate of mergers
15 at two out of three, which is about where the academic literature puts it.⁴

16 **Q. ARE YOU SAYING THAT MERGERS ARE UNDESIRABLE?**

17 **A.** No. Mergers and acquisitions may spawn innovative and profitable companies.
18 At issue in this case, however, is the merit of the *instant transaction*, and an
19 examination of past mergers and their failures (discussed below) should alert the
20 Commission to various pitfalls of mergers and underscore the importance of
21 carefully examining the impact of the proposed merger on all affected parties,
22 including competitive carriers and their end-user customers. As discussed below,

⁴ This observation is found in many publications. See for example: Richard Dobbs, Marc Goedhart, and Hannu Suonio, "Are Companies Getting Better at Mergers and Acquisitions," *McKinsey Quarterly*, December 2006, at p. 1: "McKinsey research shows that as many as two-thirds of all transactions failed to create value for the acquirers"; Cartwright, Sue and Cooper, Cary, *Managing Mergers, Acquisitions & Strategic Alliances*, Butterworth-Heinemann, reprinted 2001, Section 3, Mergers and Acquisition Performance – a Disappointing History, discusses a number of studies, in line with the McKinsey studies; Pritchett, Price, After the Merger, *The Authoritative Guide for Integration Success*, McGraw-Hill, 1997, Chapter 1, Section Statistics on Merger Success and Failure, sets the failure rate at between 50% and 60%.

1 this merger raises serious public interest concerns that need to be weighed
2 carefully against the backdrop of general merger risks and past merger failures.

3 **Q. DO MERGERS OF ILECS RAISE UNIQUE ISSUES, NOT NECESSARILY**
4 **RELEVANT TO MERGERS BETWEEN OTHER TYPES OF**
5 **COMPANIES?**

6 A. Yes. A merger involving a large ILEC such as Qwest touches on many public
7 interest issues, particularly the public's interest in local exchange competition. To
8 appreciate the public interest stake in this merger, it is important to recall the
9 starting points of the ILECs' network investments.

10 Until the early 1990s, ILECs had a government-sanctioned monopoly to provide
11 local services to captive ratepayers. In exchange, ILECs operated in a rate-
12 regulated environment. Rate regulation meant that if an ILEC had increased
13 operating costs, or was required to invest new capital to build out local
14 infrastructure (*e.g.*, middle-mile or last-mile loop facilities), the ILEC had the
15 ability to pass along those increased capital or operating costs by securing a rate
16 increase from the state regulators. Those regulated rates provided for a rate of
17 return that the ILEC was permitted to earn. Of course, ILECs often earned more
18 than their authorized rate of return, and sometimes they earned less (which meant
19 the ILEC was entitled to pursue higher rates). Not only was the ILEC able to
20 secure rate increases when it proved its case to regulators, its monopoly status
21 then assured it that every business and residential customer in its local exchange
22 market would pay those regulated rates to obtain local service. Some states

1 provided an alternative form of regulation, but the bottom line was that the ILEC
2 had certainty that its Commission-approved rates would be paid by all its
3 customers subscribing to local services. Thus, a material portion of the ILEC
4 infrastructure in place today, especially the local loop infrastructure, was built
5 when the ILEC was guaranteed that the cost of its investment would be paid for
6 by captive customers through regulated rates that included an appropriate rate of
7 return. That monopoly environment with its guarantees of an adequate rate of
8 return is in stark contrast to the current competitive environment in which CLECs
9 must compete for every customer. The Telecommunications Act of 1996 resulted
10 in CLEC entry into local exchange markets under provisions allowing them to use
11 portions of the ILECs' networks and services, generally at TELRIC rates. This
12 mandate allowing CLEC access to ILEC networks has created competition where
13 none existed prior to 1996. However, a merger, such as the one proposed in the
14 instant proceeding, could upset the wholesale relationship between ILEC and
15 CLECs, and harm competition in Arizona. Without reasonable, reliable and
16 nondiscriminatory access to Qwest's and CenturyLink's networks, CLECs cannot
17 get access to customers. As a result, an ILEC merger like the one between
18 CenturyLink and Qwest in this case has unique and profound public interest
19 implications not present in mergers in other industries or between two CLECs.

20 **Q. DO CLECS DIFFER FROM OTHER AT-RISK STAKEHOLDERS IN THE**
21 **PROPOSED MERGER?**

22 A. Yes. An examination of past telecom mergers teaches us that the risks and gains
23 of a merger are not evenly distributed among all stakeholders. (Indeed, seven

1 Qwest executives stand to gain personally more than \$110 million in cash and
2 stock if the merger is consummated.)⁵

3 CenturyLink's and Qwest's shareholders, for example, can sell their shares if they
4 anticipate that things will go awry, or, alternatively, hold on to their shares to reap
5 whatever benefits they may anticipate: it is a risk-return tradeoff each shareholder
6 is free to either assume or walk away from. However, this freedom of choice
7 does not exist for other, captive stakeholders. Specifically, retail customers in
8 captive segments of retail markets have little or no choice and neither do
9 wholesale customers, such as CLECs, who critically depend on CenturyLink and
10 Qwest for loops, transport, collocation and a variety of other wholesale network
11 inputs. That is, captive retail and wholesale customers will not only reap *no gains*
12 if the proposed transaction is successful, they may experience great harm when
13 things go awry (as they have in so many of these ventures). This asymmetry in
14 the risk-return profiles between various stakeholders is profound. Hence, the
15 need for a regulatory review process to determine whether the proposed
16 transaction is in the interest of *all* stakeholders.

17 **Q. IS THERE A DIVERGENCE BETWEEN A PUBLIC INTEREST**
18 **ANALYSIS AND THE PRIVATE RISK-RETURN ANALYSIS GUIDING**
19 **CENTURYLINK AND QWEST?**

5 The Denver Post has reported that “[s]even top executives at Qwest stand to reap more than *\$110 million in cash and stock* from the Denver-based company's proposed merger with CenturyLink, according to a new regulatory filing.” See, “Windfall for Qwest Top Execs,” by Andy Vuong, *The DenverPost*, 7/18/2010, at http://www.denverpost.com/search/cj_15536725 (emphasis added).

1 A. Yes. CenturyLink and Qwest need only consider their private risk-return trade-
2 offs. In contrast, the Commission must consider the broader public interest,
3 including the transaction's potential impact on other stakeholders who will likely
4 not benefit from the proposed transaction, but may be harmed. Naturally, this is a
5 broader analysis, and less likely to result in a finding that the proposed transaction
6 should be permitted to move forward as proposed.

7 **Q. ARE THERE ASPECTS TO THIS MERGER THAT ARE**
8 **PARTICULARLY TROUBLING?**

9 A. Yes. I have already noted that most mergers are not successful, even as measured
10 by the ultimate impact of the merger on shareholders. Yet more troubling in this
11 case is the fact that CenturyTel is seeking to acquire a much larger Bell Operating
12 Company ("BOC") while it is still integrating the recently acquired Embarq, a
13 company that was already about four times larger than the original CenturyTel. If
14 the successful outcome of mergers is generally in question, the outcome of this
15 one is particularly so.

16 What comes to mind is the experience of WorldCom, a one-time darling of Wall
17 Street that in rapid succession acquired a number of firms of increasing size and
18 complexity, culminating in the fateful acquisition of MCI and ultimately the
19 financial collapse of WorldCom. While WorldCom was brought down by a
20 number of missteps, some of them criminal, it is fair to say that its demise
21 stemmed in significant part from the failure to successfully integrate the various
22 acquired companies and the escalating challenges of ever-larger acquisitions.

1 CenturyTel's proposed acquisition of Qwest on the heels of its recent acquisition
2 of Embarq presents some disturbing similarities to the experience of WorldCom
3 and other failed acquisitions.

4 The table below gives the approximate line counts of CenturyTel (as it existed
5 before its Embarq acquisition), Embarq and Qwest, and demonstrates explosive
6 growth.

	Year	Access Lines⁶	% of Post- Merger Total
CenturyTel	2009	1,300,000	8%
Embarq	2009	5,700,000	34%
Qwest	2010	10,000,000	59%
Total		17,000,000	100%

7
8 This exponential growth path raises questions, specifically about the ability of
9 CenturyLink's management to handle the challenges of post-merger integration.
10 Again, organic growth through customer acquisition, as a result of superior
11 product offerings, is different from growth through mergers and acquisitions.
12 With respect to organic growth, management proves its abilities to manage
13 growth on an ongoing basis and exponential growth is a sign that management is
14 doing things right. By contrast, growth by means of acquisitions may signify that
15 management is able to maneuver nimbly in financial markets, but little, if

⁶ Line counts are taken from CenturyLink's testimony. The line counts in CenturyLink's testimony appear to be approximate line counts. See Direct Testimony of Todd Schafer on behalf of Embarq Communications, Inc. d/b/a CenturyLink Communications Embarq Payphone Services, Inc. d/b/a CenturyLink, and CenturyTel Solutions, LLC, Arizona Corporation Commission Docket Nos. T-01051B-10-0194, et al., May 24, 2010 ("Schafer Arizona Direct"), at pp. 6-7 and Exhibit TS-1; and Direct Testimony of Jeff Glover on behalf of Embarq Communications, Inc. d/b/a CenturyLink Communications Embarq Payphone Services, Inc. d/b/a CenturyLink, and CenturyTel Solutions, LLC, Arizona Corporation Commission Docket Nos. T-01051B-10-0194, et al., May 24, 2010 ("Glover Arizona Direct") at p. 5.

1 anything, about management's ability to run a much larger organization. It is the
2 latter, however, that the Commission is tasked, among other issues, to evaluate.

3 Further, while CenturyLink may have integrated smaller firms, the company's
4 current attempt to swallow a BOC should give regulators pause. To be sure, the
5 challenge of integrating and running Qwest, with its unique BOC obligations,
6 comparatively enormous customer base, substantial wholesale responsibilities,
7 and complex set of operational support systems, is particularly daunting and far
8 beyond anything CenturyLink has faced to date. Indeed, CenturyLink has
9 admitted in its latest SEC Form 10Q report that "The Qwest merger will change
10 the profile of our local exchange markets to include more large urban areas, *with*
11 *which we have limited operating experience.*"⁷ Whatever may be CenturyLink's
12 proven track record, integrating and managing a BOC is not a part of it.⁸

13 **Q. DOES THE FACT THAT SBC AND VERIZON WERE ABLE TO**
14 **ACQUIRE AND INTEGRATE FELLOW BOCS SUGGEST THAT**
15 **CENTURYLINK WILL BE ABLE TO DO THE SAME WITH QWEST?**

16 A. No. First, SBC and Verizon were large BOCs themselves. Given their common
17 genealogy as Baby Bells, SBC's and Verizon's management knew what they were
18 acquiring and how to run a BOC, with all the attendant regulations and

⁷ CenturyLink, Inc. Form 10Q, filed August 6, 2010, at p. 40 (emphasis added).

⁸ Also, as has been suggested in the literature, the integration process is always different. As Cooper and Cartwright note: "Different acquisitions are likely to result in quite different cultural dynamics and potential organizational outcomes. Consequently, acquiring management cannot assume that because they were successful in assimilating one acquisition into their own culture, that same culture and approach to integration will work equally successfully with another acquisition." Garry L. Cooper and Sue Cartwright, *Managing Mergers, Acquisitions & Strategic Alliances*, Butterworth-Heinemann, 2nd Edition, reprinted 2001, at p. 25.

1 obligations to which it is subject. Further, the BOCs still had a common corporate
2 culture and were mostly working with common engineering practices inherited
3 from Ma Bell. Also, when, for example, SBC acquired Ameritech, SBC was
4 larger than Ameritech – not, as is the case here, smaller by a factor of 10 (using
5 CenturyTel as the base). Nevertheless, regulators imposed substantial conditions
6 as prerequisites to approving those BOC mergers in spite of the advantages
7 inherent in mergers between BOCs as compared to a non-BOC's acquisition of a
8 BOC such as Qwest.

9 **Q. WHY SHOULD THE COMMISSION BE PARTICULARLY CONCERNED**
10 **ABOUT POTENTIAL ADVERSE IMPACTS ON CLECS AND THEIR**
11 **END USERS?**

12 A. Because CLECs depend on Qwest and CenturyLink for interconnection and
13 critical wholesale network inputs that are essential to their ability to provide
14 competitive local exchange services. CLECs are generally captive customers of
15 Qwest and CenturyLink for these wholesale network inputs. Further, CLECs
16 compete with CenturyLink and Qwest for business and residential customers,
17 which creates a perverse incentive structure in which CenturyLink and Qwest
18 may have disincentives to provide CLECs with quality, reasonably priced,
19 nondiscriminatory wholesale services and network access. In light of this, and the
20 fact that the economic health of CLECs is critical to local exchange competition,
21 it is important for the Commission to ensure that CLECs' interests are considered
22 and protected.

1 **Q. WHAT IS YOUR RECOMMENDATION?**

2 A. I recommend that the Commission reject the proposed transaction. As discussed
3 herein and in the testimony of Mr. Gates, this proposed transaction poses serious
4 risks to the public interest, including the public's interest in robust competition
5 from the many wholesale CLEC customers of Qwest and CenturyLink.
6 However, if the Commission nevertheless decides to approve the transaction, then
7 it should recognize the potential hazards faced by captive CLECs and their end
8 user customers, and impose on CenturyLink and Qwest a set of stringent
9 conditions and commitments, discussed herein and by Mr. Gates, in order to
10 safeguard wholesale customers and competition.

11 **III. STANDARD FOR REVIEW**

12 **Q. DOES THE COMMISSION HAVE THE AUTHORITY TO REVIEW**
13 **CENTURYLINK'S AND QWEST'S PROPOSED REORGANIZATION?**

14 A. Yes I believe that it does. I am not a lawyer and am not offering a legal opinion,
15 but my understanding is that the Commission does have the legal authority to
16 review the Companies' proposed reorganization, given its authority over public
17 service corporations pursuant Article 15, Section 3 of the Arizona Constitution,
18 Title 40 of the Arizona Revised Statutes (A.R.S.) and the Commission's Public
19 Utility Holding Companies and Affiliated Interests Rules, A.A.C. R14-2-801
20 through -806 ("Affiliated Interests Rules"). My understanding is that CenturyTel,
21 Inc. and Qwest Communications International, Inc. are not public service
22 corporations as defined in Article 15, Section 2 of the Arizona Constitution;

1 however, the telephone operating subsidiaries named in the Arizona Joint
2 Application are public service corporations subject to the Commission's
3 authority.⁹

4 **Q. WHAT IS THE APPROPRIATE STANDARD FOR THE COMMISSION**
5 **TO USE IN REVIEWING CENTURYLINK'S AND QWEST'S PROPOSED**
6 **REORGANIZATION?**

7 A. The Commission's Affiliated Interests Rules indicate that there are at least three
8 factors the Commission should consider when reviewing the reorganization
9 proposal at issue in this proceeding, as R14-2-803(C) states that:

10 At the conclusion of any hearing on the organization or
11 reorganization of a utility holding company, the Commission may
12 reject the proposal if it determines that it would *impair the*
13 *financial status of the public utility*, otherwise *prevent it from*
14 *attracting capital at fair and reasonable terms*, or *impair the*
15 *ability of the public utility to provide safe, reasonable and*
16 *adequate service.*¹⁰

17 These three factors are clearly important for the Commission to take into account
18 during its review. However, when reviewing previous proposals by public service
19 corporations to reorganize or merge, the Commission typically has applied a
20 general public interest standard as well as considering the three specific issues
21 identified in that Rule. For example, in the Commission's January 2005 Order
22 and Opinion denying the proposed merger of Unisource Energy Corporation with
23 Saguaro Utility Group, L.P. (via Saguaro Acquisition Company), the Commission

⁹ See, Arizona Joint Application at p. 2, fn. 2.

¹⁰ A.A.C. R14-2-803(C) (emphasis added).

1 concluded that “[p]ursuant to the Arizona Constitution and A.R.S. Title 40
2 generally, the Commission is required to act in the ‘public interest’ and must
3 consider all of the evidence available in determining the ‘public interest.’”¹¹ The
4 Commission also concluded therein that “The public interest requires that the
5 Commission apply the Affiliated Interest Rules in a manner that will maximize
6 protection to ratepayers.”¹² The Commission has reiterated the latter finding, as
7 well as invoked the general public interest standard, in other decisions concerning
8 reorganizations affecting public service corporations, including its May 2009
9 Order approving, with conditions, the reorganization of Global Water – Santa
10 Cruz Water Company, *et al.*¹³

11 I conclude that the Commission should apply the same review standard in the
12 instant proceeding, i.e. it should approve the proposed transaction only if it finds
13 that the transaction is in the public interest, including but not limited to
14 consideration of the factors specifically identified in R14-2-803(C).

15 **Q. DOES THE COMMISSION’S AUTHORITY EXTEND TO IMPOSING**
16 **CONDITIONS ON THE PROPOSED TRANSACTION, SUCH AS THOSE**
17 **RECOMMENDED BY MR. GATES AND YOU?**

¹¹ *In the Matter of the Reorganization of Unisource Energy Corporation*, Docket No. E-0423-OA-03-0933, Opinion and Order, Decision No. 67454, January 4, 2005, at p. 49, Conclusion of Law No. 5.

¹² *Id.* at p. 49, Conclusion of Law No. 6.

¹³ *In the Matter of the Joint Notice of Intent Under A.A.C. R14-2-803 for an Initial Public Offering and Restructuring of Global Water Resources, LLC by Global Water – Santa Cruz Water Company, et al.*, Docket Nos. W-20446A-08-0247 *et al.*, Order, Decision No. 70980, May 5, 2009, at pp. 10-11, Conclusions of Law Nos. 3, 6 and 7.

1 A. Yes, that is my understanding. For example, in the Global Water case I just cited,
2 the Commission determined that “Approval of the transaction proposed in the
3 Application would serve the public interest only if conditions are imposed to
4 provide adequate protection to ratepayers,”¹⁴ and adopted twelve conditions on
5 the transaction that were proposed by Staff. The Commission also determined
6 that conditions were required to serve the public interest with respect to the
7 proposed reorganization of Arizona-American Water Company, Inc. The
8 Commission’s February 2007 Order and Opinion in that case similarly granted its
9 approval after adopting several conditions on the transaction.¹⁵

10 Consequently, while I am not rendering a legal opinion, my understanding is that
11 the Commission’s authority is sufficiently broad to enable it to impose conditions,
12 such as those recommended by Mr. Gates and myself, in order to help ensure that
13 the CenturyLink-Qwest transaction is in the public interest.

14 **Q. IS IT UNUSUAL FOR STATE PUBLIC UTILITY COMMISSIONS TO**
15 **IMPOSE CONDITIONS ON ILEC MERGER TRANSACTIONS?**

16 A. No, not at all. In order to find that ILEC mergers are in the public interest, state
17 commissions frequently impose conditions that minimize threats of harm to the

¹⁴ *Id.* at p. 11, Conclusion of Law No. 6.

¹⁵ *In the Matter of Arizona-American Water Company, Inc., for a Finding of No Jurisdiction, or for a Waiver of the Affiliated Interests Rules Pursuant to A.A.C. R14-2-806, Or, in the Alternative, for Approval of an Affiliated Interests Transaction Pursuant to A.A.C. R14-2-801 Et Seq., Docket Nos. SW-01303A-06-027 et al, Opinion and Order, Decision No. 69344, February 20, 2007, at p. 9, Conclusion of Law No. 5.*

1 public interest,¹⁶ including threats to competition.¹⁷ Furthermore, from an
2 economic perspective, these types of conditions are not only appropriate, but also
3 they are required to satisfy the public interest standard.

4 **Q. CAN YOU GIVE AN EXAMPLE OF THE TYPES OF CONDITIONS**
5 **THAT STATE COMMISSIONS HAVE ADOPTED TO HELP ENSURE**
6 **THAT A PROPOSED ILEC MERGER OR ACQUISITION WILL**
7 **SATISFY THE PUBLIC INTEREST STANDARD?**

8 A. Yes. For example, in the *Oregon PUC Frontier-Verizon Order*, the Public Utility
9 Commission of Oregon ("Oregon PUC") imposed several additional conditions in
10 order to "mitigate the risks of the transaction and help meet the 'no harm' public
11 interest standard *required* for our approval."¹⁸

12 One condition was that Frontier commit to spending a total of \$25 million for
13 broadband deployment and enhancement over the following three years.¹⁹ The
14 Oregon PUC properly imposed broadband conditions in the merger context in
15 order to address concerns that Frontier would otherwise insufficiently fund and
16 manage its provision of broadband services after the merger, leaving the public

¹⁶ See, e.g., *In the Matter of the Merger of the Parent Corporations of Qwest Communications Corporation, LCI International Telecom Corp., USLD Communications, Inc., Phoenix Network, Inc. and US West Communications, Inc.*, Minnesota PUC Docket No. P-3009, 3052, 5096, 421, 3017/PA-99-1192 ("MN PUC U S West/Qwest Merger Docket"), Order Accepting Settlement Agreement and Approving Merger Subject to Conditions (June 28, 2000) ("Order Accepting Settlement"), at p. 5.

¹⁷ *In the Matter of Verizon Communications Inc. and Frontier Communications Corporation*, Oregon PUC Docket UM 1431, Order No. 10-067, February 24, 2010 ("*Oregon PUC Frontier-Verizon Order*"), at p. 6.

¹⁸ *Oregon PUC Frontier-Verizon Order*, at p. 1 (emphasis added).

¹⁹ *Id.*, at pp. 1, 15-16, and Ex. B. pp. 9-11 (also listing requirements for periodic reports to the Commission, detailing in which wire centers the merged entities would deploy broadband services, and listing specific commitments to particular wire centers).

1 with less access to broadband services than if Frontier and Verizon remained
2 separate entities.²⁰ The Oregon PUC's order also included conditions relating to
3 FiOS video services "provided pursuant to local franchise agreements, rather than
4 pursuant to Oregon PUC authority," stating that the "conditions help meet the
5 required standard for approval of the transaction."²¹

6 Accordingly, without offering a legal opinion, it appears to me that this
7 Commission could similarly use its authority to impose a broad range of merger
8 conditions, such as those recommended by Mr. Gates and myself, on the
9 Companies' proposed transaction in order to ensure that it is in the public interest.

10 **Q. ARE THERE OTHER STANDARDS TO CONSIDER IN REVIEWING**
11 **THE ARIZONA JOINT APPLICATION?**

12 A. Yes. The mandates of the Telecommunications Act of 1996 are also critical in
13 reviewing the proposed merger. Nevertheless, the Arizona Joint Application
14 makes only a vague reference to "...the laws governing interconnection."²² The
15 Arizona Joint Application and testimony provide no analysis of the Act's
16 requirements or how they will be met under the proposed merger.²³ This lack of
17 information and commitment is a common theme in all of CenturyLink's and
18 Qwest's applications and testimony I have reviewed in the various states in which

²⁰ *Oregon PUC Frontier-Verizon Order*, at p. 15.

²¹ *Id.* at p. 17.

²² See, Arizona Joint Application at p. 14.

²³ See, for example, Direct Testimony of Kristen McMillan, May 24, 2010 ("McMillan Arizona Direct"), at p. 7 and p. 16.

1 the Companies are applying for regulatory approval, and should be a source of
2 great concern for the Commission.

3 **IV. ECONOMICS AND REVIEW OF TELECOM**
4 **MERGERS**

5 *A. Mergers Seek to Increase Private Shareholder Value which*
6 *May Cause Them to Be at Odds with the Public Interest*

7 **Q. IN GENERAL TERMS, WHAT MAY CAUSE FIRMS TO MERGE OR**
8 **ACQUIRE OTHER FIRMS?**

9 A. The incentives for mergers and acquisitions are manifold but center around the
10 notion that shareholder value can potentially be increased by merging and
11 streamlining the resources of the pre-merger firms. The benefits from the merger
12 may stem from: the ability to lower costs, through increasing the post-merger
13 firm's economies of scale (e.g., allowing it to achieve lower per unit costs) and
14 scope (e.g., increasing the firm's efficiency by being able to offer a broader array
15 of services at larger volumes); capturing synergies associated with merging and
16 streamlining overhead and operational support systems; and/or improving the
17 Merged Company's overall competitiveness and market share by broadening its
18 product offerings and access to a larger customer base, or otherwise from
19 capitalizing on joint talents and expertise. The notion is that bigger is better.

20 Of course, these are all stock, theoretical considerations raised in mergers, but it is
21 always a question whether or not these benefits will actually materialize.
22 Furthermore, even on a theoretical level, there are serious doubts about whether

1 such alleged benefits are likely to result from a merger between firms such as
2 those in this transaction, or whether benefits could more likely be achieved by the
3 firms individually, through contractual agreements or simply through endogenous
4 growth.²⁴

5 **Q. WHAT IS THE DIFFERENCE BETWEEN A HORIZONTAL AND A**
6 **VERTICAL MERGER?**

7 A. A horizontal merger is a merger between two firms that offer a comparable set of
8 services in comparable segments of a market or industry. The objective of a
9 horizontal merger is typically to broaden the reach of the firm and to increase its
10 overall market share.

11 A vertical merger, by contrast, seeks to integrate the operations of an upstream
12 firm with those of a downstream firm to whom it provides, typically, critical
13 inputs. Vertical integration may be motivated, for example, by a desire to leverage
14 the market power the upstream firm has into downstream markets.

15 While these types of mergers differ conceptually, they both allow the acquiring
16 firm to grow and potentially capture certain economies and synergies in addition
17 to other potential benefits.

18 **Q. WHAT SHOULD BE THE ULTIMATE OBJECTIVE OF A MERGER**
19 **FROM THE COMPANY'S PERSPECTIVE?**

²⁴ For example, see Joseph Farrell and Carl Shapiro, "Scale Economies and Synergies in Horizontal Mergers," *Antitrust Law Journal*, Vol. 68, pages 67 – 710.

1 A. While a merger may be motivated by a variety of considerations and objectives,
2 including management's personal ambitions,²⁵ the ultimate objective of a merger
3 from the perspective of the firms' management should be to increase shareholder
4 value – which is also how the management should evaluate its success or failure.²⁶

5 **Q. DO MANAGEMENT'S OBJECTIVES TO INCREASE SHAREHOLDER**
6 **VALUE POTENTIALLY CONFLICT WITH THE COMMISSION'S**
7 **OBJECTIVE TO PROTECT THE PUBLIC INTEREST AND FURTHER**
8 **COMPETITION IN ARIZONA?**

9 A. Yes. Even if we ignore for the moment the possibility that this merger, like many
10 others, may go awry, an ILEC's pursuit of profit and increased shareholder value
11 through the acquisition of another ILEC inherently conflicts in many ways with
12 the Commission's mandate to promote the public interest and competition. For
13 example, the public interest is best served by a vibrant and competitive market for
14 telecommunications services; yet it is in the Companies' interests to strengthen
15 their already dominant market positions in order to realize benefits that justify the
16 merger. Given that CLECs rely on CenturyLink's and Qwest's wholesale
17 services to compete with the Companies, private and public interests diverge. This
18 is why, among other reasons, mergers between ILECs, such as CenturyLink and
19 Qwest, should raise serious concerns about the companies' responsibilities in

25 As I noted earlier in my testimony, seven top executives at Qwest stand to gain more than *\$110 million in cash and stock* if the merger is consummated.

26 While mergers are at times motivated by other considerations, such as strategic or personal ambitions of the CEO, ultimately, from the firm's perspective, the "numbers" have to work to increase shareholder value. See, for example, Robert G. Eccles, Kersten L. Lanes, and Thomas C. Wilson, "Are You Paying Too Much for that Acquisition," *Harvard Business Review on Mergers and Acquisitions*, 2001, pages 45 - 73.

1 wholesale markets and the continued viability of retail competition. Specific
2 concerns about how this merger may harm the public interest are discussed in a
3 separate section below.

4 **Q. DO THE FEDERAL TRADE COMMISSION (FTC) AND DEPARTMENT**
5 **OF JUSTICE (DOJ) REVISED HORIZONTAL MERGER GUIDELINES**
6 **(2010) (HMG) PROVIDE THE COMMISSION WITH GUIDANCE?**

7 A. Yes. While the focus of an FTC or DOJ antitrust review of the proposed merger
8 differs from and is narrower than the Commission's public interest evaluation, the
9 HMG provides useful guidance on how to assess various claims put forth by the
10 merging companies regarding the alleged benefits of the proposed transaction.
11 Specifically, the HMG stresses that "most merger analysis is necessarily
12 predictive, requiring an assessment of what will likely happen if a merger
13 proceeds as compared to what will likely happen if it does not."²⁷ The HMG then
14 goes on to note that, in a merger analysis, there is no single uniform formula to be
15 applied, but "rather, it is a fact-specific process through which the agencies,
16 guided by their extensive experience, apply a range of analytical tools to the
17 reasonably available and reliable evidence [...]"²⁸ These observations are
18 important because, as discussed in the testimony of Mr. Gates and herein, the
19 applicants have provided insufficient information to conduct a "fact-specific"
20 investigation of the likely outcome of the proposed merger. (As part of the
21 framework for the Commission's predictive analysis, I discuss below a number of

²⁷ FTC and DOJ, *Horizontal Merger Guidelines* For Public Comment, Released on April 20, 2010, at p. 1.

²⁸ *Id.*

1 previous mergers that subsequently went awry and show that past applicants made
2 claims similar to those made by Qwest and CenturyLink, demonstrating that the
3 mere promise of benefits in no way ensures that benefits will in fact ensue.) For
4 their part, the Companies' near-total absence of factual analysis is disconcerting,
5 given the far reaching implications of the proposed transaction and its potential
6 impact on a broad array of stakeholders, including CLECs, and the fact that the
7 Commission must ultimately make its public interest judgment based on hard
8 facts provided by the applicants.

9 **Q. WOULD THE APPROVAL OF CENTURYLINK'S AND QWEST'S**
10 **SHAREHOLDERS SIGNIFY THAT THE MERGER IS IN THE PUBLIC**
11 **INTEREST?**

12 A. No. Shareholders should consider only how shareholder value will be affected,
13 which revolves mostly around the question of whether it will increase future
14 earnings; obviously, shareholder value is but one component of a much broader
15 and more complex evaluation necessary for a public interest finding. In short, the
16 Commission should not succumb to the belief that the "invisible hand" of the
17 market place will safeguard the public interest in this merger.

1 ***B. A Cautionary Tale: Brief Review of Mergers that Went Awry***

2 **Q. CAN ANYTHING BE LEARNED BY CONSIDERING THE OUTCOMES**
3 **OF OTHER RECENT MERGERS AND ACQUISITIONS INVOLVING**
4 **ILEC OPERATIONS?**

5 A. Yes. The old adage that “those who do not heed the lessons of history are
6 doomed to repeat them” readily applies to regulatory review of ILEC mergers and
7 acquisitions. I believe it is crucial that the Commission consider the proposed
8 Qwest-CenturyLink transaction in light of other, recent mergers and acquisitions.
9 As I shall explain, there are several such cases in which the merging companies’
10 initial high expectations and promised public benefits failed to materialize, in
11 some cases instead leading to financial failure, including Chapter 11 bankruptcies.

12 **Q. WHAT ARE POSSIBLY THE TWO MOST PROMINENT MERGERS**
13 **AMONG TELECOMMUNICATIONS COMPANIES TO RESULT IN**
14 **FAILURES?**

15 A. There are two mergers that stand out: the acquisition of MCI by WorldCom in
16 1998 and the acquisition of US WEST, a BOC, by Qwest in 2000.

17 **Q. WHAT HAPPENED IN THE WORLDCOM-MCI MERGER AND WHAT**
18 **WENT WRONG?**

1 WorldCom, which had its genesis in LDDS, experienced precipitous growth in
2 the 1990s, fueled largely by a series of acquisitions,²⁹ culminating in the \$37
3 billion acquisition of MCI in 1998. Following the acquisition, the company had
4 to file for Chapter 11 bankruptcy protection in 2002, after having destroyed much
5 of the shareholder value of both WorldCom and MCI. While the reasons for
6 WorldCom's collapse are many, it can be explained in part by the failure to
7 successfully integrate the operations of the acquired companies. As the
8 Bankruptcy Court found:

9 Another challenge for WorldCom involved its integration of
10 acquired assets, operations and related customer services. Rapid
11 acquisitions can frustrate or stall integration efforts. Public reports,
12 and our discussions with WorldCom employees, raise significant
13 questions regarding the extent to which WorldCom effectively
14 integrated acquired businesses and operations.³⁰

15 **Q. WHAT HAPPENED IN THE US WEST-QWEST MERGER AND WHAT**
16 **WENT WRONG?**

17 Qwest was founded in 1996 as a largely fiber-based company, installing facilities
18 along lines of the Southern Pacific Railroad to offer mostly high-speed data
19 services. Like WorldCom, Qwest Communications grew aggressively through a
20 series of acquisitions,³¹ positioning Qwest not only as a provider of high speed

²⁹ Among the companies acquired were: Advanced Communications Corp. (1992), Metromedia Communication Corp. (1993), Resurgens Communications Group (1993), IDB Communications Group, Inc (1994), Williams Technology Group, Inc. (1995), and MFS Communications Company (1996).

³⁰ *Re: WORLDCOM, INC., et al. Debtors*, Chapter 11 Case No. 02-15533 (AJG) Jointly Administered, First Interim Report of Dick Thornburgh, Bankruptcy Court Examiner, November 4, at p. 12.

³¹ Qwest acquired such companies as Internet service provider SuperNet in 1997, LCI, a long distance carrier in 1998, and Icon CMT, a web hosting provider, also in 1998.

1 data to corporate customers, but also as a rapidly-growing provider of residential
2 and business long distance services.

3 In 2000, Qwest acquired US WEST. The total value of the transaction at the time
4 was considered approximately \$40 billion.³² About ten years after the merger,
5 Qwest's market capitalization is now approximately \$10 billion.³³ This represents
6 a stunning loss in shareholder value.³⁴

7 **Q. WHAT LESSONS CAN BE LEARNED FROM THESE TWO MERGERS**
8 **IN EVALUATING THE MERGER AT ISSUE IN THIS CASE?**

9 The lesson to be learned from the WorldCom/MCI and Qwest/US WEST mergers
10 is, among others, that an applicant's ability to put together a merger, get Wall
11 Street's approval and shepherd a proposed transaction through the various steps of
12 an approval process in no way demonstrates an ability to successfully run the
13 post-merger firm. Further, generic claims of "synergies," which, as I will discuss
14 in more detail later in my testimony, invariably accompany all merger proposals,
15 mean little or nothing unless they are adequately substantiated by fact-based
16 analyses – and in the instant Application they surely are not.

17 **Q. ARE THERE MORE RECENT ILEC MERGERS THAT THE**
18 **COMMISSION SHOULD PAY PARTICULAR ATTENTION TO WHEN**
19 **CONSIDERING THE CENTURYLINK-QWEST APPLICATION?**

³² Qwest 2000 Annual Report, at p. 1.

³³ See Money.cnn.com, Ticker Q.

³⁴ In 2000, Qwest boasted: "Qwest Communications Reports Strong Third Quarter 2000 Financial Results While Successfully Integrating \$77 Billion Company." (Emphasis added.) See <http://news.qwest.com/index.php?s=43&item=1571>

1 A. Yes. There are three major ILEC transactions within the past five years that I
2 think offer particularly sobering lessons to the Commission as it considers
3 CenturyLink's proposed acquisition of Qwest. In particular, I am referring to:

- 4 • **Hawaiian Telcom:** The Carlyle Group's acquisition of Verizon
5 Hawaii (renamed Hawaiian Telcom), followed by Hawaiian Telcom's
6 filing for Chapter 11 bankruptcy protection in 2008;
- 7 • **FairPoint:** FairPoint's acquisition of Verizon's operations in northern
8 New England (Maine, New Hampshire, and Vermont), followed by
9 FairPoint's Chapter 11 bankruptcy filing in October 2009; and
- 10 • **Frontier:** Frontier Communication's July 2010 acquisition of
11 approximately 4.8 million access lines from Verizon in rural portions
12 of fourteen states, which is giving rise to cut-over problems with back-
13 office and OSS systems reminiscent of the prior two transactions.³⁵

14 As I will demonstrate, the track record of these types of mergers is not good. (Mr.
15 Gates discusses a different set of problems associated with these mergers.)

16 **Q. HAVE YOU PREPARED AN EXHIBIT THAT SUMMARIZES THE**
17 **PROMISED BENEFITS AND ACTUAL OUTCOMES OF THESE ILEC**
18 **TRANSACTIONS?**

19 A. Yes. My Exhibit AA-2, "The Promises vs. Realities of Recent ILEC Mergers and
20 Acquisitions," supplies a summary of the promised benefits and actual outcomes
21 of the Carlyle-Hawaiian Telcom and FairPoint-Verizon transactions. In addition,
22 the Exhibit summarizes the more recent Frontier-Verizon and CenturyTel-Embarq
23 transactions in the same manner, to the extent possible, given that integration

³⁵ Frontier Communications, Fact Sheet dated 5/19/2009, "Frontier Communications to Acquire Verizon Assets, Creating Nation's Largest Pure Rural Communications Services provider," downloaded from Frontier's Investor Relations webpage, <http://phx.corporate-ir.net/phoenix.zhtml?c=66508&p=irol-irhome>

1 activities pursuant to these transactions are still on-going, so that their full impacts
2 and outcomes have yet to be realized.

3 In each case, at the time the transaction was first proposed, the companies
4 involved made numerous claims and assurances concerning the anticipated
5 benefits of their transactions, in their FCC applications, public press releases, and
6 testimony to state PUCs. My Exhibit summarizes those claimed benefits and
7 compares them to the actual outcomes realized to date, in the areas of (1)
8 deployment of broadband and other new services, (2) service quality, both retail
9 and wholesale, (3) job creation, and (4) the financial stability and performance of
10 the company post-transaction.

11 **Q. WHAT DOES EXHIBIT AA-2 SHOW?**

12 A. Exhibit AA-2 shows the enormous gulf between the anticipated benefits claimed
13 by company management in these types of ILEC transactions, and the ensuing
14 realities. In all cases, company management claimed their proposed transactions
15 would spur accelerated deployment of broadband and other new services, create
16 jobs,³⁶ improve service quality and/or be seamless to customers, including CLECs
17 relying on wholesale services obtained via Operations Support System (“OSS”),
18 and improve the post-transaction company’s financial stability and performance.
19 Unfortunately, as the Exhibit vividly shows, the reality has been far different,
20 particularly for the two earlier transactions (Hawaiian Telcom and FairPoint).

³⁶ In the instant proceeding, I am not aware of any claims of job creation made with respect to the CenturyTel-Embarq merger, and in fact as noted in the Exhibit, CenturyLink had cut approximately 1,000 jobs (out of a base of 20,000) by early 2010.

1 Their outcomes included:

- 2 • Little or no demonstrated progress in broadband deployment:
3 ➤ After its acquisition by Carlyle, Hawaiian Telcom added only 3,247 net
4 retail broadband lines from 2006 through 3Q 2008;³⁷
5 ➤ FairPoint's Chapter 11 reorganization plan includes delays/cut-backs to its
6 broadband deployment commitments, and eliminates a cap on DSL rates
7 so that customers may face higher rates; one Commissioner in Maine
8 charged that "FairPoint has used the bankruptcy proceeding as an
9 opportunity to renege on its promises to Maine consumers especially in
10 the area of broadband build out."³⁸
- 11 • Severe declines in retail and wholesale service quality:
12 ➤ For Hawaiian Telephone, "very significant slow-downs in call answer and
13 handling times in its customer contact centers and errors in its
14 billing...";³⁹
15 ➤ For FairPoint, triggering the maximum payment under Vermont's Retail
16 Service Quality Plan in 2009, and widespread disruptions to wholesale
17 customers due to OSS systems failures, order fall-outs, and manual
18 processing work-arounds;
- 19 • Net job losses rather than gains:
20 ➤ Hawaiian Telephone's employment level had fallen to approximately 1450
21 by March 2010, a 15% decline from its pre-sale level of 1700
22 employees;⁴⁰
23 ➤ FairPoint's Chapter 11 reorganization plan defers previously-negotiated
24 raises in union contracts, and creates a task force to cut operating expenses
25 by millions of dollars.⁴¹
- 26 • Financial weakness and instability:
27 ➤ Hawaiian Telcom: Chapter 11 bankruptcy filing, December 2008; reported
28 annual rate of return as of June 2009: -29.3%;
29 ➤ FairPoint: Chapter 11 bankruptcy filing, October 2009; VT Public Service
30 Board, "FairPoint's actual performance throughout 2008 and 2009 turned

³⁷ The 3,247 value is the difference between Hawaiian Telcom's total retail broadband lines, as of 9/30/2008, 93,567, and, as of 12/31/2006, 90,320 (source: Hawaiian Telcom, 3Q2008 Form 10-Q at p. 23 and 2007 Form 10-K, at p. 50), respectively.

³⁸ Dissent of Commissioner Viafades, MPUC Order 7/6/10.

³⁹ Hawaii PUC Annual Report 2008-2009, at p. 58.

⁴⁰ See Hawaiian Telcom Holdco, Inc. Form 10-A, filed 5/26/10, at p. 12 and *Honolulu Star-Bulletin*, "Hawaiian Telcom Gets CEO." 10/14/04.

⁴¹ *Nashua Telegraph* 2/9/10.

1 out to be worse than the Board's most pessimistic assumptions.”⁴²

2 **Q. WHAT KIND OF OUTCOMES DO THE FRONTIER-VERIZON AND**
3 **CENTURYTEL-EMBARQ TRANSACTIONS APPEAR TO BE HAVING?**

4 A. The Frontier-Verizon and CenturyTel-Embarq outcomes are largely pending
5 because those transactions are so recent, but the preliminary indications are also
6 troubling. As noted in my Exhibit AA-2, Frontier’s integration of the former
7 Verizon exchanges has been marred by recent wholesale OSS failures, ordering
8 delays, under-staffed Access Order centers, and trouble report backlogs. These
9 problems are documented in detail in the testimony of Mr. Gates. Already, they
10 appear to belie Frontier’s pledge that “this transaction will be seamless for retail
11 and wholesale customers.”⁴³

12 For its part, CenturyLink portrays its ongoing integration of Embarq’s ILEC
13 operations in 18 states as “highly successful”⁴⁴ and “on track”⁴⁵ or even “ahead of
14 schedule”⁴⁶ relative to some systems integration activities, but here again there are
15 signs of strain.

⁴² VT PSB Order 6/28/10 at p. 58.

⁴³ Frontier-Verizon FCC Application, Exhibit 1 (description of the Transaction and Public Interest Statement.), at p. 4.

⁴⁴ FCC WC Docket No. 10-110, Reply Comments of CenturyLink, Inc. and Qwest Communications International, Inc., filed July 27, 2010, at p. 10.

⁴⁵ *Id.*, at p. 9.

⁴⁶ FCC WC Docket No. 10-110, Reply Comments of CenturyLink, Inc. and Qwest Communications International, Inc., filed July 27, 2010, Exhibit (Declaration of William E. Cheek), at ¶ 2.

1 As Mr. Gates shows in his direct testimony, the CLECs tw telecom and Socket
2 Telecom have been dealing with EASE (OSS) system failures in the legacy
3 Embarq territories since late 2009.

4 **Q. ARE CENTURYLINK AND QWEST NOW MAKING THE SAME SORTS**
5 **OF CLAIMS CONCERNING THE FUTURE BENEFITS FROM THE**
6 **PROPOSED TRANSACTION AS THESE OTHER COMPANIES DID?**

7 A. Yes. When I consider the proposed CenturyLink-Qwest merger in this context,
8 what is particularly troubling to me is that so many of the promises and
9 assurances that CenturyLink and Qwest are making now to secure their merger
10 are highly similar to those made to regulators by the prior companies, before their
11 transactions' failures. Compare for example, the following claims:

12 • Claims of a strong track record of successful telecommunications acquisitions:

- 13 ➤ Carlyle Group: "Carlyle has a track record of successful
14 telecommunications investments..."
- 15 ➤ FairPoint: "FairPoint has long-term experience in the telecommunications
16 industry. In fact, FairPoint has been acquiring telecommunications
17 companies since 1993..."⁴⁷
- 18 ➤ Frontier: "Frontier has a strong record of successfully integrating
19 acquisitions..."

20 **CenturyLink-Qwest:** "CenturyLink's management team has some of the
21 longest and most successful tenure in the industry with a proven track
22 record of successful mergers and acquisitions."⁴⁸

23 • Claims that proposed transaction will accelerate broadband deployment:

⁴⁷ FairPoint-Verizon FCC Application, at p. 17.

⁴⁸ CenturyLink-Qwest's FCC Application, "Application For Consent To Transfer Control," filed May 10, 2010, at p. 10 ("CenturyLink-Qwest FCC Application").

- 1 ➤ Hawaiian Telcom: “In short order we will offer new services to our
2 customers, including expanded broadband...”⁴⁹
- 3 ➤ “FairPoint plans to increase broadband availability from current levels in
4 Maine, New Hampshire, and Vermont within twelve months after the
5 completion of the merger...”⁵⁰
- 6 ➤ “Frontier believes that... it can dramatically accelerate broadband
7 penetration in these new markets over time.”⁵¹

8 **CenturyLink-Qwest:** *“the transaction will help to accelerate deployment
9 of broadband services in unserved and underserved areas for both
10 residential and business customers.”*⁵²

11 • Claims that transaction will be seamless and non-disruptive to customers:

- 12 ➤ FairPoint: “...will enhance service quality and promote competition...”⁵³
- 13 ➤ Frontier: “this transaction will be seamless for retail and wholesale
14 customers”⁵⁴

15 **CenturyLink-Qwest:** *“The merger will not disrupt service to any retail or
16 wholesale customers...”*⁵⁵

17 • Claims that transaction will improve financial strength and stability:

- 18 ➤ FairPoint: “the proposed transaction will ... improv[e] its overall financial
19 flexibility and stability”⁵⁶
- 20 ➤ Frontier: “the transaction will transform Frontier by strengthening its
21 balance sheet.”⁵⁷

22 **CenturyLink-Qwest:** *“the transaction will... create a service provider
23 with improved financial strength and the financial flexibility to weather*

⁴⁹ Carlyle Press Rel. 5/21/04

⁵⁰ FairPoint-Verizon FCC Application, at p. 18.

⁵¹ Frontier-Verizon FCC Application, Exhibit 1 (Description of the Transaction and Public Interest Statement), at p. 3.

⁵² CenturyLink-Qwest FCC Application, at p. 2.

⁵³ FairPoint-Verizon FCC Application, at p. 18.

⁵⁴ Frontier-Verizon FCC Application, Exhibit 1 (Description of the Transaction and Public Interest Statement), at p. 4.

⁵⁵ CenturyLink-Qwest FCC Application, at p. 37.

⁵⁶ FairPoint-Verizon FCC Application, at p. 19.

⁵⁷ Frontier-Verizon FCC Application, Exhibit 1 (Description of the Transaction and Public Interest Statement), at p. 4

1 *the impacts of changing marketplace dynamics... ”⁵⁸*

2 **Q. CENTURYLINK PROJECTS THAT IT WILL REAP \$625 MILLION IN**
3 **ANNUAL OPERATING EXPENSE AND CAPITAL COST SYNERGIES**
4 **FROM 3-5 YEARS AFTER THE MERGER CLOSES. WERE HAWAIIAN**
5 **TELCOM AND FAIRPOINT ABLE TO ACHIEVE THE SYNERGIES**
6 **THEY ORIGINALLY PROJECTED IN CONNECTION WITH THEIR**
7 **MERGER/ACQUISITION TRANSACTIONS?**

8 A. No, they were not. In the Hawaiian Telcom case, I am not aware of any specific
9 quantification of transaction synergies made by the parties at the time of their
10 application for regulatory approvals. However, Carlyle did tell the Hawaii PUC
11 that it expected to realize operational efficiencies by creating new back office
12 systems located in Hawaii, to replace Verizon’s centralized, legacy systems. As
13 the Hawaii PUC stated at the time the transaction was approved:

14 In re-establishing these functions, Carlyle plans to replace
15 Verizon’s numerous legacy systems with updated and flexible
16 application systems. Carlyle specifically represents that it will
17 achieve increased economies of scale and improved operating
18 efficiencies from replacing multiple and duplicative systems with a
19 single application.⁵⁹

20 As Mr. Gates describes in depth in his direct testimony, the build-out of these new
21 systems went seriously awry, and contributed to the financial downfall of the
22 company. Instead of producing synergistic operating efficiencies and cost

⁵⁸ CenturyLink-Qwest FCC Application, at p. 2.

⁵⁹ In the Matter of the Application of Paradise Mergersub, Inc., GTE Corporation, Verizon Hawaii Inc. Bell Atlantic Communications, Inc. and Verizon Select Services Inc. for Approval of a Merger Transaction and Related Matters, Hawaii PUC Docket No. 04-0140, Decision and Order No. 21696, March 16, 2005, at p. 48.

1 reductions, development delays and failures in the new systems caused Hawaiian
2 Telcom to incur millions of dollars of additional, unanticipated operating
3 expenses. The company's Form 10-Q SEC filing for the third quarter of 2006
4 documents over \$33 million in such incremental expenses for just the first nine
5 months of 2006, including \$22.3 million paid to Verizon to continue using its
6 systems after the planned cutover date, and another \$11.3 million for "[t]hird-
7 party provider services and other services required as a result of the lack of full
8 functionality of back-office and IT systems."⁶⁰ The Form 10-Q filing explains
9 that:

10 Because BearingPoint was unable to deliver the expected full
11 system functionality by the April 1, 2006 cutover date and has
12 continued to be unable to deliver full functionality, it has been
13 necessary for us to incur significant incremental expenses to retain
14 third-party service providers to provide call center services and
15 other manual processing services in order to operate our business.
16 To help remediate deficiencies we engaged the services of an
17 international strategic partner with expertise in general computer
18 controls and change management as well as specific expertise with
19 information technology process controls. In addition to the costs of
20 third-party service providers, we also incurred additional internal
21 labor costs, in the form of diversion from other efforts as well as
22 overtime pay.⁶¹

23 The filing goes on to say that the company expected to continue to incur
24 significant incremental systems-related costs through the last quarter of 2006 and
25 on into fiscal year 2007.⁶²

⁶⁰ Hawaiian Telcom Communications, Inc. Form 10-Q, filed November 14, 2006, at p. 26.

⁶¹ *Id.*, at p. 26.

⁶² *Id.* at p. 26. Note that the company's Form 10-K filing for year 2007 does not provide a similar quantification of systems-related incremental expenses, and the SEC's "EDGAR" filings database does not list a year 2008 Form 10-K for the company, presumably because of its Chapter 11 bankruptcy that year.

1 **Q. DID FAIRPOINT MANAGE TO ACHIEVE ITS CLAIMED**
2 **TRANSACTION SYNERGIES?**

3 A. No. Like Hawaiian Telcom, FairPoint also fell far short of its initial synergy
4 projections for the Verizon transaction, which were largely driven by expected
5 efficiency improvements in back-office and OSS systems. In an April 2007 filing
6 with the SEC, FairPoint stated that “FairPoint estimates that within six months
7 following the end of this transition period, which is expected to occur in 2008, the
8 combined company will realize net costs savings on an annual basis of between
9 \$60 and \$75 million from internalizing these functions or obtaining these services
10 from third-party providers.”⁶³ In reality, FairPoint experienced severe operational
11 difficulties and cost over-runs during its post-transaction efforts to integrate the
12 legacy Verizon exchanges into its back-office and OSS systems, as Mr. Gates
13 documents in his direct testimony. By the time the company filed its Form 10-K
14 for 2009, it was forced to admit that:

15 Because of these Cutover issues, during the year ended December
16 31, 2009, we incurred \$28.8 million of incremental expenses in
17 order to operate our business, including third-party contractor costs
18 and internal labor costs in the form of overtime pay. The Cutover
19 issues also required significant staff and senior management
20 attention, diverting their focus from other efforts.⁶⁴

21 Once again, as in the Hawaiian Telcom case, the fact that forecasted operating
22 efficiencies and synergies failed to materialize, and instead were replaced by
23 substantial, unanticipated expense increases, contributed heavily to FairPoint’s
24 financial distress and subsequent filing for Chapter 11 bankruptcy protection.

⁶³ FairPoint Communications, Inc., Form S-4, filed April 3, 2007, at p. 14.

⁶⁴ FairPoint Communications, Inc., Form 10-K, filed May 27, 2010, at p. 16.

1 **Q. DOES FRONTIER APPEAR TO BE ON TRACK TO REALIZE THE**
2 **SYNERGIES IT CLAIMED WILL BE PRODUCED BY ITS RECENT**
3 **ACQUISITION OF VERIZON EXCHANGES?**

4 A. No, it does not, judging from the most recently-available public information that I
5 have been able to review. In their joint Application to the FCC, Frontier and
6 Verizon stated “When fully implemented, Frontier expects to yield annual
7 operating expense savings of \$500 million” from the transaction.⁶⁵ However,
8 Frontier’s Form 10-Q filed May 16, 2010, already admits to a major unanticipated
9 cost increase with respect to systems integration that detracts from those savings:

10 While we anticipate that certain expenses will be incurred, such
11 expenses are difficult to estimate accurately, and may exceed current
12 estimates. For example, our estimate of expected 2010 capital
13 expenditures related to integration activities has recently increased
14 from \$75 million to \$180 million, attributable in large part to costs to
15 be incurred in connection with third-party software licenses necessary
16 to operate the Spinco business after the closing of the merger.
17 Accordingly, the benefits from the merger may be offset by costs
18 incurred or delays in integrating the companies.⁶⁶

19 **Q. WHAT CONCLUSIONS DO YOU REACH BASED ON YOUR**
20 **ASSESSMENT OF THESE PRIOR ILEC MERGER AND ACQUISITION**
21 **EXPERIENCES?**

22 A. Based on my overall assessment of the prior ILEC merger and acquisition
23 experiences set forth above, my conclusions are as follows:

- 24 • Mergers and acquisitions involving the transfer and integration of ILEC local
25 telephone operations carry a high degree of risk of failure, even when

⁶⁵ Verizon Communications Inc. and Frontier Communications Corp., *Consolidated Application for Transfer of Control and Assignment of International and Domestic Section 214 Authority*, May 28, 2009, Exhibit 1 (Description of the Transaction and Public Interest Statement), at p. 3.

⁶⁶ Frontier Communications, Inc., Form 10-Q, filed May 16, 2010, at p. 56

1 implemented by highly-experienced management teams and well-financed
2 companies;

- 3 • When pursuing these types of transactions, company management tends to
4 overstate the anticipated benefits and understate the risks and uncertainties;
- 5 • The integration of a Bell Operating Company's ILEC operations, in particular,
6 can prove to be extremely expensive and difficult, and integration failures can
7 be so costly as to not only eliminate the forecasted transaction cost savings
8 and other synergies, but to place the post-transaction company under severe
9 financial pressure.

10 Taken as a whole, I believe that these experiences demonstrate that regulators
11 must be extremely skeptical of management's pre-transaction claims and
12 assurances, and cognizant that such transactions involve significant
13 uncertainties and risks. From a public interest standpoint, those risks simply
14 may not be worth accepting, particularly because, as discussed previously, the
15 risks and gains are unevenly divided between shareholders and the broader
16 public interest, including captive customers such as CLECs. The economic
17 viability of CLECs may be threatened if things go awry, but unlike
18 shareholders, CLECs stand to gain little, if anything, if the merger is successful
19 from a shareholder standpoint. At a minimum, this asymmetric division of risks
20 must be mitigated by establishing concrete conditions, with meaningful
21 consequences for nonperformance, prior to the transaction's regulatory
22 approval.

1 **V. A CENTURYLINK/QWEST MERGER IS LIKELY TO**
2 **HARM THE PUBLIC INTEREST**

3 **A. Overview**

4 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF THE PROPOSED**
5 **MERGER BETWEEN CENTURYLINK AND QWEST?**

6 A. In this proceeding, CenturyLink, formerly CenturyTel, seeks approval for the
7 acquisition of Qwest Communications. The merger entails a stock swap of \$10.6
8 billion. CenturyLink will also assume approximately \$12 billion in Qwest debt.
9 The overall value of the merger is about \$22 billion. The Merged Company will
10 operate in 37 states, and serve some 5 million broadband customers and 17
11 million phone lines.

12 **Q. DOES THIS REPRESENT AN EXTRAORDINARY GROWTH FOR**
13 **CENTURYTEL?**

14 A. Yes. If the proposed transaction is consummated, CenturyTel will have grown
15 from a small rural company with about 1.3 million lines to a nationwide company
16 of about 17 million lines – over the course of a mere three years. The table
17 below, presented previously in the introduction, summarizes its growth:

	Year	Access Lines⁶⁷	% of Post-Merger Total
CenturyTel	2009	1,300,000	8%
Embarq	2009	5,700,000	34%
Qwest	2010	10,000,000	59%
Total		17,000,000	100%

⁶⁷ Line counts are taken from CenturyLink's testimony. The line counts in CenturyLink's testimony appear to be approximate line counts. See Schafer Arizona Direct, at pp. 6-7 and Exhibit TS-1; and Glover Arizona Direct, at p. 5.

1 As discussed previously, it is important to note that this growth is not the result of
2 superior product offerings and customer growth, but rather achieved through
3 putting together a number of companies that were struggling⁶⁸ to hold their own
4 in rapidly changing telecom retail markets.⁶⁹

5 **Q. DOES THE PROPOSED MERGER ENTAIL ANY SIGNIFICANT**
6 **BENEFITS OF VERTICAL INTEGRATION?**

7 A. For the most part, this is a horizontal merger. As noted, the proposed merger
8 seeks to integrate the operations of CenturyLink and Qwest. An evaluation of this
9 merger is further complicated by CenturyLink's ongoing and, as of yet,
10 incomplete efforts to integrate the recently acquired Embarq. Therefore,
11 assessing the synergies claimed with respect to CenturyLink's acquisition of
12 Qwest involves considerations of integrating the operations of three incumbent
13 LECs. That is, in essence, this case concerns a predominantly *horizontal* merger
14 across the geographically separate serving areas of three incumbent LECs,
15 CenturyTel, Embarq and Qwest, all three of which are generally in the same line
16 of business in different service areas.

17 **Q. DOES THE FACT THAT CENTURYLINK IS SEEKING TO PUT**
18 **TOGETHER THE OPERATIONS OF THREE ILECS LIMIT THE**
19 **EXTENT TO WHICH SYNERGIES CAN BE REALIZED?**

⁶⁸ Both companies, for example, continue to experience access line losses. For CenturyLink see http://ir.centurylink.com/phoenix.zhtml?c=112635&p=irol-newsArticle_Print&ID=1422603&highlight; for Qwest, see, 2010 Quarterly Earnings at <http://investor.qwest.com/qtrlyearnings>

⁶⁹ This does not mean that the companies are not dominant in wholesale markets and continue to control the wholesale relationship with CLECs that require access to the Join Applicant's network.

1 A. Yes. Because the proposed transaction would involve the integration of three
2 ILECs operating in different service areas, the benefits from the potential merger
3 are necessarily limited, which may explain why CenturyLink and Qwest refer to
4 the alleged benefits in vague terms, like “capitalizing on,” “leveraging,”
5 “extending,” and so forth. Those vague assertions leave one wondering why,
6 under the right management, such benefits could not be achieved by each of the
7 firms individually.

8 While mergers often fail to enhance shareholder value, there are types of mergers
9 and acquisitions that tend to expand a company’s abilities and service offerings.
10 For example, when Microsoft acquired Forethought, which had developed a
11 presentation program, it allowed Microsoft to expand its suite of software
12 programs to include Microsoft PowerPoint, and to eventually market a powerful
13 bundle of programs, Microsoft Office, to students and business users. Similarly,
14 Microsoft’s acquisition of Visio Corporation allowed it to further expand its
15 product line by integrating Microsoft Visio. I am not asserting that all of
16 Microsoft’s dozens of acquisitions have been successes; rather, I am illustrating
17 an essential difference between these acquisitions by Microsoft and
18 CenturyLink’s acquisition of Qwest. While the Microsoft acquisitions are a clear
19 example of how an acquisition can add to a company skills and products that were
20 not previously present, the CenturyLink-Qwest merger is an example, for the
21 most part, of adding more of the same in the hope that something better will
22 emerge, under the motto “Bigger is Better.”

1 It is unclear how putting together three ILECs, with a shrinking landline base, is
2 going to result in a sustained turnaround, let alone substantial merger benefits.
3 CenturyLink's claims of merger benefits notwithstanding, there is little inherently
4 new or novel in the proposed combination of these ILECs, with largely
5 overlapping business models.

6 **Q. DOES THE MERGER APPEAR TO ENHANCE THE FINANCIAL**
7 **POSITION OF THE FIRMS?**

8 A. No, not really. Looking at how financial markets seem to be responding to the
9 proposed merger, there hardly seems to be a flurry of excitement; in fact, rating
10 agencies have recognized the increased riskiness of the post-merger firm.⁷⁰ Also,
11 using a traditional measure of the weighted average cost of capital ("WACC"), it
12 is not clear how the Merged Company is better positioned to attract capital.⁷¹ In
13 fact, given that the Merged Company would be no less risky and that CenturyLink
14 would be assuming Qwest's massive debt load, there is reason to conclude that
15 financial markets will be less (rather than more) forthcoming in financing
16 CenturyLink's future network expansions.

17 ***B. Vertical Effects***

18 **Q. YOU NOTED THAT THE PROPOSED MERGER DOES NOT, ON ITS**
19 **FACE, REVEAL COMPLEMENTARY SKILLS AND PRODUCTS. DOES**

⁷⁰ See the April 2010 ratings reports for CenturyLink issued by Morgan Stanley, Moody's, and Standard and Poor's, which were reproduced as the three exhibits to Mr. Glover's Direct Testimony, Exhibits JG-2, JG-3, and JG-4, respectively.

⁷¹ See CenturyLink's and Qwest's Response to Staff Data Request No. 3, Oregon Docket No. UM 1484, showing an increase in the post-merger weighted average cost of capital.

1 **THIS SUGGEST THAT THE DRIVE TO ACHIEVE MERGER BENEFITS**
2 **AND SYNERGIES WOULD INVARIABLY PIT CENTURYLINK**
3 **AGAINST ITS WHOLESALE CLIENTS, SUCH AS CLECS?**

4 A. Yes. To justify the merger and the associated costs of integration, CenturyLink is
5 promising regulators and shareholders merger benefits estimated at about \$625
6 million over a period of three to five years.⁷² As noted, the premerger companies
7 are struggling to hold their own in changing telecom retail markets and it is not
8 clear that the merger will soon, if ever, generate revenues and profits to recoup the
9 upfront costs of integration. This raises concerns about cost cutting measures that
10 may negatively impact wholesale services.

11 Trimming wholesale costs not only saves money on services that are not subject
12 to significant competition, it does so without the likelihood of revenue
13 repercussions: *i.e.*, the cost savings directly improve the bottom line. That is,
14 there are added incentives to cut costs in segments of the companies' operations
15 that are not subject to competitive pressures: most notably, the wholesale business
16 charged with meeting the Section 251 and Section 271 obligations under the
17 Telecommunications Act of 1996. In sum, this dynamic places post-merger
18 CenturyLink at odds with captive CLEC wholesale customers.

19 **Q. SHOULD THE COMMISSION CONSIDER THE IMPACT OF THE**
20 **MERGER ON CLECS AND COMPETITION?**

⁷² See Glover Arizona Direct, at p. 6.

1 A. Yes. As discussed previously, a public interest review requires consideration of
2 how the merger is likely to impact competition and CLECs, and in turn, CLEC
3 end user customers . In fact, the Commission has recognized this as a key
4 consideration. The public interest would be harmed if the competitive landscape
5 becomes distorted by significant cost cutting that causes a deterioration in
6 wholesale service provisioning. Showing that these concerns are not idle, Mr.
7 Gates discusses in more detail the potentially harmful impact of the merger on the
8 Merged Company's provisioning and how it could seriously impair – *as mergers*
9 *have elsewhere* – the viability of competitors.

10 **Q. HAS THE FCC NOTED THE IMPORTANCE OF CONSIDERING THE**
11 **IMPACT ON WHOLESALE SERVICES AND COMPETITORS?**

12 A. Yes. Part of the FCC's analytical framework in reviewing mergers is to look not
13 only at the horizontal effects of a merger but also the vertical effects, related to
14 the post-merger impact on wholesale markets. Recognizing the potential harm a
15 merger may cause to competitors and competition itself, the FCC notes:

16 [w]e need to consider the vertical effects of the merger –
17 specifically, whether the merged entity will have an *increased*
18 *incentive* or *ability* to injure competitors by raising the cost of, or
19 discriminating in the provision of, inputs sold to competitors.⁷³
20 (Emphasis added.)

21 As discussed above, it appears that CenturyLink may have an increased incentive
22 as well as an increased ability to negatively impact its competitors due to the
23 larger scope of its operations.

⁷³ In the Matter of A&T Inc. and BellSouth Corporation Application for Transfer of Control, Memorandum Opinion and Order, WC Docket No. 06-74, at ¶ 23.

1 **Q. DOES THIS RAISE CONCERNS NOT JUST WITH RESPECT TO UNES**
2 **BUT ALSO SPECIAL ACCESS SERVICES?**

3 A. Yes. Local competition remains critically dependent on the availability of UNEs,
4 interconnection and special access services at reasonable rates and terms. The
5 proposed merger may negatively impact the provision of special access services,
6 which are already being provisioned at unreasonably high rates and on terms and
7 conditions that are hampering competitors.⁷⁴ In fact, in view of these concerns,
8 the FCC has recently decided to revisit its regulations of special access services.⁷⁵
9 This merger may further unsettle special access markets.

10 **Q. ARE THESE CONCERNS ESPECIALLY IMPORTANT GIVEN THE**
11 **SUBSTANTIAL AMOUNT OF DEBT CENTURYLINK WILL BE**
12 **ASSUMING BY ABSORBING QWEST?**

13 A. Yes. CenturyLink is taking on an enormous amount of debt and other risks, so
14 much so, that it is negatively impacting its credit rating⁷⁶ This draws into question
15 the claim that the Merged Company would be a financially stronger entity.

⁷⁴ See for example, United States Government Accountability Office, Report to the Chairman, Committee on Government Reform, House of Representatives, *Telecommunications: FCC Needs to Improve Its Ability to Monitor and Determine the Extent of Competition in Dedicated Access Services*, November 2006. (“GAO Report”).

⁷⁵ *In the Matter of Special Access Rates for Price Cap Local Exchange Carriers AT&T Corp. Petition for Rulemaking to Reform Regulation of Incumbent Local Exchange Carrier Rates for Interstate Special Access Services*, WC Docket No. 05-25, RM-10593. The FCC conducted a workshop on revising special access pricing on July 19, 2010.

⁷⁶ See the April 2010 ratings reports for CenturyLink published by Morgan Stanley, Moody’s, and Standard and Poor’s, which were reproduced as the three exhibits to Mr. Glover’s Direct Testimony, Exhibits JG-2, JG-3, and JG-4, respectively. As Moody’s notes in its report (p. 1):

The negative rating outlook for CenturyTel reflects the considerable execution risks in integrating a sizeable company so soon after another large acquisition (Embarq in July 2009) while confronting the challenges of a secular decline in the wireline industry. The negative outlook also considers the possibility that the Company may not realize planned synergies in a timely manner, especially if competitive intensity increases.

1 Moreover, to deal with this debt, and to placate shareholders and financial
2 markets, CenturyLink has stated that it will use its free cash flow to pay down this
3 debt.⁷⁷ Given the dearth of information CenturyLink and Qwest have provided to
4 support the alleged merger savings, CenturyLink's stated intentions to pay off its
5 debt raises still more questions about its ability to provide and maintain quality
6 wholesale services and OSS to CLECs, not just for its own pre-merger operations
7 but especially for Qwest's, which are subject to Section 271 obligations. Again,
8 when asked to provide details supporting its projected merger savings,
9 CenturyLink and Qwest respond that those savings have not been calculated at a
10 detailed level or have not yet been developed.⁷⁸ Circular answers like "[t]he
11 combined companies regulated entities will benefit from synergies post merger in
12 the form of lower costs to the extent synergies are achieved,"⁷⁹ are not reassuring,
13 much less credible evidence on which the Commission can base findings that the
14 transaction is in the public interest. The absence of, and refusal to provide,
15 anything approaching a detailed analysis of the Companies' projected merger
16 savings leaves unaddressed the required comparison with the profound risks
17 posed by this transaction.

⁷⁷ See, for example, Glover Arizona Direct, at p. 20.

⁷⁸ See my Exhibit AA-4 at p. 7; see also, *e.g.*, CenturyLink's Response to Integra's Second Set of Data Requests, #53 ("CenturyLink has not estimated synergy savings or one-time merger costs by state"), and Qwest's Response to Integra's Second Set of Data Requests, #53 (referring back to CenturyLink's response); and Iowa Utilities Board Docket No. SPU-2010-0006, CenturyLink's June 16, 2010 Response to OCA Set 1, #13F ("Synergies were estimated at the total enterprise level only and not by entity or by state"); and June 29, 2010 Updated Response to OCA Set 1, #13F ("No estimate of synergies by Post Merger entity has been conducted.").

⁷⁹ CenturyLink's Response to Integra's Second Set of Data Requests, #141.

1 In sum, a major concern is that, under the pressure of its debt load, the promises
2 of merger savings to shareholders and regulators, and significant integration costs,
3 CenturyLink will be forced to cut costs when integrating the two companies,
4 leading to a degradation of services to wholesale customers and harm to
5 competition. Worse, of course, is the possibility that this merger could fail as so
6 many have, causing upheaval in wholesale markets and impairing retail
7 competition just when consumers need the benefits of competition most.

8 **Q. DOES MR. GATES DISCUSS A NUMBER OF MERGER CONDITIONS**
9 **THAT COULD SERVE TO ADDRESS CONCERNS ABOUT VERTICAL**
10 **EFFECTS?**

11 A. Yes. As the FCC noted in previous mergers, economically efficient access by
12 CLECs to the ILECs' network elements serves to constrain the ILECs' ability to
13 exploit market power in wholesale markets to the detriment of competition in
14 downstream, retail markets.⁸⁰ In view of this, it is of paramount importance that
15 the Commission take action to ensure reliable, nondiscriminatory access to the
16 post-merger ILEC's wholesale network elements and services, including action
17 that safeguards the wholesale ordering and provisioning processes currently in
18 place. Mr. Gates discusses conditions that serve this important purpose.

⁸⁰ For example, see *In the Matter of AT&T Inc. and BellSouth Corporation Application for Transfer of Control*, WC Docket No. 06-74, Memorandum Opinion and Order, December 31, 2006, at ¶ 60.

1 **C. *Horizontal Effects***

2 **Q. IN ADDITION TO THE POTENTIAL HARM FROM VERTICAL**
3 **EFFECTS, IS THE MERGER LIKELY TO CAUSE HARM DUE TO**
4 **HORIZONTAL EFFECTS?**

5 A. Yes. Considered across their regional service territories, a merger of CenturyLink
6 and Qwest reduces competition in areas and for services in which the companies
7 compete. While, for the most part, the companies operate in their own separate
8 service areas, there are some instances in which they do compete. Clearly, a
9 merger would eliminate this competition, and in doing so harm the public interest.

10 CenturyLink has a subsidiary, CenturyTel Solutions LLC, which is authorized to
11 provide resold long distance services and competitive local exchange services in
12 Arizona.⁸¹ However, it does not currently have any ILEC operations in the
13 state.⁸² In other states such as Colorado, for example, the Companies serve large
14 numbers of exchanges that are adjacent. As is increasingly common, ILECs often
15 set up CLEC subsidiaries through which they compete in adjacent exchanges. For
16 example, CenturyLink operates as a CLEC in Minneapolis in competition with
17 Qwest.⁸³ CenturyLink also provides Ethernet services to certain customers
18 (presumably business and/or government customers) in the Olympia, Tumwater

⁸¹ Arizona Joint Application at p. 7.

⁸² McMillan Arizona Direct at p. 5, lines 6-9.

⁸³ [Http://www.centurylink.com/Pages/AboutUs/CompanyInformation/Regulatory/tariff](http://www.centurylink.com/Pages/AboutUs/CompanyInformation/Regulatory/tariff)
Library.js; sessionId=055C224C462B5CB0FDF05EF67BB97A646E4E4AE78F.dotcomprd19

1 and Spokane markets in Qwest's Washington state territory.⁸⁴ The merger will
2 eliminate any incentives for this type of competition between the two companies.
3 The harm may, in fact, be larger than meets the eye in the sense that it eliminates
4 not just actual instances of such competition but also *potential* ones.

5 **Q. IS THE ELIMINATION OF SUCH COMPETITION AND POTENTIAL**
6 **COMPETITION IN LOCAL MARKETS TROUBLING IN LIGHT OF**
7 **THE FACT THAT LARGE SEGMENTS OF LOCAL EXCHANGE**
8 **MARKETS STILL LACK SIGNIFICANT COMPETITION?**

9 A. Yes. The areas in which CenturyLink and Qwest are potential competitors are
10 often largely rural and populated by captive ratepayers with few alternative
11 providers of local exchange service. Elimination of potential competition in those
12 areas is therefore especially troubling.

13 ***D. Uncertainty and Harm Will Result If the Merger Is Approved***
14 ***As Filed***

15 **Q. HAS CENTURYLINK SUBSTANTIATED ITS CLAIMS ABOUT THE**
16 **TRANSACTION CAUSING NO HARM?**

17 A. No. The basis for CenturyLink's claim that the proposed transaction will do no
18 harm is its repeated statements that there will be no "immediate" changes made
19 following the merger. For instance, CenturyLink states:

20 ***Immediately*** upon completion of the Transaction, end-user and
21 wholesale customers will continue to receive service from the

⁸⁴ See Washington UTC Docket No. UT-100820, CenturyLink's Response to Integra's First Set of Information Requests, #10.

1 same carrier, at the same rates, terms and conditions and under the
2 same tariffs, price plans, interconnection agreements, and other
3 regulatory obligations as *immediately* prior to the Transaction; as
4 such, the Transaction will be seamless to the customers.”⁸⁵

5 What is important is what this statement does *not* include. Specifically, it does
6 not state how long customers will continue to receive service under the same
7 rates, terms and conditions. Indeed, the footnote that follows the above statement
8 is very disconcerting:

9 In view of the current rapidly changing communications market,
10 any provider, including post-Transaction CenturyLink, must
11 constantly review its pricing strategy and product mix to respond
12 to marketplace and consumer demands. While rates, terms and
13 conditions will be the same immediately after the Transaction as
14 immediately before the Transaction, *prices and product mixes*
15 *necessarily will change over time as marketplace, technology,*
16 *and business demands dictate.* The affected entities will make
17 such changes only following full compliance with all applicable
18 rules and laws. (Emphasis added.)

19 A fair reading of the Arizona Joint Application and the Companies’ supporting
20 testimony indicates that changes will indeed take place and yet there are no
21 specifics about what those changes might be or how and when they might be
22 made.

23 **Q. DO THE COMPANIES’ REPRESENTATIONS REGARDING**
24 **TRANSPARENCY SATISFY THE PUBLIC INTEREST STANDARD?**

25 A. No. The companies’ vague and limited representations are meaningless, and
26 certainly fail to demonstrate that the public interest will be protected. Obviously,
27 CenturyLink could implement changes within months, weeks, or even days after

⁸⁵ Arizona Joint Application, at p. 5, lines 1-5 (emphasis added). See also, Schafer Arizona Direct, at p. 7, lines 11-14.

1 closing the transaction and still purport to have made no “immediate” changes.
2 For example, shortly after the transaction closes, the Merged Company could
3 implement layoffs⁸⁶ or require that CLECs re-negotiate all “evergreen” ICAs
4 using CenturyLink’s template ICA or attempt to change Qwest’s OSS. As I
5 discussed earlier in my testimony, the Commission reviews public service
6 corporation mergers and other reorganizations to ensure that they are in the public
7 interest. This important authority certainly does not contemplate approval of a
8 merger based on the vague, limited assurances offered by the Companies. The
9 bottom line (and the reason why the proposed transaction is of such concern to
10 CLECs) is that the proposed merger provides absolutely no certainty for
11 wholesale (or retail) customers and the Companies have provided no meaningful
12 assurance that the transaction will not harm wholesale customers in the Qwest or
13 CenturyLink territories.

14 **Q. GIVEN CENTURYLINK’S CLAIM OF *BUSINESS AS USUAL***
15 **“IMMEDIATELY” FOLLOWING THE TRANSACTION, WHY DO YOU**
16 **BELIEVE THAT CHANGES WILL BE MADE?**

17 **A.** Because CenturyLink has stated that changes are coming. In its August 13, 2010
18 response to a Staff discovery request, CenturyLink stated that:

⁸⁶ According to the Associated Press, Qwest already made significant job cuts last year on a territory-wide basis, “decreasing its work force by 8.5 percent last year, or roughly 2,800 positions.” See “Qwest Q4 profit falls 39 percent”, February 16, 2010 at http://www.oregonlive.com/business/index.ssf/2010/02/qwest_q4_profit_falls_39_perce.html; also, according to Timothy Donovan, president of Local 7200 of the Communications Workers of America, based in Minneapolis, about 6,000 workers are likely to lose their jobs. See, “CenturyTel-Qwest deal is a rural double-down,” *Star Tribune*, April 22, 2010 at <http://www.startribune.com/business/91876019.html>.

1 CenturyLink anticipates improved wholesale customer service over
2 time *through the consolidation of OSS and billing systems and*
3 *sales and account management teams.*⁸⁷

4 In an earlier response to discovery, CenturyLink stated:

5 Upon merger closing, there will be no immediate changes to
6 Qwest's or CenturyLink's Provisioning Systems. CenturyLink has
7 not evaluated its processes and compared them to Qwest's
8 processes at this time. Integration planning is in the early stages
9 and decisions have not been made at this time. However, because
10 the transaction results in the entirety of Qwest, including
11 operations and systems, merging into and operating as a subsidiary
12 of CenturyLink, it will allow a disciplined approach to systems and
13 practices and allow integration decisions to proceed in an orderly
14 manner. The merger is intended to bring about improved
15 efficiencies and practices in all parts of the combined company, *so*
16 *changes could be expected over time.* To the extent any changes
17 are made, CenturyLink will comply with all applicable state and
18 federal laws and rules, as well as the provisions of any applicable
19 interconnection agreements and tariffs, in the same manners as
20 they would apply notwithstanding the merger. In addition, any
21 changes will occur only after a thorough and *methodical review of*
22 *both companies' systems and processes to determine the best*
23 *system to be used* on a go-forward basis from *both a combined*
24 *company and a wholesale customer perspective.*⁸⁸

25 Though CenturyLink has put CLECs on notice to expect changes, CenturyLink
26 has provided no detail about what will change, when it will change or how
27 CenturyLink will determine which is the "best system"⁸⁹ to use. This is

⁸⁷ CenturyLink's Response to Staff's Seventh Set of Data Requests, #15 (redacted version, emphasis added).

⁸⁸ CenturyLink's Response to Integra's Second Set of Data Requests, #35(h) (emphasis added). See also, CenturyLink SEC Form S-4/A, filed July 16, 2010, at p. 16 ("There are a large number of systems that must be integrated, including, billing, management information, purchasing, accounting and finance, sales, payroll and benefits, fixed asset, lease administration and regulatory compliance.")

⁸⁹ To my knowledge, CenturyLink has not provided any substantive details about the "methodical review" or what it means to perform the review from "both a combined company and a wholesale customer perspective." In the instant case, CenturyLink objected to discovery seeking such information, see CenturyLink's Response to Integra's Second Set of Data Requests, #49. In response to similar discovery in Montana, CenturyLink supplied responses that provided little additional detail, other than to say that "[i]t has not been determined whether third-party testing will be included in the

1 particularly problematic when it comes to OSS because only Qwest's existing
2 systems (*i.e.*, not CenturyLink's existing OSS) have been tested under a Section
3 271 review.

4 **Q. CENTURLINK GOES EVEN FURTHER AND CLAIMS THAT THERE**
5 **ARE NO "POTENTIAL HARMS THAT COULD RESULT FROM THE**
6 **MERGER."⁹⁰ IS THIS TRUE?**

7 A. No. As discussed previously, this merger poses a substantial risk of harm to
8 CLECs and competition based on (1) the nature and history of mergers such as
9 this; (2) the prospect of cuts aimed at achieving the enormous synergies claimed
10 by the Companies; and (3) the inherent competitive disincentive to providing
11 quality wholesale services to carriers with whom the Merged Company will
12 compete. The potential for substantial harm is further illustrated by the
13 bankruptcies and system meltdowns that have transpired in the wake of recent
14 mergers. Contrary to CenturyLink's claim, there *are* unquestionably "potential
15 harms that could result from the merger."

16 For instance, despite CenturyLink's best efforts, if it attempts to integrate any
17 OSS or other systems from the CenturyLink region to Qwest's region and such an
18 attempt fails (as in the case of FairPoint), CLECs would likely suffer substantial

assessment process." Montana PSC Docket No. D2010.5.55, CenturyLink's Response to Integra's First Set of Information Requests, #49(a). In a nutshell, CenturyLink's response in Montana is that it will evaluate the different systems and processes, take input from interested CLECs, and then base its decision on "operational efficiencies for the Company [CenturyLink], in general." *Id.*, #49(b). If CenturyLink is truly concerned about the "wholesale customer perspective," then CenturyLink will not replace Qwest's existing OSS post-transaction. As evidenced by the Joint CLECs' proposed conditions, it is clearly the CLECs' perspective that Qwest's existing OSS is preferable to existing CenturyLink OSS.

⁹⁰ Schafer Arizona Direct, at p. 16, lines 4-6 (emphasis added).

1 harm. As another example, the Companies' projected synergies and one-time
2 integration costs pose a serious threat to the public interest in at least two respects.
3 First, the pressure to achieve their estimated \$625 million in synergies may drive
4 cuts or inattention to the provision of quality wholesale services, including OSS
5 used to support those services. Second, failure to achieve its estimated synergies
6 or higher than expected integration costs could seriously impede the Merged
7 Company's ability to pay down its debt, attract capital and make the investments
8 necessary to ensure adequate service. The free cash flow that CenturyLink claims
9 it will use to reduce debt and invest in its network is based on its estimated \$625
10 million in operating and capital synergies, along with its estimated \$650-\$800
11 million in one-time operating costs and \$150-\$200 million in one-time capital
12 costs.⁹¹ However, if CenturyLink fails to achieve those synergies or if its
13 integration costs significantly exceed the estimates (despite CenturyLink's best
14 efforts to achieve these targets), its ability to pay down debt will be diminished,
15 thereby leaving the merged company highly leveraged and potentially unable to
16 make the needed investments to maintain service quality or the dividends to
17 satisfy shareholders.

18 **Q. HAS CENTURYLINK ACKNOWLEDGED THE POTENTIAL FOR**
19 **HARM RELATED TO FAILING TO ACHIEVE ESTIMATED SYNERGY**
20 **SAVINGS?**

⁹¹ See *e.g.*, Glover Arizona Direct, at p. 6 and fn. 8 therein.

1 A. Yes. CenturyLink made this very point to the SEC and its shareholders when it
2 stated that the inability to successfully integrate Qwest and CenturyLink could
3 prevent CenturyLink from:

4 achiev[ing] the cost savings anticipated to result from the merger,
5 which would result in the anticipated benefits of the merger not being
6 realized in the time frame currently anticipated or at all.⁹²
7

8 While the Joint Applicants' prefiled testimony in the instant case sidesteps the
9 issue, in other states they have acknowledged the potential harms or "integration-
10 related risks" associated with beginning the integration of Qwest before the
11 integration of Embarq is complete.⁹³

12 **Q. HAS THE FCC PREVIOUSLY REJECTED CLAIMS THAT THERE ARE**
13 **NO POTENTIAL HARMS RESULTING FROM A MERGER OF THIS**
14 **TYPE?**

15 A. Yes. When evaluating the SBC/Ameritech merger – a merger involving two
16 ILECs – the FCC found harm resulting from the transaction in three areas:

- 17 • It removes one of the most significant potential participants in each of the
18 applicant's local markets, for mass market and enterprise customers

⁹² CenturyLink SEC Form S-4A, filed July 16, 2010, at p. 17.

⁹³ See, e.g., Washington Utilities and Transportation Commission Docket No. UT-100820, Direct Testimony of G. Clay Bailey (CenturyLink), filed May 21, 2010, at p. 18 ("Q. Does the merger with Qwest include incremental financial risks because the Embarq transaction was only consummated at the end of June, 2009? A. CenturyLink believes that the integration-related risks are manageable for several reasons. ..."). See also, the "Risk Factors" discussion found in CenturyLink's SEC Form S-4A, filed July 16, 2010, identifying, among others, the following as merger-related risks: (1) "substantial expenses in connection with completing the merger and integrating the business, operations, networks, systems, technologies, policies and procedures of Qwest with those of CenturyLink"; (2) "CenturyLink expects to commence these integration initiatives before it has completed a similar integration of its business with the business of Embarq, acquires in 2009, which could cause both of these integration initiatives to be delayed or rendered more costly or disruptive than would otherwise be the case"; (3) "the inability to successfully combine the businesses of CenturyLink and Qwest in a manner that permits the combined company to achieve the cost savings anticipated to result from the merger, which would result in the anticipated benefits of the merger not being realized in the time frame currently anticipated or at all." S-4A, at pp. 16-17.

- 1 • It substantially reduces the ability of regulators to implement and oversee the
2 market-opening provisions of the 1996 Act because the ability to compare the
3 practices of BOCs and ILECs is diminished, which increases the incumbent's
4 market power
- 5 • It increases the incentive and ability of the Merged Company to discriminate
6 against its competitors, particularly with respect to the provision of advanced
7 services.

8 The FCC found that these harms would have been fatal to the merger application
9 but for the extensive list of conditions that were placed on the merger to offset the
10 harm.⁹⁴ The harms identified by the FCC apply to the proposed transaction.

11 **Q. ARE THERE OTHER REASONS TO TAKE ISSUE WITH**
12 **CENTURYLINK'S AND QWEST'S CLAIM OF "NO HARM"?**

13 A. Yes. The uncertainty surrounding the potential merger and what may take place
14 afterward is causing significant uncertainty for CLECs, which, in and of itself,
15 causes harm. CLECs need certainty to plan their businesses and make prudent
16 investments, and the proposed transaction results in uncertainty in virtually every
17 aspect of the CLECs' relationship with the Merged Company.

18 ***E. Harm Due to a Lack of Certainty (Business Planning)***

19 **Q. IS THERE A GENERAL NEED FOR CERTAINTY IN BUSINESS**
20 **RELATIONSHIPS?**

⁹⁴ *In re Applications of AMERITECH CORP., Transferor, and SBC COMMUNICATIONS INC., Transferee, For Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95 and 101 of the Commission's Rules, CC Docket No. 98-141, Memorandum Opinion and Order, ¶¶ 348-349.*

1 A. Yes. In a general sense, when a business relies upon another business for
2 services or parts, it is critical to have a contract in place that is specific and
3 unambiguous. For instance, if Ford is purchasing tires for its vehicles from
4 Firestone, it is very important for Ford to know and understand what type, size,
5 quality and quantity of tires will be delivered to each manufacturing plant and
6 when. Not surprisingly, the cost of the tires is also important for Ford in setting
7 the prices for vehicles. If Firestone announced that it was being acquired by
8 Tires, Inc. (a fictional company) on December 31, 2010, Ford would likely ask
9 Firestone a litany of questions about what Ford could expect in 2011 – *e.g.*,
10 whether Firestone will deliver the same type and size of tires Ford needs, whether
11 the quality of the tires will be the same, whether the tires will be delivered to the
12 manufacturing plant in a timely manner, etc. If Firestone came back to Ford and
13 said “we don’t know and won’t know until 2011”, Ford would (a) start looking to
14 another tire supplier that can provide more certainty, (b) ask Firestone to provide
15 commitments that can be relied upon in 2011, or (c) both. The point is that Ford
16 would demand certainty so that it could continue to produce vehicles and deliver
17 them to the showroom. Likewise, CLECs – who rely on ILEC-provided services
18 – need certainty in order to deliver their services to the local market place.

19 **Q. DO CLECS HAVE THE SAME OPTIONS WITH REGARD TO**
20 **SUPPLIERS AS FORD DID IN YOUR PREVIOUS ANALOGY?**

21 A. No. Unlike Ford, the CLECs cannot shop elsewhere for the critical wholesale
22 services they purchase from the ILECs in the Companies’ territories. That means

1 that certainty in relation to the services CLECs purchase from ILECs is even more
2 important.

3 **Q. HAS CENTURYLINK ACKNOWLEDGED THE HARM THAT RESULTS**
4 **FROM UNCERTAINTY RELATING TO THE PROPOSED**
5 **TRANSACTION?**

6 A. Yes. In its Form S-4A filing (at page 16) CenturyLink states:

7 In connection with the pending merger, some customers or vendors
8 of each of CenturyLink and Qwest may delay or defer decisions,
9 which could negatively impact the revenues, earnings, cash flows
10 and expenses of CenturyLink and Qwest, regardless of whether the
11 merger is completed.

12 CLECs are wholesale customers of Qwest and CenturyLink, and CenturyLink is
13 correct that the pending merger can result in delayed or deferred decisions from
14 these wholesale customers. And while CenturyLink focuses on the potential
15 negative impacts on revenues, earnings, cash flows and expenses of Qwest and
16 CenturyLink resulting from this uncertainty, CenturyLink ignores that this
17 uncertainty also could cause negative impacts on CLEC revenues, earnings, cash
18 flows and expenses. Likewise, in its recent Reply Comments to the FCC,
19 CenturyLink states that, “the transaction will bring much-needed stability to the
20 incumbent local exchange carrier (‘ILEC’) sector”,⁹⁵ but ignores that CLECs also
21 need stability and that the proposed transaction causes severe *uncertainty* for
22 CLECs. Because the Merged Company will be pursuing merger-related synergy
23 savings for a three-to-five year period after the merger, the uncertainty for the

⁹⁵ FCC WC Docket No. 10-110, Reply Comments of CenturyLink, Inc. and Qwest Communications International, Inc., filed July 27, 2010, at p. 9.

1 Merged Company's CLEC wholesale customers will continue well beyond the
2 date of merger approval.

3 **Q. HAS THE COMMISSION SEEN REPRESENTATIONS SIMILAR TO**
4 **THE COMPANIES' THAT CERTAIN DECISIONS WILL NOT BE MADE**
5 **UNTIL AFTER THE MERGER CLOSES BEFORE?**

6 A. Yes. In regard to dozens of issues in this proceeding, the Companies have stated
7 in initial testimony and in discovery that the relevant decisions have not been
8 made yet and will not be made until after the merger. That has been the
9 Companies' response on almost everything – from which OSS will be used in
10 Arizona to the staffing levels and potential headcount reductions that may occur
11 post-merger in the wholesale services support centers for Arizona and other
12 legacy Qwest territories.

13 **Q. HAVE YOU PREPARED AN EXHIBIT TO DEMONSTRATE THE**
14 **SIGNIFICANT UNCERTAINTY FACING CLECS DUE TO THE**
15 **PROPOSED MERGER?**

16 A. Yes. Attached as Exhibit AA-3 is a table which lists many of the important and
17 customer-impacting issues that should be examined in determining whether the
18 proposed transaction will cause “no harm” (e.g., systems integration, operations
19 integration, performance assurance plans, wholesale rates, etc.) and matches that
20 list to what the Companies have said about those issues in discovery responses.
21 This exhibit shows complete uncertainty post-transaction for important issues
22 such as OSS integration, billing systems integration, E911 systems, provisioning

1 intervals, wholesale customer service, change management process, network
2 investment, just to name a few. In each area, the Companies were unable or
3 unwilling to provide any plans or describe any changes that will take place – other
4 than to say, *we'll let you know after the merger has been approved.*
5 Unfortunately, that is too late. The Companies must demonstrate now that the
6 proposed transaction will do “no harm” and they have failed to demonstrate that,
7 as evidenced by this exhibit.

8 **VI. FAILURE TO PROVE BENEFITS RESULTING FROM**
9 **MERGER**

10 **Q. CAN THE COMMISSION VALIDATE CENTURYLINK'S CLAIMS OF**
11 **BENEFITS RESULTING FROM THE MERGER?**

12 A. No. Although CenturyLink has identified numerous alleged benefits from the
13 proposed transaction, it has substantiated none of them. In discovery in Arizona
14 and other states undertaking merger reviews, various parties including CLECs,
15 commission staffs and consumer advocates asked the Companies about their plans
16 regarding the alleged benefits, and in every instance, the Companies have stated
17 that they have no plans and/or that plans cannot be developed until after the
18 transaction is approved. Again, *we'll let you know after the merger has been*
19 *approved.* To demonstrate this point, I developed Exhibit AA-4 which is a table
20 that lists the alleged benefits resulting from the merger claimed by the Companies
21 and matches that list to what the Companies have said about those alleged
22 benefits in discovery responses. In each instance, there is no substance supporting

1 the alleged benefit. By way of example, despite repeated claims about benefits
2 related to broadband and IP-based advanced services deployments as a result of
3 the merger,⁹⁶ when asked about its post-merger plans, CenturyLink was unable to
4 provide any details (*i.e.*, no plans for rollout, no projection, no timeline) and, in
5 fact, CenturyLink explained that it does not even know whether the Qwest
6 network is currently capable of supporting the advanced services deployment that
7 CenturyLink has identified as a benefit of the merger.⁹⁷ Obviously, if the Qwest
8 network is not capable of providing the advanced services that CenturyLink touts,
9 then the alleged benefit of IPTV/advanced services deployment will not be
10 realized post-transaction (or will be delayed indefinitely while the necessary
11 upgrades can be made – a likely scenario given that the Merged Company will be
12 focused on integration efforts and debt reduction post-merger). My Exhibit AA-4
13 shows the same results for other alleged benefits, including network investment,
14 free cash flow, debt repayment, synergies, improved access to capital,
15 implementation of CenturyLink’s go-to-market model, and others. I was unable
16 to locate a single alleged benefit that CenturyLink could substantiate with facts.

17 **Q. WHAT WOULD THE COMPANIES NEED TO SHOW TO**
18 **SUBSTANTIATE THESE BENEFITS?**

⁹⁶ See, *e.g.*, Arizona Joint Application at pp. 2, 3, 11, 14, and 20; see also p. 6 touting CenturyLink’s “nationwide core fiber network that is a key enabler for IPTV and other data traffic.”

⁹⁷ See my Exhibit AA-4 at pp. 1-4, and CenturyLink Response to OR UTC Staff Data Request #33, CenturyLink Response to IA OCA Data Request #004A, and CenturyLink response to WA UTC Staff Data Request #52 (“Once the transaction closes, a review of the marketplace will be done to determine needs of the [Oregon, Iowa, Washington] market. This process also includes an assessment of the capabilities of existing Qwest infrastructure necessary to support advanced communications, data, and potentially entertainment services the combined company may chose to rollout in the future...”).

1 A. The FCC has applied the following criteria for determining whether a claimed
2 benefit is cognizable:

3 1. "the claimed benefit must be transaction or merger specific (i.e., the claimed
4 benefit 'must be likely to be accomplished as a result of the merger but
5 unlikely to be realized by other means that entail fewer anticompetitive
6 effects')."

7 2. "the claimed benefit must be verifiable," which requires Applicants to
8 "provide sufficient evidence supporting each claimed benefit..." and allows
9 discounting of "benefits that are to occur only in the distant
10 future...because...predictions about the more distant future are inherently
11 more speculative than predictions about events that are expected to occur
12 closer to the present" and

13 3. "marginal cost reductions [are more cognizable] than reductions in fixed cost"
14 because "reductions in marginal cost are more likely to result in lower prices
15 for consumers."⁹⁸

16 **Q. DO THE COMPANIES' ALLEGED BENEFITS MEET THESE**
17 **CRITERIA?**

18 A. No. None of the alleged benefits is "verifiable" because no evidence was
19 provided to support the benefits; rather, the Companies make unsupported
20 predictions about what may transpire in the distant future. To the contrary, the
21 available evidence casts doubt on whether the alleged benefits will actually be
22 realized. The alleged benefits also fail to satisfy the FCC's three-part criteria for
23 other reasons. For example, the alleged benefit of broadband deployment does
24 not meet the first prong (merger specific). Legacy Qwest has deployed broadband
25 to 86% of its customers.⁹⁹ To expand this deployment, Qwest filed an application
26 in March, 2010, for a federal stimulus grant from the Broadband Initiatives

⁹⁸ *In the Matter of Applications Filed for the Transfer of Control of Embarq Corporation to CenturyTel, Inc.*, WC Docket No. 08-238, Memorandum Opinion and Order, released June 25, 2009 ("CenturyTel/Embarq Merger Order"), at ¶ 35.

⁹⁹ *Integra, et al.*, Comments, WC Docket No. 10-110, at p. 67, citing Joint Applicants' FCC Application at 13.

1 Program (BIP) “to extend broadband at speeds of 12 to 40 Mbps to rural
2 communities throughout its local service region.” Qwest has stated that “[t]he
3 Transaction will not have any impact on this request.”¹⁰⁰ What this means is that
4 advanced deployment in Qwest’s legacy territory is not merger-specific: Qwest is
5 pursuing it independent of the merger. The Communications Workers for
6 America (CWA) agreed with this assessment in their comments to the FCC on the
7 proposed transaction:

8 Although the Applicants claim that the proposed merger will result
9 in accelerated broadband deployment and increased bandwidth,
10 they provide no concrete, verifiable broadband commitments. The
11 Applicants do not indicate the number of new households, small
12 businesses, or anchor institutions that will have access to
13 broadband; the upgraded capacity that will be delivered; nor the
14 new markets that will be served with IPTV expansion.¹⁰¹

15 When CenturyLink was asked specifically about the third prong – *i.e.*, to identify
16 the marginal cost reductions resulting from the merger, CenturyLink responded:
17 “Those cost savings are not broken out between fixed or marginal cost.”¹⁰² As
18 such, it is impossible to tell what portion, if any, of the estimated synergies would
19 result in lower prices for consumers, and in turn, impossible for the Companies to
20 substantiate benefits under the third prong. If the Companies cannot provide

¹⁰⁰ See, *e.g.*, Direct Testimony of Mark S. Reynolds, Exhibit MSR-1T, Washington UTC Docket No. UT-100820, May 21, 2010, at p. 10. Qwest described its grant application in more detail in response to Montana Consumer Counsel Data Request #58 in Montana PSC Docket No. D2010.5.55: “Qwest Corporation’s project proposes deployment of High Speed Access within its current 14-state ILEC footprint. Over 500,000 living units (LUs) in [the 14 states] will be served with speeds ranging up to 40 Mbps downstream. About 90% of the LUs proposed for new or upgraded broadband service are in rural areas...And, if funded, the project’s \$467 M investment will create more than 23,000 jobs for local economies in the 14 states...” Again, this project is being pursued independently of the proposed transaction.

¹⁰¹ Comments of Communications Workers of America, FCC WC Docket No. 10-110, July 12, 2010, at p. 13.

¹⁰² CenturyLink Response to Integra’s Second Set of Data Requests, #55(a).

1 reasonable verification that their alleged benefits satisfy the FCC's test, the
2 merger should not be approved.

3 **Q. HAVE THE COMPANIES IDENTIFIED ANY BENEFITS THAT WOULD**
4 **ACCRUE TO CLECS FROM THE MERGER?**

5 A. No. CenturyLink has not identified a single direct benefit that would accrue to
6 CLECs. The Arizona Joint Application makes a sweeping statement that it is
7 seeking expedited approval so that "consumer, business, and wholesale customers
8 and shareholders" will all benefit sooner from "the combined firm['s] greater
9 financial strength and flexibility to compete" and "significant economies of scale
10 and scope" it claims the transaction would create – but in no sense does it explain
11 how CLECs would benefit from these alleged changes.¹⁰³ To my knowledge, the
12 only place in the instant proceeding where a CenturyLink or Qwest witness
13 discusses benefits to wholesale customers is in the following Q&A from Qwest's
14 witness Mr. Campbell:

15 **Q[.] PLEASE SUMMARIZE HOW WHOLESALE CUSTOMERS**
16 **WILL BENEFIT FROM THE MERGER TRANSACTION[.]**

17 A. The additional financial resources, combined network capacity and
18 geographic reach afforded by the merger will allow the combined
19 company to continue to serve the wholesale market as valued
20 customers. For example, as the demand for broadband wireless
21 services has mushroomed, the need for additional fiber capacity to
22 serve cellular tower sites (often referred to as wireless backhaul)
23 has increased dramatically. As noted above, Qwest is already
24 committing significant resources to serve the increased demand

¹⁰³ Arizona Joint Application at p. 19, lines 15-20.

1 from wireless carriers in its region, and the combined entity will
2 possess the resources to continue this investment.¹⁰⁴

3 The first sentence of the answer does not identify any benefit. First, it simply
4 says that the Merged Company will “continue to serve the wholesale market” –
5 something that would occur independently of the proposed transaction. Second,
6 the reference to the size of the Merged Company’s footprint (“geographic
7 reach”) does not translate to benefits to wholesale customers unless the
8 efficiencies that come along with that larger footprint are realized by the local
9 market as well – such as lower transaction costs across the footprint. The
10 remainder of the answer applies to fiber to cell towers – a claim that, even if
11 substantiated, relates to benefits that would accrue largely, if not solely, to the
12 Merged Company, and not to CLECs.

13 **Q. HAVE CLECS RECEIVED ASSURANCE THAT THEY WILL SHARE IN**
14 **ANY MERGER RELATED SAVINGS?**

15 A. No. Take the larger footprint discussed above as an example. Due to this larger
16 footprint, and associated alleged economies, the Merged Company is expecting
17 \$575 million in annual operating cost savings (from such sources as corporate
18 overhead, network and operational efficiencies, IT support, increased purchasing
19 power) and \$50 million in annual capital expenditure savings.¹⁰⁵ As a result of
20 these synergies (the realization of which is speculative) the cost-structure of the

¹⁰⁴ Direct Testimony of James Campbell on behalf of Qwest Corporation, Qwest Communications Company, LLC, and Qwest LD Corp., Arizona Docket Nos. T-01051B-10-0194, May 24, 2010 (“Campbell Arizona Direct”), at p. 23, lines 2-11. The Arizona Joint Application also makes a passing reference to “deploy additional fiber-to-the-cell capabilities...” at p. 11, lines 4-5.

¹⁰⁵ Glover Arizona Direct, at p. 13, Campbell Arizona Direct, at p. 13.

1 combined company would decline. This should, in turn, result in lower rates for
2 network elements and interconnection leased by CLECs because these cost-based
3 rates should reflect the reductions in forward-looking costs resulting from the
4 merger-related synergy savings. However, when asked if the Merged Company
5 would adjust its cost-based wholesale rates to reflect these cost savings,
6 CenturyLink replied: “CenturyLink has not evaluated or reached any conclusions
7 concerning this issue at this time...”¹⁰⁶ And without a concrete commitment that
8 allows CLECs to rightfully share in the cost-savings the combined company
9 achieves, this will undoubtedly be very low on CenturyLink’s priority list post-
10 transaction. The end result is that the Merged Company will enjoy a cost
11 advantage over its competitors, which is the antithesis of the federal pricing
12 standards for network elements and interconnection.

13 Another example is transaction costs. As the Merged Company integrates its
14 business across its 37 state serving territory, transaction costs for the Merged
15 Company should decrease as its service offerings, practices, systems, etc. become
16 increasingly uniform. By way of example, whereas before the transaction both
17 Qwest and CenturyLink would have negotiated (and potentially arbitrated)
18 interconnection agreements with a CLEC like tw telecom separately, after the
19 transaction, the combined company could negotiate with the CLEC in a unified
20 fashion (similar to how CenturyLink currently negotiates and arbitrates
21 agreements for its separate rural and non-rural affiliates). This lowers the
22 combined company’s wholesale transaction costs, and unless this benefit is shared

¹⁰⁶ CenturyLink’s Response to Integra’s Second Set of Data Requests, #55(b).

1 by CLECs, it will create a competitive advantage for the combined company
2 which already enjoys more bargaining power than the CLEC in ICA negotiations.

3 **VII. RECOMMENDATIONS AND CONDITIONS**

4 **Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE**
5 **PROPOSED TRANSACTION?**

6 A. I recommend that the Commission deny the merger as proposed. The Companies
7 have not met the public interest standard under Arizona law and have failed to
8 materially substantiate the alleged benefits from the merger. However, if the
9 Commission nevertheless approves the merger, it should do so only if the
10 transaction is subject to robust, enforceable conditions to ensure that the proposed
11 transaction ultimately serves the public interest.

12 In addition to the conditions discussed by Mr. Gates, I recommend that the
13 Commission impose the conditions discussed below. (A full set of the Joint
14 CLECs' proposed conditions is provided as Exhibit Joint CLECs 2.8 to Mr. Gates
15 testimony.)

16 **Q. SOME OF THE JOINT CLECS' PROPOSED CONDITIONS APPLY TO**
17 **LEGACY CENTURLINK ILEC TERRITORIES. DOES**
18 **CENTURLINK HAVE LEGACY ILEC TERRITORIES IN ARIZONA?**

19 A. No, not according to CenturyLink.¹⁰⁷

¹⁰⁷ McMillan Arizona Direct at p. 5, lines 6-9.

1 **Q. IF CENTURYLINK HAS NO LEGACY ILEC TERRITORIES IN**
2 **ARIZONA, PLEASE EXPLAIN INCLUSION OF CONDITIONS THAT**
3 **APPLY TO LEGACY CENTURYLINK ILEC TERRITORIES ON THE**
4 **JOINT CLEC LIST OF RECOMMENDED CONDITIONS IN THIS**
5 **MATTER.**

6 A. Both CenturyLink and the Joint CLECs are participating in proceedings like this
7 one in multiple states in Qwest territory. Using the same recommended
8 conditions list for the Joint CLECs across these states helps avoid confusion and
9 offers consistency when addressing these issues, which introduces at least some
10 efficiencies. For example, the Applicants do not have to compare lists state-to-
11 state for differences and modify all of their responses accordingly. Also, there is
12 no downside to including conditions that apply to legacy CenturyLink ILEC
13 territories in the conditions adopted in Arizona because they will not require the
14 Merged Company to do anything.

15 A. *Wholesale Service Availability*

16 **Q. PLEASE IDENTIFY THE PROPOSED CONDITIONS RELATING TO**
17 **WHOLESALE SERVICE AVAILABILITY.**

18 A. There are nine conditions in this category – conditions 1, 6, 8, 9, 10, 12, 14 and 28
19 (the numbers correspond to the full list of conditions found in Exhibit Joint
20 CLECs 2.8):

- 21 • Condition 1 provides that the Merged Company will make available and not
22 discontinue for the Defined Time Period any wholesale service offered to a

1 CLEC at any time between the merger filing date and the closing date (except
2 as approved by the Commission).

- 3 • Condition 6 provides that the Merged Company will assume or take
4 assignment of all obligations under Qwest's "Assumed Agreements"¹⁰⁸
5 (which includes Qwest's interconnection agreements, Commercial
6 agreements¹⁰⁹ and tariffs) and AFOR plans without requiring the wholesale
7 customer to execute any documents to effectuate the assumption or
8 assignment. Further, this condition also states that the Merged Company shall
9 offer and not terminate or change the rates, terms and conditions under the
10 Assumed Agreements for at least the Defined Time Period (or until the
11 expiration date, whichever is longer) unless requested by the wholesale
12 customer or required by change of law. Finally, this condition also states that
13 the Merged Company will offer Commercial Agreements in CenturyLink
14 legacy ILEC territory at prices no higher and time periods no shorter than
15 those offered in the legacy Qwest territory.
- 16 • Condition 8 states that the Merged Company will allow extensions of existing
17 interconnection agreements for at least the Defined Time Period (or expiration
18 date whichever is later).
- 19 • Condition 9 states that the Merged Company will allow requesting carriers to
20 use its pre-existing ICA as basis for negotiating a new ICA. For ongoing
21 negotiations, this condition states that the existing negotiations draft will
22 continue to be used for negotiations and that CenturyLink will not substitute
23 negotiations proposals made prior to the closing date with CenturyLink's
24 negotiations template interconnection agreement.
- 25 • Condition 10 states that in the CenturyLink ILEC territory, the Merged
26 Company will allow a requesting carrier to opt into any ICA to which Qwest
27 is a party in the same state. In situations in which there is no Qwest ILEC in
28 the state, the condition allows the carrier to opt into any ICA to which Qwest
29 is a party in any state in which it is an ILEC. This condition permits the state
30 Commission to modify the ICA if the Merged Company demonstrates
31 technical infeasibility or that the prices are inconsistent with the TELRIC-
32 based prices in the state in question. This condition also carves out
33 CenturyLink territories that currently operate under a rural exemption, but
34 does not preclude a regulatory body from finding that the rural exemption
35 should cease to exist, and in those instances, the merger condition would
36 apply to those areas.

¹⁰⁸ All obligations under Qwest's interconnection agreements, interstate tariffs (including the Annual Incentive contract tariff), and intrastate tariffs, Commercial agreements, and other existing arrangements with wholesale customers ("Assumed Agreements").

¹⁰⁹ "Commercial" agreements include but are not limited to wholesale metro Ethernet agreements, OCN (SONET) agreements, Local Services Platform (e.g., QLSP) agreements, Dark Fiber agreements, Broadband for Resale agreements, and line sharing agreements.

- 1 • Condition 12 states that the Merged Company will not seek to avoid
2 obligations under Assumed Agreements on the grounds that it is not an ILEC.
3 This condition also states that the Merged Company will waive its right to
4 seek rural exemptions.
- 5 • Condition 14 states that for the Defined Time Period the Merged Company
6 will not seek to reclassify wire centers or file new forbearance petitions in
7 relation to its obligations under Sections 251 or 271 of the Act.
- 8 • Condition 28 states that, at the CLEC's option, the Merged Company will
9 interconnect with CLEC at a single point of interconnection per LATA,
10 regardless of whether the merged entity operates in that LATA via multiple
11 operating affiliate companies or a single operating company.

12 **Q. WHY ARE THESE CONDITIONS NECESSARY?**

13 A. The concern underlying these conditions is that the availability of wholesale
14 services should be stable over the foreseeable future to offset the substantial
15 uncertainty and risks of degraded wholesale services associated with the proposed
16 merger, including the risks that stem from the Merged Company's efforts to
17 achieve synergy savings post-merger. These conditions help ensure that the
18 Merged Company does not direct its integration efforts to the detriment of
19 wholesale customers by withdrawing services or significantly changing the
20 offerings Qwest currently makes available.

21 These conditions also recognize that the Merged Company will be a larger carrier
22 with a bigger footprint, possibly resulting in economies and efficiencies, as the
23 Companies claim. To serve the public interest, any such economies and
24 efficiencies should accrue in part to the benefit of captive wholesale customers
25 and the general public as well as the merged company; otherwise, the Merged
26 Company will enjoy an unreasonable cost advantage over its captive
27 customers/competitors. As a result, if the Companies' claims of merger savings

1 are accurate, those savings should decrease the costs associated with providing
2 wholesale services and interconnection to CLECs. Allowing the Merged
3 Company to be the sole beneficiary of the economies and efficiencies resulting
4 from the merger would have an anti-competitive and discriminatory impact on the
5 merged company's captive wholesale customers, who depend on wholesale
6 services from, and interconnection with, the ILEC to compete. Such a result
7 would be inconsistent with the pro-competitive mandate of the Act, FCC orders,
8 and state law, and contrary to the public interest.

9 **Q. THESE CONDITIONS INVOLVE THE MERGED COMPANY**
10 **CONTINUING TO MAKE AVAILABLE WHOLESALE SERVICES THAT**
11 **QWEST CURRENTLY PROVIDES FOR THE DEFINED TIME PERIOD.**
12 **WHY IS THIS WARRANTED?**

13 A. Again, wholesale customers need certainty with regard to the elements and
14 services they purchase from Qwest (or the Merged Company) for business
15 planning purposes, and based on the transaction as filed, there is no such
16 certainty. CLECs cannot simply go elsewhere for the wholesale services they
17 need from Qwest and CenturyLink both now and post-merger, so certainty in this
18 area is absolutely essential.

19 **Q. REGARDING CONDITION 1, WHY IS IT IMPORTANT THAT THE**
20 **MERGED COMPANY CONTINUE TO PROVIDE WHOLESALE**

1 **SERVICES THAT IT PROVIDED ANYTIME BETWEEN THE MERGER**
2 **FILING DATE AND CLOSING DATE?**¹¹⁰

3 A. The withdrawal of wholesale services after the Filing Date would signal a move
4 toward the Merged Company impeding competition, and in turn, result in a
5 merger-related harm. Even if a condition requires the Merged Company to
6 maintain the wholesale services available at the Closing Date for a period of time,
7 it would not cover the wholesale services that were eliminated between the Filing
8 Date and Closing Date. This concern is based on past experience. One historical
9 example is when Qwest (f/k/a US WEST) attempted to withdraw Centrex (also
10 known as CENTRON in Minnesota) almost simultaneously with the passage of
11 the Telecommunications Act of 1996. The Act was signed into law on February
12 8, 1996. On February 5, 1996, Qwest filed a notice to grandparent and ultimately
13 terminate CENTRON services. After the Minnesota Commission rejected that
14 termination request; Qwest then followed up with a second request to terminate
15 CENTRON on April 30, 1996.¹¹¹ Qwest made these filings to withdraw
16 CENTRON despite that Commission's previous finding that "resale of
17 CENTRON under certain conditions is in the public interest..."¹¹² Yet, in the
18 relatively brief time between passage of the Act in February 2006 and issuance of

¹¹⁰ "Merger Filing Date" when used in the list of conditions, "refers to May 10, 2010, which is the date on which Qwest and CenturyLink made their merger filing with the FCC." "Closing Date" when used in the list of conditions, "refers to the closing date of the transaction for which the Applicants have sought approval from the Federal Communications Commission (FCC) and state commissions (the 'transaction')."

¹¹¹ *In the Matter of the Request of US WEST Communications, Inc. to Grandparent CENTRON Services With Future Discontinuance of CENTRON, CENTREX and Group Use Exchange Services, Order Denying Petition*, Minnesota PUC Docket No. P-421/EM-96-471, February 20, 1997 ("Minnesota CENTRON Order"), at pp. 1-2.

¹¹² Minnesota CENTRON Order at p. 8.

1 the FCC's Local Competition Order to implement the local competition
2 provisions of the Act in August 8, 1996, Qwest attempted to withdraw a
3 wholesale service that was found to be in the public interest. Though Qwest was
4 ultimately unsuccessful in Minnesota,¹¹³ competitors were still required to expend
5 substantial time and money combating Qwest's anti-competitive conduct.

6 **Q. WHAT ARE THE KEY COMPONENTS OF CONDITION 6?**

7 A. There are two important aspects that I will discuss. First, Condition 6 (exclusive
8 of its subparts) commits the Merged Company to take assignment of the Assumed
9 Agreements, without requiring wholesale customers to execute any documents to
10 effectuate the assumption. Second, subpart A. of this Condition requires the
11 Merged Company to continue offering the terms and conditions of any Assumed
12 Agreement, including any assumed commercial agreements, for a reasonable
13 period of time after the merger, which should be at least as long as the period of
14 synergy savings projected by the Joint Applicants.

15 **Q. WHY SHOULD THE MERGED COMPANY BE PROHIBITED FROM**
16 **REQUIRING WHOLESALE CUSTOMERS TO EXECUTE ANY**
17 **DOCUMENTS IN ORDER FOR THE MERGED COMPANY TO TAKE**
18 **RESPONSIBILITY FOR QWEST'S EXISTING ICAS, TARIFFS AND**
19 **AFOR PLANS (CONDITION 6)?**

20 A. First, when asked whether CenturyLink would assume or take assignment of
21 Qwest's obligations under ICAs, tariffs, etc., CenturyLink replied:

¹¹³ Minnesota CENTRON Order at p. 13.

1 Qwest Corporation does not cease to exist as a result of the parent-
2 level Transaction but remains an ILEC, subject to the same terms
3 and obligations of its interconnection agreements, tariffs,
4 commercial agreements, line sharing agreements, and other
5 existing arrangements with wholesale customers immediately after
6 the merger as immediately prior to the merger.¹¹⁴

7 Since Qwest does not cease to exist as a result of the transaction, there should be
8 no reason for wholesale customers to have to execute additional documents in
9 order for the Merged Company to assume the obligations under the existing
10 wholesale agreements (e.g., ICAs) and tariffs. Second, the transfer of control
11 should be as smooth and seamless as possible, and requiring wholesale customers
12 to receive, review, negotiate and execute documents for this purpose could result
13 in disruption or delay during the transfer of control. And that disruption and
14 delay would be exacerbated if wholesale customers disagree with the terms
15 included in the documents the Merged Company wants wholesale customers to
16 execute, resulting in parties seeking resolution of those disputes before this
17 Commission.¹¹⁵

18 **Q. CAN YOU PROVIDE A REAL-WORLD EXAMPLE OF WHY**
19 **CONDITION 6 IS A NECESSARY PROTECTION IF THE MERGER IS**
20 **APPROVED?**

114 CenturyLink's Response to Integra's Second Set of Data Requests, #113(a).

115 This is not a theoretical concern. For example, in Iowa, the Companies and PAETEC had difficulty agreeing to the terms of the proprietary agreement that would govern the access and use of confidential information in the merger case in that state. Although PAETEC suggested that the parties use a proprietary agreement that had previously been used between Qwest and PAETEC, the Companies insisted on different terms. This caused significant delay in accessing the proprietary information associated with the Companies' discovery responses in Iowa. This delay was particularly burdensome in this instance because the Companies have requested expedited approval of the merger.

1 A. Yes. While it may appear self-evident that, if an obligation continues or is
2 assumed, the ILEC will not request further document execution, that was not the
3 result in the case of the Frontier's acquisition of Verizon Northwest. Despite a
4 merger condition that Frontier assume wholesale agreements and not terminate or
5 change their terms,¹¹⁶ on January 21, 2010, Frontier and Verizon sent a joint letter
6 and Adoption Agreement which effectively attempted to impose amendment of
7 the wholesale agreement to reflect certain Frontier processes.¹¹⁷

8 Condition 6 will help avoid such a situation with respect to the CenturyLink-
9 Qwest merger and eliminate any associated uncertainty, delays and litigation. I
10 see no legitimate reason why the Companies would not voluntarily submit to this
11 condition.

12 **Q. WHY SHOULD THE MERGED COMPANY BE REQUIRED, AS IT**
13 **WOULD BE BY CONDITION 6, SUBPART A, TO CONTINUE MAKING**
14 **QWEST'S COMMERCIAL AGREEMENTS AVAILABLE FOR THE**
15 **DEFINED TIME PERIOD FOLLOWING THE MERGER?**

16 A. As discussed above, this aspect of Condition 6 is essential to provides certainty
17 and protection for wholesale customers and competition in the face of the

¹¹⁶ In Washington, for example, this was Condition 5 of the Multiparty Settlement between Frontier, Verizon, and multiple CLECs, including Integra. That Settlement was incorporated into the Commission's Order approving the Frontier-Verizon merger, see *Frontier-Verizon Merger Order*, at ¶ 242 and Appendix C. Note that Condition 5 therein made no suggestion that the post-merger company would require wholesale customers to execute further documents to effectuate the assumption or assignment of existing obligations, but it did not expressly prohibit it, as Joint CLEC Condition 6 would do.

¹¹⁷ See Integra's May 13, 2010 Ex Parte filing in FCC WC Dkt. No. 09-95, provided in my Exhibit AA-6. The Frontier-Verizon letter is discussed at p. 2 therein and reproduced in Attachment A.

1 uncertainty and risks associated with this proposed merger. Many CLECs have
2 existing Commercial Agreements with Qwest, including agreements for the
3 provision of dark fiber, line sharing or the combined switch platform that used to
4 be known as UNE-P. Those CLECs have built their business plans significantly
5 around the availability of the products provided under those commercial
6 agreements and the specific terms set forth in those agreements. Retail customers
7 in turn receive competitive services based on CLEC access to these wholesale
8 services from Qwest under these commercial agreements. Importantly, these
9 CLECs generally have no alternative to Qwest for the products or services, such
10 as dark fiber or line sharing, provided under these commercial agreements.
11 Condition 6 would provide an assurance to the retail and wholesale customers
12 currently relying on services provided under these commercial agreements that
13 those services will remain available following the merger.

14 CenturyLink does not currently make similar products available under
15 commercial agreements (*e.g.*, dark fiber, line sharing), although it may offer them
16 through grandparented contracts that are not commercially available to other
17 CLECs. CenturyLink is the acquiring company in this merger. The fact that
18 CenturyLink does not currently make these products commercially available
19 further increases the risk to CLECs that these products will be withdrawn or the
20 terms of their availability materially changed as a result of the merger. Based on
21 the post-merger risks and incentives discussed throughout my testimony, I believe
22 there is a great risk that, without Condition 6, CenturyLink (as the acquiring
23 company) will not assume the obligations of Qwest's Commercial Agreements or

1 will materially change them in a way that would be detrimental to CLECs and
2 competition. This would result in extensive disruption to CLECs who rely on
3 those products. Those CLECs would, in turn, lose their existing customers who
4 purchase the CLEC services that rely on these wholesale products purchased from
5 Qwest. Condition 6 at least minimizes the uncertainty and risk associated with
6 the merger for a defined period.

7 **Q. WILL CONDITION 6 RESULT IN OTHER PUBLIC INTEREST**
8 **BENEFITS?**

9 A. Yes. Condition 6 would result in the Merged Company offering the same
10 commercial agreements at the same rates in CenturyLink's legacy territory as
11 Qwest provides in its legacy territory. The Companies have boasted of the
12 national breadth¹¹⁸ and local depth of the Merged Company¹¹⁹ as "key" benefits
13 of the proposed merger. These benefits (or economies) should not accrue only to
14 the Merged Company, however, or else the transaction will further entrench the
15 Merged Company's monopoly position. One way to allow those economies to
16 accrue to the benefit of competition is for the Merged Company to offer the same
17 commercial agreements in legacy CenturyLink territory as it does in legacy Qwest
18 territory.

¹¹⁸ Arizona Joint Application at p. 12, lines 12-13 ("national telecommunications company"); Campbell Arizona Direct at pp. 14 and 22.

¹¹⁹ Schafer Arizona Direct, at p. 10, lines 7-9 ("A key benefit will come from leveraging each company's operational and network strengths, resulting in a company with an impressive national presence and local depth.").

1 CenturyLink's service territory includes 10 of the 14 states in which Qwest
2 operates as a BOC, with more than two hundred adjacent exchanges¹²⁰ and more
3 exchanges in close proximity. Once the companies merge, all of these exchanges
4 will be under a single umbrella and there is no reason why commercial
5 agreements from the Merged Company in one exchange should not also be
6 available in the adjacent or neighboring exchange. This would provide
7 consistency across the Merged Company's territory for those carriers who
8 currently operate in both Qwest and CenturyLink territories and may encourage
9 new competitors to enter the legacy territories of CenturyLink or Qwest.

10 **Q. CONDITION 8 WOULD EXTEND EXISTING INTERCONNECTION**
11 **AGREEMENTS (INCLUDING ICAS IN "EVERGREEN" STATUS) FOR**
12 **AT LEAST THE DEFINED TIME PERIOD (OR DATE OF EXPIRATION**
13 **WHICHEVER IS LATER). HAVE OTHER ILECS AGREED TO A**
14 **SIMILAR COMMITMENT TO SECURE MERGER APPROVAL?**

15 A. Yes. A similar provision was offered as a voluntary commitment to the FCC by
16 AT&T and BellSouth.¹²¹ Likewise, a similar condition was adopted by the Illinois
17 Commerce Commission,¹²² Public Utilities Commission of Ohio,¹²³ and Oregon
18 PUC¹²⁴ as a condition of the Frontier/Verizon merger. While the time period for

¹²⁰ CenturyLink's and Qwest's FCC Application, Exhibit 5, cited at Comments of Joint Commenters, WC Docket No. 10-110, July 12, 2010, at p. 18.

¹²¹ AT&T/BellSouth FCC merger order, Appendix F, "UNEs" commitment #4.

¹²² ICC Order No. 09-0268, Conditions Appendix, Condition 5.

¹²³ 2010 Ohio PUC Lexis 142, *17.

¹²⁴ 2010 Ore. PUC LEXIS 64, *141.

1 extension in previous decisions has ranged between 2.5 years and 3 years, the
2 Defined Time Period is tied to the facts of this case.¹²⁵

3 **Q. WHY IS IT IMPORTANT TO REFERENCE “EVERGREEN” ICAS IN**
4 **THIS CONDITION?**

5 A. The reference to “evergreen” ICAs (or ICAs that continue in renewal status past
6 their expiration date) is particularly important in this instance because Qwest
7 currently operates under evergreen ICAs with numerous carriers and has for
8 several years. For example, PAETEC operates under evergreen ICAs with Qwest
9 in all 14 Qwest BOC states. The Qwest/PAETEC ICAs in Minnesota and Iowa
10 have been in place since the 1997-1998 timeframe, and ICAs in other states have
11 been in place since the 1999-2002 timeframe.¹²⁶ This means that terms and
12 conditions under these “evergreen” ICAs have been acceptable to both companies
13 for an extended period, and each carrier’s respective network configuration
14 (trunking, collocation arrangements, points of interconnection, traffic exchange,
15 etc.) are based on those terms and conditions. Requesting carriers should not be
16 required to endure the disruption and expense to renegotiate and (potentially)
17 arbitrate the terms under which they have operated with Qwest for, in some cases,
18 more than a decade – particularly given that the Merged Company will have its

¹²⁵ Mr. Gates discusses the “Defined Time Period” in his Direct Testimony.

¹²⁶ See also, Opening Comments of Leap Wireless International, Inc., WC Docket No. 10-110, July 12, 2010, at p. 5 (“Leap’s agreements with Qwest have been in this ‘evergreen’ status for several years, which reflects both parties’ satisfaction with the existing ICAs.”). My understanding is that these ICAs have typically been amended on multiple occasions over the years (e.g., to reflect changes in law).

1 hands full post-merger as it tries to deliver on its synergy savings estimates and
2 integrate the two companies.

3 **Q. WHAT IS THE CONCERN BEING ADDRESSED BY CONDITION 9?**

4 A. First, a number of CLECs are in the process of negotiating a replacement ICA
5 with Qwest, and have expended considerable time and effort doing so. Those
6 ongoing negotiations should not be disrupted mid-stream with new ILEC
7 proposals from the Merged Company that replace those previously offered by
8 Qwest in negotiations. Accordingly, the Merged Company should continue to
9 honor Qwest's negotiations draft in these ongoing negotiations and not replace it
10 with CenturyLink's new positions. Otherwise, the proposed transaction will
11 directly result in increased costs to CLECs as they may have to negotiate new
12 issues or re-negotiate issues currently closed.

13 Condition 9 also states that the Merged Company will allow a requesting carrier
14 to use its pre-existing ICA, including ICAs entered into with Qwest, as the basis
15 for negotiating a replacement ICA. The existing ICAs between CLECs and
16 Qwest have been approved by state commissions as compliant with federal and
17 state law, sometimes after lengthy and contentious arbitration cases in which
18 considerable amounts of scarce CLEC resources are expended. The CLECs
19 should not have to start this process all over again by negotiating agreements from
20 scratch, particularly because doing so would signal a reluctance on the Merged
21 Company's part to make available the same wholesale offerings Qwest has
22 provided for years. Further, the negotiations template proposal that CenturyLink

1 may introduce is a complete mystery at this point,¹²⁷ and CLECs should not be
2 forced to negotiate from scratch all over again based on what CenturyLink may
3 come up with as its new ICA, going-in negotiations proposal. The same condition
4 was adopted by the Oregon PUC as a condition of the Frontier/Verizon merger.¹²⁸

5 **Q. IS THERE ANOTHER REASON WHY CLECS SHOULD BE ABLE TO**
6 **USE THEIR PRE-EXISTING ICAS WITH QWEST FOR THE BASIS OF**
7 **NEGOTIATING A REPLACEMENT ICA?**

8 A. Yes. As Mr. Gates explains, Qwest's Statement of Generally Available Terms
9 (SGATS) was reviewed during the 271 approval process.¹²⁹ These "generally
10 available terms" were incorporated into CLEC ICAs, many of which are part of
11 currently-effective ICAs. For example, the framework, general numbering
12 scheme, and many sections of the current Qwest-Integra interconnection
13 agreement in Minnesota are substantially similar to Qwest's Minnesota SGAT

¹²⁷ In discovery, Integra asked CenturyLink to "[p]rovide a copy of CenturyLink's "Template Agreement" referenced on CenturyLink's wholesale website" and supplied a link to the website. In Arizona, CenturyLink responded that "CenturyLink is not an ILEC in Arizona and does not utilize a 'Template Agreement.'" CenturyLink's Response to Integra's Second Set of Data Requests, #114. In other states, CenturyLink has stated in response to the identical question that "[c]urrently, CenturyLink has separate template agreements for legacy CenturyTel and legacy Embarq companies but is in the process of finalizing a single CenturyLink template for interconnection agreements." See, e.g., Colorado PUC Docket No. 10A-350T, CenturyLink's Response to Integra's First Set of Information Requests, #114, and Washington UTC Docket No. UT-10080, CenturyLink's Response to Integra's First Set of Information Requests, #114. Thus at this point, there is no indication as to what CenturyLink's template agreement may look like once it is finalized, and whether or not CenturyLink would apply it to CLECs' interconnection negotiations with respect to legacy Qwest operations in Arizona after the merger.

¹²⁸ 2010 Ore. PUC LEXIS 64, 124.

¹²⁹ See, e.g., Colorado PUC Evaluation at 26 ("This retelling of bringing Qwest's SGAT into compliance with the 14-point competitive checklist only begins to touch on the volume and breath of issues that arose in Colorado's six SGAT workshops.... After evaluating these six staff workshop reports and the enormous record behind these reports, the [Colorado PUC] concluded Qwest's SGAT complies with the 14-point checklist."); see also Idaho PUC Consultation, Exhibit A, at 3 ("The checklist items were addressed in the context of Qwest's SGAT, and so the focus of the workshops was the SGAT terms required to comply with the checklist items. Qwest accordingly has filed the SGAT with the reports showing the terms as they were developed through the workshops and subsequent reports.").

1 terms.¹³⁰ In addition, CLECs have used Qwest's SGAT "as a key source to help
2 frame interconnection agreement ('ICA') negotiation positions"; "as a resource
3 for attempting to resolve disputes with Qwest such as in billing, carrier relations,
4 and Change Management Process ('CMP') contexts"; and "as an internal
5 resource" to, among other things, confirm state commission-approved terms and
6 filed requirements.¹³¹ By contrast, CenturyLink's interconnection agreement
7 terms were not reviewed under a 271 approval process, but instead, are currently
8 in the process of being developed.¹³²

9 **Q. CONDITION 10 ALLOWS CARRIERS IN CENTURYLINK'S LEGACY**
10 **TERRITORY TO OPT INTO QWEST ICAS IN THE SAME STATE.¹³³**
11 **WHAT IS THE RATIONALE FOR THIS CONDITION?**

12 **A.** The same rationale that applies for Condition 6 applies here. The FCC previously
13 adopted a similar condition in conjunction with the AT&T/BellSouth merger,

¹³⁰ Compare Arbitrated Agreement for Terms and Conditions for Interconnection, Unbundled Network Elements, Ancillary Services, and Resale of Telecommunications Services Provided by Qwest Corp. for Eschelon Telecom of Minnesota, Inc. in the State of Minnesota, Minnesota PUC Docket No. IC-06-768 (10/6/08) with Minnesota SGAT Third Revision, Section 12 (3/17/03).

¹³¹ Joint CLEC responses to Staff's First Set of Data Requests, ACC Docket No. T-01051B-08-0613, at 2 (2/18/09).

¹³² PAETEC has proposed a condition to the FCC requiring the Merged Company to offer a multistate ICA that extends the Qwest terms and conditions into the CenturyLink ILEC region. See, Comments of Joint Commenters, WC Docket No. 10-110, July 12, 2010, at p. 56. PAETEC made this recommendation to the FCC to reduce the transaction costs associated with Section 252 ICAs with the Merged Company, similar to how the FCC addressed this issue in the GTE/Bell Atlantic Merger. See, *In re Application of GTE Corporation and Bell Atlantic Corporation For Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License*, Memorandum Opinion and Order, CC Docket No. 98-184, FCC-00-221, June 16, 2000 ("FCC GTE/Bell Atlantic Merger Order"), Condition X. This issue is of particular concern regarding the proposed transaction because of the way the Qwest multistate ICA has evolved and the fact that legacy CenturyLink's multistate ICA is still in development (and likely will continue to be under development during the integration process).

¹³³ CenturyLink's service territory overlaps 10 of the 14 states in which Qwest operates as an ILEC. Under this condition, if there is no Qwest ILEC in the state, the carrier may opt into any ICA in which Qwest is an ILEC in any state.

1 which required AT&T/BellSouth to make available to any CLEC any ICA
2 (negotiated or arbitrated) to which a AT&T/BellSouth ILEC is a party in any state
3 within the AT&T 22-state footprint, subject to state-specific pricing and technical
4 feasibility. Notably, the CLEC-proposed condition permits the state commission
5 to modify the ICA before opt in if the Merged Company demonstrates technical
6 infeasibility or if the TELRIC-based prices in the ICA are inconsistent with the
7 TELRIC-based prices in the state in question.

8 **Q. WOULD THIS OPT-IN CONDITION ALLOW CARRIERS TO**
9 **“CHERRY-PICK THE BEST ICA TERMS”¹³⁴?**

10 A. No. This condition does not allow a carrier to pick-and-choose ICA terms.

11 **Q. PLEASE EXPLAIN THE BUSINESS NEED FOR CONDITION 12.**

12 A. There is a material risk that the Merged Company will seek to avoid its
13 obligations as an incumbent LEC under Section 251(c) of the Act post-merger.
14 While CenturyLink has entered into interconnection agreements with requesting
15 carriers, CenturyLink has also expressly reserved the right to invoke the
16 protections of Sections 251 (f)(1) and 251(f)(2) of the Act and thereby avoid its
17 obligations as an incumbent LEC under Section 251(c). For example, in a recent
18 Order approving two CenturyLink interconnection agreements, the Idaho Public
19 Utilities Commission summarized CenturyLink's position as follows:

20 [CenturyLink's] Application states that CenturyLink is a "rural
21 telephone company," as that term is defined in the Act, 47 U.S.C. §
22 153. CenturyLink goes on to state that, pursuant to Section
23 251(f)(1) of the Act, it is exempt from Section 251(c) of the Act.

¹³⁴ CenturyLink's and Qwest's Reply Comments, WC Docket No. 10-110, July 27, 2010, at p. 32.

1 Notwithstanding that exemption, the companies have agreed and
2 entered into this Agreement for purposes of exchanging local
3 traffic. The Company also states that "execution of the Agreement
4 does not in any way constitute a waiver of limitation of
5 CenturyLink's rights under Section 251(f)(1) or 251 (f)(2) of the
6 Act." The Company "expressly reserves the right to assert its right
7 to an exemption or waiver and modification of Section 251 (c) of
8 the Act, in response to other requests for interconnection by CLEC
9 or any other carriers."¹³⁵

10 Condition 12 will ensure that the Merged Company does not pull the rug out from
11 underneath wholesale customers in their relationships with the Merged Company.

12 **Q. PLEASE EXPLAIN THE BUSINESS NEED FOR CONDITION 14.**

13 A. Condition 14 states that the Merged Company will not reclassify as "non-
14 impaired" any wire centers or file any new forbearance petitions related to
15 obligations under sections 251 or 271 of the Act for the Defined Time Period.
16 This condition is needed to provide critical certainty for wholesale customers
17 related to the bottleneck inputs they purchase from the Merged Company, while
18 the Merged Company integrates the two companies and pursues synergy
19 savings.¹³⁶ As discussed above, this merger poses a substantial risk to CLECs as
20 the post-merger ILEC's effort to achieve enormous projected synergy savings
21 intersects with the ILEC's inherent disincentive to provide competing CLECs
22 with reliable, reasonably priced access to wholesale services. Further, to the

¹³⁵ *In re Application of CenturyTel of Idaho, Inc. d/b/a CenturyLink for Approval of its Interconnection Agreement with Bullseye Telecom, Inc. Pursuant to 47 U.S.C. § 252(e), Order No. 31095, Idaho PUC Case Nos. CEN-T-10-01 & CGS-T-10-01, paragraph 1 (adopted May 28, 2010).*

¹³⁶ Qwest recently withdrew its four pending forbearance petitions relating to the Denver, Minneapolis-St. Paul, Phoenix, and Seattle Metropolitan Statistical Areas, see *In the Matter of Qwest Corporation for Forbearance Pursuant to 47 U.S.C. § 160(c) in the Denver, Minneapolis-St. Paul, Phoenix, and Seattle Metropolitan Statistical Areas -- WC Docket 07-97*, Letter from Hirisha J. Bastiampillai, Senior Attorney, Qwest Corporation, to Marlene H. Dortch, Secretary, FCC, August 18, 2010. While this is a step in the right direction, it does not in itself eliminate the need for Condition 14.

1 extent the merger results in any cost savings through economies of scope and
2 scale, those benefits will accrue to the merging companies and not their captive
3 CLEC customers. The proposed temporary moratorium on non-impairment
4 reclassifications and forbearance will help mitigate the risk this merger poses to
5 the public's interest in competition and provide some measure of public interest
6 benefit to captive wholesale customers and competition. To adequately protect
7 the public's interest in competition, it is essential to provide CLECs with a period
8 of certainty during which the terms and conditions of access to the wholesale
9 inputs they need to provide competitive local exchange services continue.

10 **Q. DOES THE FCC'S RECENT DECISION REJECTING QWEST'S**
11 **FORBEARANCE PETITION IN THE PHOENIX MSA SHOW WHY**
12 **CONDITION 14 IS NEEDED?**

13 A. Yes, in three distinct respects. First, the FCC's June 2010 decision on Qwest's
14 forbearance petition in the Phoenix, Arizona MSA applies a new analytical
15 framework for the evaluation of BOC forbearance petitions, which replaces the
16 approach that the FCC developed in its 2005 decision granting Qwest forbearance
17 in the Omaha MSA, and has applied in subsequent reviews of BOC petitions
18 seeking similar relief.¹³⁷ While that new framework appears to be a substantial
19 improvement, its introduction alone will tend to heighten the uncertainty
20 surrounding future forbearance petitions to the FCC, given that the BOCs
21 vigorously pursued previous FCC rejections of their forbearance decisions in the

¹³⁷ *In the Matter of Petition of Qwest Corporation for Forbearance Pursuant to 47 U.S.C. §160(c) in the Phoenix, Arizona Metropolitan Statistical Area*, WC Docket No. 09-135, Memorandum Opinion and Order, FCC 10-113, (rel. June 22, 2010) ("*Phoenix Forbearance Order*"), at ¶¶ 16-24.

1 courts,¹³⁸ and may well test the new framework in the same way. Adopting
2 Condition 14 for the Defined Time Period would avoid the uncertainty created by
3 these events during that interim period.

4 Second, in the *Phoenix Forbearance Order*, the FCC explains the anti-
5 competitive opportunities that would be created for a dominant ILEC – such as
6 the Merged Company – if Sections 251 and/or 271 obligations were to be
7 eliminated prematurely:

8 ...the Commission has long recognized that a vertically integrated
9 firm with market power in one market – here upstream wholesale
10 markets where...Qwest remains dominant – may have the
11 incentive and ability to discriminate against rivals in downstream
12 retail markets or raise rivals' costs...assuming that Qwest is profit-
13 maximizing, we would expect it to exploit its monopoly position as
14 a wholesaler and charge supracompetitive rates, especially given
15 that (absent regulation) Qwest may have the incentive to foreclose
16 competitors from the market altogether.¹³⁹

17 Given that the merger will enhance the Merged Company's incentive and ability
18 to discriminate against rivals in downstream retail markets and/or raise rivals'
19 costs, Condition 14 is needed to ensure that the Merged Company does not act on
20 these anti-competitive incentives, and to avoid the uncertainty (and costs)
21 imposed on wholesale customers when a petition for forbearance is filed.

22 And third, the justification invoked by the FCC for moving to its new analytical
23 framework shows why Condition 14's temporary moratorium on forbearance
24 petitions is essential to preserve competition during the post-merger transition

¹³⁸ See, e.g., *Id.*, ¶ 19, describing the D.C. Circuit Court's remands of the FCC's *Verizon 6 MSA Forbearance Order* and *Qwest 4 MSA Forbearance Order* in 2009.

¹³⁹ *Phoenix Forbearance Order*, ¶ 34.

1 period. In the *Phoenix Forbearance Order*, the FCC all but declares that the grant
2 of forbearance to Qwest in the Omaha MSA was a mistake, finding that in the
3 *Omaha Forbearance Order* “the Commission eliminated all unbundled loop and
4 transport obligations based largely on predictive judgments...” that were not
5 borne out in the marketplace.¹⁴⁰ In hindsight, the Commission found that the
6 analytical framework applied in the *Omaha Forbearance Order* was seriously
7 flawed in that it was “not supported by current economic theory,”¹⁴¹
8 “inappropriately assumed that a duopoly always constitutes effective
9 competition,”¹⁴² and “appears inconsistent with Congress’ imposition of
10 unbundling obligations as a tool to open local telephone markets to competition in
11 the 1996 Act.”¹⁴³ The FCC ultimately concluded that the outcome of that
12 forbearance has been a substantial reduction in competitive activity in the Omaha
13 MSA, as “the record indicates that McLeodUSA has removed most of its
14 employees from the Omaha marketplace, has limited its operations primarily to
15 serving its existing customer base, and has ceased sales of residential and nearly
16 all business services in Omaha;” while Integra abandoned its plans to enter the
17 Omaha market after the Commission released the *Omaha Forbearance Order*.¹⁴⁴

¹⁴⁰ *Id.*, ¶ 26.

¹⁴¹ *Id.*, ¶ 28.

¹⁴² *Id.*, ¶ 29.

¹⁴³ *Id.*, ¶ 32.

¹⁴⁴ *Id.*, ¶ 34.

1 **Q. HAVE CLECS SOUGHT TO REVERSE THE FCC'S GRANT OF**
2 **FORBEARANCE IN THE OMAHA MSA IN THE CONTEXT OF THE**
3 **FCC'S CENTURYLINK-QWEST MERGER REVIEW PROCEEDING?**

4 A. Yes. For example, a group of CLECs including Access Point, Inc., Covad
5 Communications Company, and McLeodUSA Telecommunications Services Inc.
6 (among others) has proposed the following condition in their initial comments in
7 the FCC's on-going proceeding to review the CenturyLink-Qwest merger
8 transaction, which were filed jointly with several other CLECs:

9 Applicants shall voluntarily stipulate that McLeodUSA's Petition
10 for Modification be granted and thereby, relinquish forbearance
11 relief obtained in Omaha in WC Docket No. 04-223 and comply
12 with Section 251(c)(3) UNE obligations throughout the Omaha
13 MSA.¹⁴⁵

14 Taking this step as a voluntary commitment would be the most efficient way to
15 redress the Omaha situation. While the Commission need not take any action
16 with respect to those CLECs' proposal to the FCC, adoption of Condition 14 by
17 the Commission in the instant case would be compatible with and complementary
18 to that proposal.

19 **Q. PLEASE EXPLAIN THE BUSINESS NEED FOR CONDITION 28.**

20 A. As Mr. Gates explains, increased efficiencies can be gained by establishing a
21 single POI per LATA with the Merged Company. Because those efficiencies will
22 be enjoyed by the Merged Company in part because of its network footprint, the
23 same benefits should flow through to CLECs interconnecting with the Merged

¹⁴⁵ Access Point, Inc., Covad Communications Company *et al.*, Comments of Joint Commenters, July 12, 2010, WC Docket No. 10-110, at p. 67.

1 Company. Just as the purported financial benefits of the merger should be shared
2 by captive CLECs, as discussed above, any operational benefits of accruing to the
3 Companies should also flow to the CLECs. This would also lower barriers to
4 entry for competitors who would be permitted to capitalize on the increased scale
5 and efficiencies of the Merged Company

6 ***B. Wholesale Rate Stability***

7 **Q. PLEASE IDENTIFY THE PROPOSED CONDITIONS RELATING TO**
8 **WHOLESALE RATE STABILITY.**

9 A. There are three conditions in this category – conditions 2, 3, and 7:

- 10 • Condition 2 states that the Merged Company will not recover or seek to
11 recover through fees paid by CLECs (and hold CLECs harmless from) one-
12 time transfer, branding, or any other transaction-related costs.
- 13 • Condition 3 states that the Merged Company will not recover or seek to
14 recover through fees paid by CLECs (and hold CLECs harmless from) any
15 increases in overall management costs that result from the transaction.
- 16 • Condition 7 states that the Merged Company shall not increase prices for
17 wholesale services above the level at merger announcement, or create new
18 rate elements for functions that are currently recovered in existing rates, for
19 the Defined Term Period. This condition also states that the Merged
20 Company will continue to offer any term and volume discount plan offered at
21 merger announcement (without change) for at least the Defined Time Period,
22 and will honor existing contracts on individualized term pricing plan
23 arrangements for the duration of the term. This condition also states that in
24 the legacy CenturyLink territory the Merged Company will comply with its
25 obligation to provide transit in ICAs and at rates no higher than the cost-based
26 rates approved for Qwest (or the current tandem transit rate, whichever is
27 lower).

28 **Q. WHY ARE THESE CONDITIONS NECESSARY?**

29 A. Just as certainty and consistency for wholesale service availability is critical to
30 offset the uncertainty resulting from the merger, so is stability for wholesale

1 service rates. Wholesale rates should, if anything, decrease after the merger.
2 Because the Merged Company's overall cost structure should decrease to the
3 extent synergy savings are achieved post-merger, wholesale rates – which would
4 be based on the cost structure of the Merged Company – should decrease as well.
5 However, at this point, CLECs are not seeking rate reductions, but instead taking
6 the conservative position that rates should not increase for at least the Defined
7 Time Period (Condition 7). This provides a degree of protection for captive
8 wholesale customers that the Merged Company will not seek to increase their
9 rates (or create new rate elements) during the Merged Company's pursuit of
10 synergies and revenue enhancements.

11 These conditions would also hold wholesale rates harmless from the one-time
12 transaction related costs associated with marrying the two companies – costs that
13 have traditionally not been recovered through wholesale rates. Finally, Condition
14 24 is necessary to prevent the Merged Company from adopting as a “best
15 practice” in Qwest's territory anti-competitive charges assessed in legacy
16 CenturyLink ILEC territory, which are discussed in detail in Mr. Gates'
17 testimony.

18 **Q. REGARDING CONDITIONS 2 AND 3, HAS CENTURYLINK AGREED**
19 **TO HOLD WHOLESALE CUSTOMERS HARMLESS FROM ONE-TIME**
20 **MERGER RELATED COSTS AND INCREASES IN OVERALL**
21 **MANAGEMENT COSTS RESULTING FROM THE MERGER?**

1 A. No. When asked whether CenturyLink would seek to recover through wholesale
2 rates or fees paid by CLECs “any one-time transfer, branding or any other
3 merger-related costs” or “overall management costs,” CenturyLink did not
4 provide a straightforward answer. Instead, CenturyLink stated that it would
5 record costs according to FCC Part 32 and would use forward-looking cost studies
6 to develop UNE rates – rates that would include the Merged Company’s
7 management cost structure post-merger.¹⁴⁶ CenturyLink’s response ignores the
8 issue – *i.e.*, that wholesale customers should not have to pay for any of the costs
9 of the merger and CenturyLink’s merging of the two companies. This is
10 especially true since CenturyLink claims there will be almost \$700 million in
11 savings associated with the merger. These principles have been recognized in
12 numerous previous mergers¹⁴⁷ and the same principle has been applied to retail
13 service rates.¹⁴⁸

14 **Q. CONDITION 7(A) STATES THAT THE MERGED COMPANY WILL**
15 **CONTINUE TO OFFER ANY TERM AND VOLUME DISCOUNT PLANS**
16 **OFFERED AS OF THE MERGER ANNOUNCEMENT DATE FOR AT**

¹⁴⁶ CenturyLink Responses to Integra Minnesota Data Request Set 2, #97 and #98. To make matters worse, there is uncertainty surrounding what cost models the Merged Company will use post-merger. This, too, is concerning because (a) the market participants in Qwest’s region (including my firm QSI Consulting and my CLEC clients) have spent many hours reviewing and understanding Qwest’s cost models for wholesale services (which are mostly consistent across Qwest’s 14-state region) – work that would be undermined by a decision of the Merged Company to import legacy CenturyLink cost models into Qwest’ region post-merger; and (b) I personally reviewed some of CenturyLink legacy cost studies in my prior work for cable CLECs and can say with first-hand knowledge that the sophistication, transparency and auditability of CenturyLink’s cost studies is inferior to Qwest’s legacy cost studies.

¹⁴⁷ Conditions substantially similar to proposed conditions 2 and 3 were adopted by the Oregon PUC in the Verizon/Frontier merger proceeding.

¹⁴⁸ See, ICC order in Verizon/Frontier merger, and Oregon PUC order in Embarq/CenturyTel merger.

1 **LEAST THE DEFINED TIME PERIOD. IS THERE AN EXAMPLE**
2 **DEMONSTRATING THE NEED FOR THIS CONDITION?**

3 A. Yes. On April 30, 2010 (after the Merger Announcement Date¹⁴⁹), Qwest filed a
4 “Product Notification”¹⁵⁰ (with an effective date of June 1, 2010) “to change its
5 Regional Commitment Program (RCP) from a unit based plan to a revenue based
6 plan and raise the commitment level from 90% to 95% of the total Company-
7 provided in-service DS1 and DS3 Revenue.”¹⁵¹ This change was made to the
8 entire 14-state Qwest ILEC territories covered by its Tariff F.C.C. No. 1
9 (interstate access tariff). A RCP is a pricing plan that allows DS1 and/or DS3
10 customers to receive price reductions for committing to a minimum volume on
11 DS1 and/or DS3 circuits for a certain period of time.¹⁵² As of May 31, 2010 (the
12 day before the effective date of Qwest’s Product Notification), the former RCP
13 provisions were no longer available to wholesale customers, and the new, less
14 favorable terms are required going forward.¹⁵³ As Integra informed Qwest, these
15 RCP changes “greatly diminish the value of the RCP” by “increasing the risk
16 associated with the plan” and were put in place shortly before “some of these
17 plans are about to expire.”¹⁵⁴ I have attached Qwest’s Product Notification and
18 Integra’s correspondence with Qwest on this issue as Exhibit AA-5. The point

¹⁴⁹ The Merger Announcement Date, when used in this list of conditions, refers to April 21, 2010, which is the date on which Qwest and CenturyLink entered into their merger agreement.

¹⁵⁰ PROD.RESL.04.30.10.F.07809.DS1_DS3_Services

¹⁵¹ Product Notification: PROD.RESL.04.30.10.F.07809.DS1_DS3_Services, filed April 30, 2010.

¹⁵² Qwest Corporation, Tariff F.C.C. No. 1, 3rd revised page 7-100.

¹⁵³ Qwest Corporation, Tariff F.C.C. No. 1, 3rd revised page 7-100.

¹⁵⁴ See Exhibit AA-5. It is my understanding that Integra’s current RCP expires in the fall 2011. At that time, the new, less favorable RCP terms put in place by Qwest after the Merger Announcement Date will be the only RCP terms available.

1 here is that Qwest is taking steps after the Merger Announcement Date and before
2 the Closing Date to raise barriers to entry and enhance its revenues at the expense
3 of wholesale customers, either in terms of degraded services or higher rates.
4 While this is one example, there can be no question that the Companies are geared
5 towards improving the combined company's financial condition, and because it is
6 most profitable for them to boost revenues at the expense of their competitors,
7 there are (and/or will be) likely other similar examples. CenturyLink has stated
8 that "[o]ne of the Transaction's key benefits is the resulting financial condition of
9 the combined company" and a "financially stronger company can...compete
10 against cable telephony providers, wireless carriers, VoIP offerings, and
11 CLECs..."¹⁵⁵ I do not object to robust competition with the Merged Company so
12 long as the competition is fair, but what I do object to in this instance (and what
13 this example shows) is the Companies' attempting to hinder the CLECs' ability to
14 compete with the Merged Company before the proposed transaction is even
15 approved. That is why it is important to provide protections for the time period
16 between the Merger Announcement Date and Closing Date as well as for the
17 Defined Time Period.

¹⁵⁵ Arizona Joint Application at p. 14, lines 12-15; for similar statements from Qwest, see Campbell Arizona Direct, at p. 18.

1 **VIII. ADDITIONAL CONSIDERATIONS**

2 ***A. If the Merger Leads to Lower Costs, Wholesale Prices Should***
3 ***Come Down Commensurably with Costs***

4 **Q. IF THE MERGER IS APPROVED, SHOULD WHOLESALE**
5 **CUSTOMERS SHARE THE BENEFITS?**

6 A. Yes. As discussed, mergers are driven by the objective to increase shareholder
7 value, which, if it actually happens, is a good thing, since it balances for
8 shareholders the potential risks and rewards for owning the company. In the
9 telecommunications industry, however, retail competition relies critically on
10 access to the ILECs' wholesale services, as provided for in the
11 Telecommunications Act of 1996. This means that in the telecommunications
12 industry there are other significant stakeholders likely to be impacted by the
13 merger: CLECs and their customers. Given that in this merger CLECs are being
14 subjected to significant risks, standard economic theory suggests that they
15 likewise should be allowed to reap potential benefits. Specifically, to the extent
16 that the merger may generate benefits in terms of lower overall network and
17 overhead costs (due to realized efficiencies), cost reductions should flow through
18 to CLECs in the form of, for example, lower transaction costs in relation to
19 dealing with the Merged Company.

20 **Q. ARE ANY ADDITIONAL SAFEGUARDS APPROPRIATE TO ENSURE**
21 **THAT MERGER-DRIVEN COST REDUCTIONS WOULD FLOW**
22 **THROUGH ON A NON-DISCRIMINATORY BASIS TO ALL**

1 **WHOLESALE CUSTOMERS, RATHER THAN JUST AFFILIATES OF**
2 **THE MERGED COMPANY?**

3 A. Yes. To the extent that UNEs and interconnection are required to be priced at
4 TELRIC, forward-looking cost savings should be reflected in lower UNE and
5 interconnection rates as a matter of law. Similarly, with respect to the pricing of
6 other wholesale products, such as special access services, the Merged Companies
7 should be expected to pass through merger-related cost savings at least in part to
8 their wholesale customers in a nondiscriminatory manner.

9 ***B. A Post-Merger CenturyLink Should Waive Future Claims of***
10 ***Rural Exemptions***

11 **Q. WHAT IS THE RURAL EXEMPTION?**

12 A. The Federal Telecommunications Act of 1996 generally requires all ILECs to
13 interconnect their networks and exchange traffic with other telecommunications
14 carriers (Section 251, Section 252). Section 251(f), however, provisionally
15 exempts rural ILECs from the obligations under Section 251(c) until they receive
16 a bona fide request for interconnection from a telecommunications carrier. Once
17 such a request is made, the exemption may be terminated by a state commission,
18 if the commission finds that certain conditions are satisfied. Specifically, Section
19 251(f)(1) generally states that the state commission shall terminate the rural
20 exemption from the 251(c) obligations if the request: (1) is not unduly
21 burdensome; (2) is technically feasible; and (3) is consistent with universal

1 service policies detailed in section 254 (other than subsections (b)(7) and
2 (c)(1)(D).)

3 Many rural carriers have been hiding behind the rural exemption to avoid
4 competition at the expense of rate payers and the public interest at large. In fact,
5 the FCC has taken note and stated that it will clarify the rural exemption so as to
6 prevent abuse:

7 There is evidence that some rural incumbent carriers are resisting
8 interconnection with competitive telecommunications carriers,
9 claiming that they have no basic obligation to negotiate
10 interconnection agreements. [...] Without interconnection for
11 voice service, a broadband provider, which may partner with a
12 competitive telecommunications carrier to offer a voice-video-
13 Internet bundle, is unable to capture voice revenues that may be
14 necessary to make broadband entry economically viable.
15 Accordingly, to prevent the spread of this anticompetitive
16 interpretation of the Act and eliminate a barrier to broadband
17 deployment, the FCC should clarify rights and obligations
18 regarding interconnection to remove any regulatory uncertainty. In
19 particular, the FCC should confirm that all telecommunications
20 carriers, including rural carriers, have a duty to interconnect their
21 networks.¹⁵⁶

22 **Q. SHOULD THE MERGED COMPANY WAIVE ITS RIGHT TO SEEK**
23 **ANY FURTHER RURAL EXEMPTIONS UNDER SECTION 251(F)(1) OR**
24 **SUSPENSIONS AND MODIFICATIONS UNDER SECTION 251(F)(2)?**

25 **A.** Yes. The rural exemption is intended for small rural carriers whose economic
26 viability may be threatened if they were obligated to incur costs to implement all
27 the unbundling and resale provisions of the Telecommunications Act of 1996,
28 such as the costs associated with the development of sophisticated OSS. These

¹⁵⁶ FCC's *Connecting America, the National Broadband Plan*, at p. 49 (<http://www.broadband.gov/download-plan/>).

1 considerations are not relevant with respect to a post-merger CenturyLink because
2 it will provide service (through its affiliates) in 37 states, thus becoming the third
3 largest ILEC in the country, behind AT&T and Verizon. Surely Congress did not
4 intend to exempt the largest incumbent service providers in the nation from their
5 statutory obligations under Section 251. Hence, I recommend that the Merged
6 Company commit to waive its right to seek the exemption for rural telephone
7 companies under Section 251(f)(1) and its right to seek suspensions and
8 modifications for rural carriers under Section 251(f)(2) of the Communications
9 Act.

10 **Q. THE STATUTE ESTABLISHES A SEPARATE PROCESS FOR STATE**
11 **COMMISSIONS TO TERMINATE A RURAL EXEMPTION. DOES**
12 **YOUR RECOMMENDATION INTERFERE WITH THAT PROCESS?**

13 A. No. The imposition of a condition to waive the rural exemption would not
14 interfere with the existing statutory process for terminating an exemption. That
15 process would remain available for competitors to utilize in individual cases. But
16 note that those cases can substantially increase competitors' cost of obtaining
17 interconnection with companies like CenturyLink. Given the circumstances of
18 this transaction, and the fact that CenturyLink will become the third largest ILEC
19 in the nation, it is appropriate to predicate approval of the transaction on
20 Condition 12.

1 **Q. ARE YOU AWARE OF ANY CIRCUMSTANCES IN WHICH A**
2 **COMPANY HAS WAIVED ITS RURAL EXEMPTION, AS YOU HAVE**
3 **RECOMMENDED?**

4 A. Yes. In fact, CenturyLink has recently waived, at least partially, certain
5 protections from the rural exemption in Oregon in order to negotiate a formal
6 interconnection agreement with another carrier. The Oregon PUC determined
7 that federal law, including the statutory process for terminating an exemption,
8 does not preclude a carrier's ability to waive the rural exemption.¹⁵⁷ The Oregon
9 PUC cited state commission decisions in Washington and North Carolina as
10 support for its findings.¹⁵⁸ Notably, the Oregon PUC also cited as support for its
11 conclusion that waivers are permissible the fact that transaction costs associated
12 with a rural exemption termination proceeding can be quite burdensome on the
13 parties, and the state commission. The order explains: "The administrative
14 burden on a state commission and the parties involved in a section 251(f)(1)(B)
15 proceeding relieved by a voluntary waiver is significant and should not be
16 ignored."¹⁵⁹

17 **IX. SUMMARY AND CONCLUSION**

18 **Q. PLEASE SUMMARIZE YOUR TESTIMONY AND STATE YOUR**
19 **CONCLUSIONS.**

¹⁵⁷ See *In the Matter of Western Radio Services Company Request for Interconnection Agreement of CenturyTel of Eastern Oregon, Inc.*, Order Answering Certified Questions, ARB 864, 2009 Ore. PUC LEXIS 421 at **18-23, (Ore. PUC Dec. 14, 2009).

¹⁵⁸ *Id.* at 19.

¹⁵⁹ *Id.* at 19-20.

1 A. In this testimony, I have discussed the troublesome history of mergers and
2 demonstrated that the Commission should prepare for the possibility that this
3 merger, like many others, could fail or otherwise create havoc for the industry.
4 Based upon the serious risks to the public interest inherent in this merger
5 proposal, I recommend that the Commission reject the proposed transaction. In
6 the event that the Commission nevertheless decides to approve it, I recommend
7 that the Commission require the Companies to agree to certain conditions and
8 commitments necessary to protect CLECs and the competitive process. To that
9 purpose, I have identified and discussed specific conditions and commitments that
10 should be required of CenturyLink and Qwest as prerequisites for the merger
11 approval. (A complete list is provided by Mr. Gates in his testimony.)

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

13 A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN MAYES, Chairman
GARY PIERCE, Commissioner
SANDRA KENNEDY, Commissioner
PAUL NEWMAN, Commissioner
BOB STUMP, Commissioner

JOINT NOTICE AND APPLICATION OF)	
QWEST CORPORATION, QWEST)	
COMMUNICATIONS COMPANY, LLC,)	
QWEST LD CORP., EMBARQ)	Docket No. T-01051B-10-0194
COMMUNICATIONS, INC. D/B/A)	Docket No. T-02811B-10-0194
CENTURYLINK COMMUNICATIONS,)	Docket No. T-04190A-10-0194
EMBARQ PAYPHONE SERVICES, INC.)	Docket No. T-20443A-10-0194
D/B/A CENTURYLINK, AND CENTURYTEL)	Docket No. T-03555A-10-0194
SOLUTIONS, LLC FOR APPROVAL OF THE)	Docket No. T-03902A-10-0194
PROPOSED MERGER OF THEIR PARENT)	
CORPORATIONS QWEST)	
COMMUNICATIONS INTERNATIONAL INC.)	
AND CENTURYTEL, INC.)	

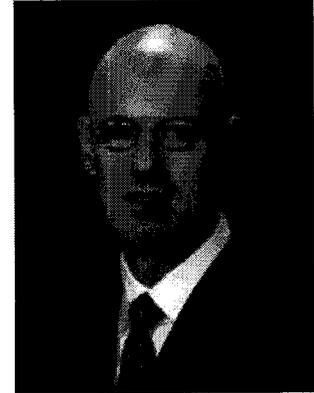
EXHIBIT AA-1



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August H. Ankum, Ph.D.

Senior Vice President
Founding Partner
QSI Consulting, Inc.
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Biography

Dr. Ankum is a founding partner of QSI, serves as Senior Vice President, and is the firm's Chief Economist. Dr. Ankum is an economist and consultant specializing in both domestic and international telecommunications issues. Before co-founding QSI, Dr. Ankum worked directly with a number of the country's largest communications firms in his own practice. Prior to that, in 1996, he served as Senior Economist for MCI Telecommunications Corporation's Public Policy Division, and before that, in 1995, as a Manager in the Regulatory and External Affairs Division of Teleport Communications Group, Inc. (subsequently purchased by AT&T). While at MCI and TCG, Dr. Ankum provided advice and expert testimony regarding the economics of telecommunications and public policy before the FCC and in contested proceedings before state public utility commissions. Over the course of his career, Dr. Ankum has worked on virtually all issues pertaining to the introduction of competition in telecommunications markets. Dr. Ankum began his career in telecommunications with the Texas Public Utility Commission, where he served as the Commission Staff's Chief Telecommunications Economist before leaving in 1994.

Educational Background

Ph.D., Economics <i>University of Texas, Austin, Texas</i>	1992
Master of Arts, Economics <i>University of Texas, Austin, Texas</i>	1987
Bachelor of Arts, Economics <i>Quincy College, Quincy, Illinois</i>	1982



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Professional Experience

QSI Consulting (1999 to Current)	Founding Partner and Senior Vice President
Ankum & Associates (1996 - 1999)	Founding partner and President
MCI (1995 - 1996)	Senior Economist
TCG (1994 - 1995)	Manager
Texas Office of Public Utility Commission (1987 - 1994)	Chief Economist, and Economist.

PROCEEDINGS BEFORE STATE PUBLIC UTILITY COMMISSIONS IN WHICH DR. ANKUM HAS FILED EXPERT WITNESS TESTIMONY:

Before the California Public Utilities Commission Consolidated Docket

Joint Application of AT&T Communications of California, Inc. (U 5002 C) and WorldCom, Inc. for the Commission to Reexamine the Recurring Costs and Prices of Unbundled Switching in Its First Annual Review of Unbundled Network Element Costs Pursuant to Ordering Paragraph 11 of D.99-11-050
On behalf of ATT and MCI

Before the Public Utilities Commission of the State of Colorado Docket No. 08F-259T

Qwest Communications Company, LLC, (Complainant), v. MCIMetro, XO Communications Services, Time Warner Telecom, Granite Telecommunications, Eschelon Telecom, Arizona DialTone, CAN Communications, Bullseye Telecom, Inc., ComTel Telecom Assets, LP, Earnest Communications, Inc., Level3 Communications, LLC, and Liberty Bell Telecom, LLC.
(Respondents)
On behalf of Eschelon Telecom, Inc., XO Communications Services, Inc., Granite Telecommunications, LLC, and ACN Communication Services, Inc. ("Joint CLECs.")



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Before the Public Utilities Commission of the State of Colorado
Docket No. 07A-211T

In the Matter of Qwest Corporation's Application, Pursuant to Decision Nos. C06-1280 and C07-0423, Requesting that the Commission Consider Testimony and Evidence to Set Costing and Pricing of Certain Network Elements Qwest Is Required to Provide Pursuant to 47 U.S.C. §§ 251(B) and (C) On Behalf of CBeyond Communications, Comcast Phone of Colorado, LLC, DIECA Communications, Inc. d/b/a Covad Communications Company, Integra Telecom, Inc., McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services, XO Communications Services, Inc.

Before the Connecticut Department of Public Utility Control
Docket No. 02-05-17

DPUC Investigation of Intrastate Carrier Access Charges
On behalf of AT&T and MCI

Before the Connecticut Department of Public Utility Control
Docket Nos. 09-04-21, 08-12-04

DPUC Investigation into the Southern New England Telephone Company's Cost of Service Re: Reciprocal Compensation and Transit Services
On Behalf of the Connecticut Department of Utility Control

Before the Delaware Public Service Commission
PSC Docket No. 00-025

Petition of Focal Communications Corporation of Pennsylvania For Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Bell Atlantic - Delaware, Inc.
On behalf of Focal Communications Corporation of Pennsylvania

Public Service Commission of the District of Columbia
Formal Case No. 1040

In the Matter of the Investigation into Verizon Washington, D.C. Inc.'s Universal Emergency Number 911 Services Rates in the District of Columbia.
Advisor to the Public Service Commission of the District of Columbia

Before the Federal Communications Commission
CC Docket No. 01-92

In the Matter of Developing a Unified Intercarrier Compensation Regime
On behalf of NuVox Communications, Inc.



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Before the Florida Public Utilities Commission

Docket No. 990649B-TP

Investigation into Pricing of Unbundled Network Elements

On behalf of AT&T Communications of the Southern States, Inc. MCImetro Access Transmission Services, LLC & MCI WorldCom Communications, Inc., Florida Digital Network, Inc. (collectively called the "ALEC Coalition").

Before the Florida Public Utilities Commission

Docket No. 030829-TP

In the Matter of Complaint of FDN Communications for Resolution of Certain Billing Disputes and Enforcement of UNE Orders and Interconnection Agreements with BellSouth Telecommunications, Inc.

On behalf of Florida Digital Network, Inc. d/b/a FDN Communications

Before the Georgia Public Service Commission

Docket No. 6352-U.

AT&T Petition for the Commission to Establish Resale Rules, Rates and terms and Conditions and the Initial Unbundling of Services

On behalf of MCI Telecommunications Corporation

Before the Illinois Commerce Commission

Docket No. 94-0048

Adoption of Rules on Line-Side Interconnection and Reciprocal Interconnection

On behalf of Teleport Communications Group, Inc.

Before the Illinois Commerce Commission

Docket No. 94-0096

Proposed Introduction of a Trial of Ameritech's Customer First Plan in Illinois

On behalf of Teleport Communications Group, Inc.

Before the Illinois Commerce Commission

Docket No. 94-0117

Addendum to Proposed Introduction of a Trial of Ameritech's Customer First Plan in Illinois

On behalf of Teleport Communications Group, Inc.

Before the Illinois Commerce Commission

Docket No. 94-0146

AT&T's Petition for an Investigation and Order Establishing Conditions Necessary to Permit Effective Exchange Competition to the Extent Feasible in Areas Served by Illinois Bell Telephone Company

On behalf of Teleport Communications Group, Inc.



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Before the Illinois Commerce Commission

Docket No. 95-0315

Proposed Reclassification of Bands B and C Business Usage and Business Operator Assistance/Credit Surcharges to Competitive Status
On behalf of MCI Telecommunications Corporation.

Before the Illinois Commerce Commission

Docket 94-480

Investigation Into Amending the Physical Collocation Requirements of 83 Ill. Adm. Code 790
On behalf of MCI Telecommunications Corporation.

Before the Illinois Commerce Commission

Docket No. 95-0458

Petition for a Total Local Exchange Wholesale Tariff from Illinois Bell Telephone Company d/b/a Ameritech Illinois and Central Telephone Company Pursuant to Section 13-505.5 of the Illinois Public Utilities Act
On behalf of MCI Telecommunications Corporation.

Before the Illinois Commerce Commission

Docket No. 95-0296

Citation to Investigate Illinois Bell Telephone Company's Rates, Rules and regulations For its Unbundled Network Component Elements, Local Transport Facilities, and End office Integration Services
On behalf of MCI Telecommunications Corporation.

Before the Illinois Commerce Commission

Docket No. 96-AB-006

In the Matter of MCI Telecommunications Corporation Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish and Interconnection Agreement with Illinois Bell Telephone Company d/b/a Ameritech Illinois
On behalf of MCI Telecommunications Corporation.

Before the Illinois Commerce Commission

Docket No. 96-AB-007

In the Matter of MCI Telecommunications Corporation Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish and Interconnection Agreement with Central Telephone Company of Illinois ("Sprint")
On behalf of MCI Telecommunications Corporation.



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Before the Illinois Commerce Commission

Docket No. 96-0486

Investigation into forward looking cost studies and rates of Ameritech Illinois for interconnection, network elements, transport and termination of traffic.

On behalf of MCI Telecommunications Corporation.

Before the Illinois Commerce Commission

Docket No. 98-0396.

Phase II of Ameritech Illinois TELRIC proceeding

On behalf of MCIWorldCom.

Before the Illinois Commerce Commission

Docket No. 00-0700

Illinois Commerce Commission On its Motion vs Illinois Bell Telephone Company Investigation into Tariff Providing Unbundled Local Switching with Shared Transport

On behalf of AT&T Communications of Illinois, Inc., and WorldCom, Inc.

Before the Illinois Commerce Commission

Docket No. 02-0864

In the Matter of: Illinois Bell Telephone Company, Filing to Increase Unbundled Loop and Nonrecurring Rates (Tariffs Filed December 24, 2002)

On Behalf of WorldCom, Inc., McLeodUSA Telecommunications Services, Inc., Covad Communications Company, TDS Metrocom, LLC, Allegiance Telecom of Illinois, Inc., RCN Telecom Services of Illinois, LLC., Globalcom, Inc., Z-Tel Communications, Inc., XO Illinois, Inc., Forte Communications, Inc., CIMCO Communications, Inc.

Before the Indiana Regulatory Commission

Cause No. 39948

In the matter of the Petition of MCI Telecommunications Corporation for the Commission to Modify its Existing Certificate of Public Convenience and Necessity and to Authorize the Petitioner to Provide certain Centrex-like Intra-Exchange Services in the Indianapolis LATA Pursuant to I.C. 8-1-2-88, and to Decline the Exercise in Part of its Jurisdiction over Petitioner's Provision of such Service, Pursuant to I.C. 8-1-2.6.

On behalf of MCI Telecommunications Corporation

Before the Indiana Regulatory Commission

Cause No. 40178

In the matter of the Petition of Indiana Bell Telephone company, Inc. For Authorization to Apply a Customer Specific Offering Tariff to Provide the Business Exchange Services Portion of Centrex and PBX Trunking Services and for the Commission to Decline to Exercise in Part Jurisdiction over the Petitioner's Provision of such Services, Pursuant to I.C. 8-1-2.6

On behalf of MCI Telecommunications Corporation.



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Before the Indiana Regulatory Commission

Cause No. 40603-INT-01

MCI Telecommunications Corporation Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish and Interconnection Agreement with Indiana Bell Telephone Company d/b/a Ameritech Indiana
On behalf of MCI Telecommunications Corporation.

Before the Indiana Regulatory Commission

Cause No. 40611

In the matter of the Commission Investigation and Generic Proceeding on Ameritech Indiana's Rates for Interconnection Service, Unbundled Elements and Transport and Termination under the Telecommunications Act of 1996 and Related Indiana Statutes
On behalf of MCI Telecommunications Corporation.

Before the Indiana Regulatory Commission

Cause No. 40618

In the Matter of the Commission Investigation and Generic Proceeding on GTE's Rates for Interconnection, Service, Unbundled Elements, and Transport under the FTA 96 and related Indiana Statutes
On behalf of MCI Telecommunication Corporation.

Before the Indiana Regulatory Commission

Cause No. 40611-S1

In the matter of the Commission Investigation and Generic proceeding on the Ameritech Indiana's rates for Interconnection, Unbundled Elements, and Transport and Termination Under the Telecommunications Act of 1996 and Related Indiana Statutes
On behalf of WorldCom, Inc., AT&T Communications of Indiana, G.P.

Before the Indiana Utility Regulatory Commission

Cause No. 42393

In the Matter of the Commission Investigation and Generic Proceeding of Rates and Unbundled Network Elements and Collocation for Indiana Bell Telephone Company, Incorporated D/B/A SBC Indiana Pursuant to the Telecommunications Act of 1996 and Related Indiana Statutes.
On Behalf of WorldCom, Inc. ("MCI") McLeodUSA Telecommunications Services, Inc., Covad Communications Company, Z-Tel Communications, Inc.



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Before the Iowa Department of Commerce Utilities Board

Docket No: RPU – 00 – 01

US West Communications, Inc.,
On behalf of McLeodUSA.

Before the State of Maine Public Utilities Commission

Dockets Nos. 2007-611, 2008-214 through 2008-218, 2009-41-44.

CRC Communications of Maine, Inc., Investigation Pursuant to 47 U.S.C. § 251(f)(1) Regarding CRC Communications of Maine's Request of Lincolnville, Telephone Company, UniTel, Inc., Oxford Telephone Company, Oxford West Telephone Company, Tidewater Telecom, Inc.
On Behalf of CRC Communications, Inc. an Time Warner Cable

Before the Maryland Public Utilities Commission

Case No. 8988

In The matter, The Implementation Of The Federal Communications Commission's Triennial Review Order.
On Behalf of Cavalier Telephone, LLC

Before the Massachusetts Department of Energy and Transportation

D.P.U. 96-83

NYNEX/MCI Arbitration
On behalf of MCI Telecommunications Corporation.

Before the Massachusetts Department of Energy and Transportation

Docket 01-20

Investigation into Pricing based on TELRIC for Unbundled Network Elements and Combinations of Unbundled Networks Elements and the Appropriate Avoided Cost Discount for Verizon New England, Inc. d/b/a Verizon Massachusetts' Resale Services.
On behalf Allegiance, Network Plus, Inc., El Paso Networks, LLC, and Covad Communications Company.

Before the Massachusetts Department of Energy and Transportation

Docket 01-03

Investigation by the Department of Telecommunications and Energy on its own Motion into the Appropriate Regulatory Plan to succeed Price Cap Regulation for Verizon New England, Inc. d/b/a Verizon Massachusetts' intrastate retail telecommunications services in the Commonwealth of Massachusetts
On behalf of Network Plus, Inc.



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Before the Massachusetts Department of Telecommunications and Energy

D.T.E. 03-60

Proceeding by the Department on its own Motion to Implement the Requirements of the Federal Communications Commission's Triennial Review Order Regarding Switching for Mass market Customers

On Behalf of Conversent Communications of Massachusetts, LLC

Before the Massachusetts Department of Telecommunications and Cable

D.T.E. 06-61

Investigation by the department on its own Motion as to the Propriety of the rates and Charges Set Forth in the following tariff: M.D.T.E. No. 14, filed with the Department on June 16, 2006, to become Effective July 16, 2006, by Verizon New England, Inc. d/b/a Verizon Massachusetts

On Behalf of Broadview networks, Inc.; DSCI Corporation; Eureka Telecom, Inc. d/b/a InfoHighway Communications; Metropolitan Telecommunications of Massachusetts, Inc., a/k/a MetTel; New Horizon Communications; and One Communications
9/2006

Before the Massachusetts Department of Telecommunications and Cable

D.T.E. 07-9

Department Investigation into the Intrastate Access Rates of Competitive Local Exchange Carriers
On behalf of One Communications, PAETEC Communications, Inc., RNK Communications, and XO Communications Services, Inc.

Before the Michigan Public Service Commission

Case No. U-10647

In the Matter of the Application of City Signal, Inc. for an Order Establishing and Approving Interconnection Arrangements with Michigan Bell Telephone Company

On behalf of Teleport Communications Group, Inc.

Before the Michigan Public Service Commission

Case No. U-10860

In the Matter, on the Commission's Own Motion, to Establish Permanent Interconnection Arrangements Between Basic Local Exchange Providers

On behalf of MCI Telecommunications Corporation.

Before the Michigan Public Service Commission

Case No. U-11280

In the Matter, on the Commission's Own Motion, to consider the total service long run incremental costs and to determine the prices for unbundled network elements, interconnection services, resold services, and basic local exchange services for Ameritech Michigan

On behalf of MCI Telecommunications Corporation.



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Before the Michigan Public Service Commission

Case No. U-11366

In the matter of the application under Section 310(2) and 204, and the complaint under Section 205(2) and 203, of MCI Telecommunications Corporation against AMERITECH requesting a reduction in intrastate switched access charges

On behalf of MCI Telecommunications Corporation.

Before the Michigan Public Service Commission

Case No. U-13531

In the matter, on the Commission's own motion, to review the costs of telecommunications services provided by SBC Michigan

On behalf of AT&T, Worldcom, Inc., McLeodUSA and TDS Metrocom.

Before the Michigan Public Service Commission

Case No. U-11831

In the Matter of the Commission's own motion, to consider the total service long run incremental costs for all access, toll, and local exchange services provided by Ameritech Michigan

On behalf of MCIWorldCom, Inc.

Before the Michigan Public Service Commission

Case No. U-11830

In the matter of Ameritech Michigan's Submission on Performance Measures, Reporting, and Benchmarks, Pursuant to the October 2, 1998 Order in Case No. U-11654

On behalf of Covad Communications, McLeodUSA Telecommunications Services, Inc., LDMI Telecommunications Inc., Talk America Inc., and XO Communications Services, Inc.

Before the Michigan Public Service Commission

MPSC Case No. U-14952

In the matter of the formal complaint of TDS Metrocom, LLC, LDMI, Telecommunications, Inc and XO Communications Services, Inc against Michigan Bell Telephone Company, d/b/a AT&T Michigan, or in the alternative, an application.

On Behalf of TDS Metrocom, LLC, LDMI, Telecommunications, Inc and XO Communications Services, Inc.

Before the Minnesota Public Utilities Commission

PUC Docket No. P-442, 421, 3012 /M-01-1916

In Re Commission Investigation Of Qwest's Pricing Of Certain Unbundled Network Elements,

On behalf of Otter Tail Telecom, Val-Ed Joint Venture D/B/A 702 Communications, McLeodUSA, Eschelon Telecommunications, USLink.



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Before the Minnesota Public Utilities Commission

PUC Docket No . P-421/AM-06-713

OAH Docket No. 3-2500-17511-2

In the Matter of Qwest Corporation's Application for Commission Review of TELRIC rates Pursuant to 47 U.S.C. § 251

On Behalf of Integra Telecom of Minnesota, Inc.; McLeodUSA Telecommunications Services, Inc.; POPP.com, Inc.; DIECA Communications, Inc., d/b/a Covad Communications Company; TDS Metrocom; and XO Communications of Minnesota, Inc.

Before the Minnesota Public Utilities Commission

PUC Docket #P-421/CI-05-1996

OAH Docket No. 12-2500-17246-2

In the Matter of a Potential Proceeding to Investigate the Wholesale Rate Charged by Qwest

On behalf of Integra Telecom of Minnesota, Inc., McLeodUSA Telecommunications Service, Inc., POPP.com, Inc., DIECA Communications, Inc. d/b/a Covad Communications Company, TDS Metrocom, and XO Communications of Minnesota, Inc.

Before the New Jersey Board of Public Utilities

Petition of Focal Communications Corporation of New Jersey For Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Bell Atlantic

On behalf of Focal Communications Corporation of New Jersey.

Before the New Jersey Board of Public Utilities

Docket No. TO00060356

I/M/O the Board's Review of Unbundled Network Elements Rates, Terms and Conditions of Bell Atlantic-New Jersey, Inc.

On behalf of WorldCom, Inc.

Before the New Jersey Board of Public Utilities

Docket No. TO03090705

In The Matter, The Implementation Of the Federal Communications Commission's Triennial Review Order

On Behalf of Conversent Communications of New Jersey, LLC

Before the New Jersey Board of Public Utilities

Docket No. TX08090830

In the Matter of the Board's Investigation and review of Local Exchange Carrier Intrastate Access Rates

On behalf of One Communications, PAETEC Communications, Inc., US LEC of Pennsylvania, LLC, Level3 Communications, LLC, and XO Communications Services, Inc.



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**Before The New Mexico State Corporation Commission
Docket No. 96-307-TC**

Brooks Fiber Communications of New Mexico, Inc. Petition for Arbitration
On behalf of Brooks Fiber Communications of New Mexico, Inc.

**Before The New Mexico State Corporation Commission
Utility Case No. 3495, Phase B**

In the matter of the consideration of costing and pricing rules for OSS, collocation, shared transport, non-recurring charges, spot frames, combination of network elements and switching.
On behalf of the Commission Staff.

**Before the New York Public Service Commission
Case Nos. 95-C-0657, 94-C-0095, 91-C-1174**

Commission Investigation into Resale, Universal Service and Link and Port Pricing
On behalf of MCI Telecommunications Corporation.

**Before the New York Public Service Commission
Case 99-C-0529**

In the Matter of Proceeding on Motion of the Commission To Reexamine Reciprocal Compensation
On Behalf Of Cablevision LightPath, Inc.

**Before the New York Public Service Commission
Case 98-C-1357**

Proceeding on the Motion of the Commission to Examine New York Telephone Company's Rates for Unbundled Network Elements
On behalf of Corecomm New York, Inc.

**Before the New York Public Service Commission
Case 98-C-1357**

Proceeding on Motion of the Commission to Examine New York Telephone Company's Rates for Unbundled Network Elements
On behalf of MCIWorldCom.

**Before the State Of New York Public Service Commission
CASE 02-C-1425**

In The Matter, Proceeding on Motion of the Commission to Examine the Processes, and Related Costs of Performing Loop Migrations on a More Streamlined (e.g., Bulk) Basic
On Behalf of Conversent Communications of New York, LLC



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Before the Public Utilities Commission of Ohio

Case No. 96-888-TP-ARB

In the Matter of MCI Telecommunications Corporation Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish and Interconnection Agreement with Ameritech Ohio

On behalf of MCI Telecommunications Corporation.

Before the Public Utilities Commission of Ohio

Case No. 96-922-TP-UNC.

In the Matter of the Review of Ameritech Ohio's Economic Costs for Interconnection, Unbundled Network Elements, and Reciprocal Compensation for Transport and Termination of Local Telecommunications Traffic

On behalf of MCI Telecommunications Corporation.

Before the Public Utilities Commission of Ohio

Case No. 00-1368-TP-ATA

In the Matter of the Review of Ameritech Ohio's Economic Costs for Interconnection, Unbundled Network Elements, and Reciprocal Compensation for Transport and Termination of Local Telecommunications Traffic. Case No. 96-922-TP-UNC and In the Matter of the Application of Ameritech Ohio for Approval of Carrier to Carrier Tariff

On behalf of MCIWorldCom and ATT of the Central Region.

Before the Public Utilities Commission of Ohio

Case No. 97-152-TP-ARB

In the Matter of the Petition of MCI Telecommunications Corporation for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Cincinnati Bell Telephone Company

On behalf of the MCI Telecommunications Corporation

Before the Public Utility Commission of Ohio

Case No. 02-1280-TP-UNC

In the Matter of the Review of SBC Ohio's TELRIC Costs for Unbundled Network Elements

On Behalf of MCImetro Access Transmission Services, LLC, McLeodUSA Telecommunications Services, Inc., Covad Communications Company, XO Ohio, Inc., NuVox Communications of Ohio, Inc.

Before the Public Utility Commission of Ohio

Case No. 08-45-TP-ARB

In the Matter of the Petition of Communication Options, Inc. for Arbitration of Interconnection Rates, Terms and Conditions and Related Arrangements with United Telephone Company of Ohio dba Embarq Pursuant to Section 252(b) of The Telecommunications Act of 1996

On Behalf of Communications Options, Inc.



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**Before the Pennsylvania Public Utility Commission
Docket No. I-00940035**

In Re: Formal Investigation to Examine Updated Universal Service Principles and Policies for telecommunications Services in the Commonwealth Interlocutory order, Initiation of Oral Hearing Phase

On behalf of MCI Telecommunications Corporation.

**Before the Pennsylvania Public Utility Commission
Docket No. M-0001352**

Structural Separation of Verizon

On behalf of MCI WorldCom.

Before the Puerto Rico Telecommunications Regulatory Board

Docket No. 97-0034-AR

Petition for Arbitration Pursuant to 47 U.S.C. & (b) and the Puerto Rico Telecommunications Act of 1996, regarding Interconnection Rates Terms and Conditions with Puerto Rico Telephone Company

On behalf of Cellular Communications of Puerto Rico, Inc.

Before the Public Service Commission of South Carolina

Dockets Nos. 2008-325-C, 2008-326-C, 2008-327-C, 2008-328-C, and 2008-329-C

In Re: Docket No. 2008-325-C - Application of Time Warner Cable Information Services (South Carolina), LLC d/b/a Time Warner Cable to Amend its Certificate of Public Convenience and Necessity to Provide Telephone Services in the Service Area of Farmers Telephone Cooperative, Inc. and for Alternative Regulation.

On Behalf of Time Warner Cable

Before the Public Utility Commission of South Dakota

Docket TC07-117

In the Matter of the Petition of Midcontinent Communications for the Approval of its Intrastate Switched Access Tariff and for an Exemption from Developing Company-Specific Cost-Based Switched Access Rates

On Behalf of Midcontinent Communications, Inc.

Before the State of Rhode Island and Providence Plantations Public Utilities Commission

Docket No. 2252

Comprehensive Review of Intrastate Telecommunications Competition

On behalf of MCI Telecommunications Corporation.



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**Before the State of Rhode Island and Providence Plantations Public Utilities Commission
Docket Nos. 3550 and 2861**

In The Matter, Implementation of the Requirements of the FCC's Triennial Review Order ("TRO")
On behalf of Conversent Communications of Rhode Island, LLC

**Before the Tennessee Public Service Commission
Docket No. 96-00067**

Avoidable Costs of Providing Bundled Services for Resale by Local Exchange Telephone Companies
On behalf of MCI Telecommunications Corporation.

**Before the Public Utility Commission of Texas
Docket No. 7790**

Petition of the General Counsel for an Evidentiary Proceeding to Determine Market Dominance
On behalf of the Public Utility Commission of Texas.

**Before the Public Utility Commission of Texas
Docket No. 8665**

Application of Southwestern Bell Telephone Company for Revisions to the Customer Specific Pricing Plan Tariff
On behalf of the Public Utility Commission of Texas.

**Before the Public Utility Commission of Texas
Docket No. 8478**

Application of Southwestern Bell Telephone Company to Amend its Existing Customer Specific Pricing Plan Tariff: As it Relates to Local Exchange Access through Integrated Voice/Data Multiplexers
On behalf of the Public Utility Commission of Texas.

**Before the Public Utility Commission of Texas
Docket No. 8672**

Application of Southwestern Bell Telephone Company to Provide Custom Service to Specific Customers
On behalf of the Public Utility Commission of Texas.

**Before the Public Utility Commission of Texas
Docket No. 8585**

Inquiry of the General Counsel into the Reasonableness of the Rates and Services of Southwestern Bell Telephone Company
On behalf of the Public Utility Commission of Texas.



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Before the Public Utility Commission of Texas

Docket No. 9301

Southwestern Bell Telephone Company Application to Declare the Service Market for CO LAN Service to be Subject to Significant Competition
On behalf of the Public Utility Commission of Texas.

Before the Public Utility Commission of Texas

Docket No. 10382

Petition of Southwestern Bell Telephone Company for Authority to Change Rates
On behalf of the Public Utility Commission of Texas.

Before the Public Utility Commission of Texas

Docket No. 14658

Application of Southwestern Bell Telephone Company, GTE Southwest, Inc., and Contel of Texas, Inc. For Approval of Flat-rated Local Exchange Resale Tariffs Pursuant to PURA 1995 Section 3.2532
On behalf of Office of Public Utility Counsel of Texas.

Before the Public Utility Commission of Texas

Docket No. 14658

Application of Southwestern Bell Telephone Company, GTE Southwest, Inc., and Contel of Texas, Inc. For Interim Number Portability Pursuant to Section 3.455 of the Public Utility Regulatory Act
On behalf of Office of Public Utility Counsel of Texas.

Before the Public Utility Commission of Texas

Docket Nos. 16226 and 16285

Application of AT&T Communications for Compulsory Arbitration to Establish an Interconnection Agreement Between AT&T and Southwestern Bell Telephone Company, and Petition of MCI for Arbitration under the FTA96
On behalf of AT&T and MCI.

Before the Public Utility Commission of Texas

Docket No. 21982

Proceeding to examine reciprocal compensation pursuant to section 252 of the Federal Telecommunications of 1996
On behalf of Taylor Communications.

Before the Public Utility Commission of Texas

Docket No. 25834

Proceeding on Cost Issues Severed from PUC Docket 24542
On behalf of AT&T and MCIMetro.



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**Before the Public Utility Commission of Texas
PUC Docket No. 31831**

Staff's Petition to Determine whether Markets of Incumbent Local Exchange Carriers (ILECs) Should Remain Regulated
On Behalf of the Office of Public Utility Counsel

**Before the Public Utility Commission of Texas
PUC Docket No. 34723**

Petition for Review of Monthly Per-Line Support Amounts from the Texas High Cost Universal Service Plan Pursuant to PURA § 56.031 and P.U.C. Subst. R. 26.403
On Behalf of the Office of Public Utility Counsel

**Before the Public Utility Commission of Texas
Docket No. 33323**

Petition of UTEX Communications Corporation for Post-Interconnection Dispute resolution with AT&T Texas and petition of AT&T Texas for Post Interconnection Dispute Resolution with UTEX Communications Corporation,
On Behalf of UTEX Communications Corporation
10, 2007

**Before the Public Utility Commission of Texas
SOAH Docket No. 473-07-1365
PUC Docket No. 33545**

Application of McLeodUSA Telecommunications Services, Inc. for Approval of Intrastate Switched Access rates Pursuant to PURA Section 52.155 and PUC Subst. R. 26.223
On behalf of McLeodUSA Telecommunications Services

**Before the Utah public Service Commission
Docket No. 01-049-85**

In the Matter of the Determination of the Costs Investigation of the Unbundled Loop of Qwest Corporation, Inc.
On behalf of AT&T and WorldCom.

**Before the Public Service Commission of Utah
Docket No. 09-049-37**

In the Matter of the Complaint of Qwest Corporation against McLeodUSA Telecommunications Services, Inc., d/b/a PAETEC Business Services.
On Behalf of McLeodUSA Telecommunications Services, Inc.



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215-238-1180

Before the Vermont Public Service Board

Docket No. 5713

Investigation into NET's tariff filing re: Open Network Architecture, including the Unbundling of NET's Network, Expanded Interconnection, and Intelligent Networks

On behalf of MCI Telecommunications Corporation.

Before the Washington Utilities and Transportation Commission

Docket No. UT-090892

Qwest Corporation (Complainant) v. McLeodUSA Telecommunications Services, Inc., d/b/a PAETEC Business Services (Respondent).

On Behalf of McLeodUSA Telecommunications Services, Inc.

Before the Public Service Commission of Wisconsin

Cause No. 05-TI-138

Investigation of the Appropriate Standards to Promote Effective Competition in the Local Exchange Telecommunications Market in Wisconsin

On behalf of MCI Telecommunications Corporation.

Before the Public Service Commission of Wisconsin

Docket 670-TI-120

Matters relating to the satisfaction of conditions for offering interLATA services (Wisconsin Bell, Inc. d/b/a Ameritech Wisconsin)

On behalf of MCI Telecommunications Corporation.

Before the Public Service Commission of Wisconsin

Docket Nos. 6720-MA-104 and 3258-MA-101

In the Matter of MCI Telecommunications Corporation Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Wisconsin Bell, Inc. d/b/a Ameritech Wisconsin

On behalf of MCI Telecommunications Corporation.

Before the Public Service Commission of Wisconsin

Docket No. 05-TI-349

Investigation Into The Establishment of Cost-Related Zones For Unbundled Network Elements,

On behalf of AT&T Communications of Wisconsin, McLeodUSA Telecommunications Services, Inc., TDS MetroCom, Inc., and Time Warner Telecom.

Before the Public Service Commission of Wisconsin

Docket No. 6720-TI-161

Investigation into Ameritech Wisconsin's Unbundled Network Elements

On Behalf Of AT&T Communications of Wisconsin, Inc., WorldCom, Inc., Rhythms Links, Inc., KMC Telecom, Inc., and McLeodUSA ("CLEC Coalition")



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AFFIDAVITS AND DECLARATIONS SUBMITTED TO THE FEDERAL COMMUNICATIONS COMMISSION

Before the Federal Communications Commission

File No. EB-04-MD-006.

EarthLink, Inc. (Complainant) v. SBC Communications Inc., SBC

Advanced Solutions, Inc. (Defendants)

On Behalf of Earthlink, Inc.

Before the Federal Communications Commission

CC Docket No. 04-223

In the Matter of Petition of Qwest Corporation for Forbearance Pursuant to 47 U.S.C. § 160(c)

in the Omaha Metropolitan Statistical Area

Declaration on Behalf of McLeodUSA, Inc.

Before the Federal Communications Commission

CC Docket No. 01-92

In the Matter of Developing a Unified Inter-carrier Compensation Regime

Declaration on behalf of NuVox Communications

Before the Federal Communications Commission

CC Docket No. 01-92

In the Matter of Developing a Unified Inter-carrier Compensation Regime

On Behalf of Cavalier Telephone, Inc.

Before the Federal Communications Commission

WC Docket No. 05-337 CC Docket No. 96-45 WC Docket No. 03-109 WC Docket No. 06-122 CC Docket No. 99-200 CC Docket No. 96-98 CC Docket No. 01-92 CC Docket No. 99-68 WC Docket No. 04-36

In the Matter of High-Cost Universal Service Support Federal-State Joint Board on Universal Service Lifeline and Link Up Universal Service Contribution Methodology, Numbering Resource

Optimization Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, Developing a Unified Inter-carrier Compensation Regime, Inter-carrier

Compensation for ISP-Bound Traffic IP-Enabled Services

On behalf of PAETEC



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Before the Federal Communications Commission

WC Docket No. 07-97

In the Matter of Petitions of Qwest Corporation for Forbearance Pursuant to 47 U.S.C. § 160(c) in the Denver, Minneapolis-St. Paul, Phoenix, and Seattle Metropolitan Statistical Areas
On Behalf of PAETEC

Before the Federal Communications Commission

WC Docket No. 09-223

In the Matter of: Cbeyond, Inc. Petition for Expedited Rulemaking to Require Unbundling of Hybrid, FTTH, and FTTC Loops Network Elements Pursuant to 47 U.S.C. §251(c)(3) Of the Act
On behalf of Covad Communications, Inc.

Before the Federal Communications Commission

GN Docket Nos. 09-47, 09-51, 09-137

Comments Sought on Broadband Study Conducted by the Berkman Center for Internet and Society, NBP Public Notice #13
On Behalf of Covad Communications Company

MISCELLANEOUS

**U.S. District Court, Northern District of Illinois
Eastern Division**

Case No. 05-C-6250

Cingular Wireless, LLC, a Delaware Limited Liability Company V Omar Ahmad
On behalf of Omar Ahmad.

Ingham County Circuit Court

Case No. 04-689-CK

T&S Distributors, LLC Custom Software, Inc., Arq, Inc., Absolute Internet, Inc., CAC Medianet, Inc., ACD Telecom, Inc., and Telnet Worldwide, Inc. V. Michigan Bell Telephone Company, d/b/a SBC Michigan.

On Behalf of ACD Telecom, Inc. and Telnet Worldwide, Inc.

Before the Michigan House Committee on Energy and Technology

Presentation on House Bills 4257, August 2009

On Behalf of Michigan Internet and Telecommunications Alliance

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN MAYES, Chairman
GARY PIERCE, Commissioner
SANDRA KENNEDY, Commissioner
PAUL NEWMAN, Commissioner
BOB STUMP, Commissioner

JOINT NOTICE AND APPLICATION OF)	
QWEST CORPORATION, QWEST)	
COMMUNICATIONS COMPANY, LLC,)	
QWEST LD CORP., EMBARQ	)	Docket No. T-01051B-10-0194
COMMUNICATIONS, INC. D/B/A	)	Docket No. T-02811B-10-0194
CENTURYLINK COMMUNICATIONS,	)	Docket No. T-04190A-10-0194
EMBARQ PAYPHONE SERVICES, INC.	)	Docket No. T-20443A-10-0194
D/B/A CENTURYLINK, AND CENTURYTEL	)	Docket No. T-03555A-10-0194
SOLUTIONS, LLC FOR APPROVAL OF THE	)	Docket No. T-03902A-10-0194
PROPOSED MERGER OF THEIR PARENT)	
CORPORATIONS QWEST)	
COMMUNICATIONS INTERNATIONAL INC.))	
AND CENTURYTEL, INC.)	

EXHIBIT AA-2

THE PROMISES VS. REALITIES OF RECENT ILEC MERGERS AND ACQUISITIONS

Transaction	Broadband / New Services Deployments		Service Quality	
	Pre-Merger Claims	Post-Merger Reality	Pre-Merger Claims	Post-Merger Reality
Carlyle Group's Acquisition of Verizon-Hawaii (aka Hawaiian Telcom)	"In short order we will offer new services to our customers, including expanded broadband..." Carlyle Press Release 5/21/04	From 2006 through 3Q 2008, added only 3,247 net retail broadband lines Hawaiian Telcom 2007 Form 10-K and 3Q2008 10-Q	"Applicants also allude to improved customer service that will be achieved through investment in state-of-the-art back office systems." HI PUC Order No. 21696, at 20	"Largely because of impacts from this cutover, Hawaiian Telcom also experienced very significant slow-downs in call answer and handling times in its customer contact centers and errors in its billing during this time [7/06-9/07]" HI PUC Annual Report 2008-2009, at 58.
FairPoint's Acquisition of Verizon operations in ME, NH, and VT	Will invest to expand offering of LD, DSL, web-hosting, and hosted e-mail services in region. FCC Application. at 17 "FairPoint plans to increase broadband availability from current levels in Maine, New Hampshire, and Vermont within twelve months after the completion of the merger..." FCC Application at 18	Reorganization Plan includes delays/cut-backs to broadband deployment commitments, foregoes cap on DSL rates "I am concerned that FairPoint has used the bankruptcy proceeding as an opportunity to renege on its promises to Maine consumers especially in the area of broadband build out." Dissent of Commissioner Viafades, MPUC Order 7/6/10	"...will enhance service quality and promote competition..." FCC Application at 18	Retail -- Severe service quality declines, 2009 trigger of maximum payment under Retail SQ Plan. VT PSB Order 6/28/10 at 10 Wholesale -- OSS failures, order fail-out and manual handling. <i>Id.</i> at 68-69

Transaction	Closing Date	Broadband / New Services Deployments		Service Quality	
		Pre-Merger Claims	Post-Merger Reality	Pre-Merger Claims	Post-Merger Reality
Frontier's Acquisition of Verizon operations in 14 states	July 2010	"Frontier believes that... it can dramatically accelerate broadband penetration in these new markets over time." FCC Application at 3	Too early to assess	"this transaction will be seamless for retail and wholesale customers" FCC Application at 4	Wholesale OSS failures, ordering delays, understaffed Access Order centers, trouble report backlogs
CenturyTel-Embarq Merger	July 2009	"...consumers will also benefit from more rapid deployment of advanced services, including IPTV and next-generation broadband-based services" FCC Application at 4	Separately, CT and Embarq added 185,000 broadband lines in 2008; in 2009, the merged company added 191,000 - just 6,000 lines more. CT and Embarq Form 10-Ks for 2008, 2009	"the proposed transaction will not disrupt services to customers of CenturyTel and Embarq" FCC Application at 7	CenturyLink seeks waiver of FCC's 1 bus.-day number porting req't. CL Petition filed 6/7/10 tw telecom and Socket Telecom experience EASE system failures beginning in late 2009. 7/12/10 Comments to FCC at 29-30

Transaction	Closing Date	Job Creation		Financial Stability/Performance	
		Pre-Merger Claims	Post-Merger Reality	Pre-Merger Claims	Post-Merger Reality
Carlyle Group's Acquisition of Verizon-Hawaii (aka Hawaiian Telecom)	May 2005	"...we expect to add many new jobs after the acquisition." Carlyle Press Rel. 5/21/04	March 2010, approx. 1450 employees -- 15% decline from pre-sale level Form 10-A 5/16/10 and Honolulu Starbulletin, 10/14/04	"Carlyle has a track record of successful telecommunications investments..." Carlyle Press Rel. 5/21/04	Dec 2008, Chapter 11 Bankruptcy Filing Annual RoR as of June 2009: <u>-29.3%</u>

Transaction	Job Creation			Financial Stability/Performance	
	Closing Date	Pre-Merger Claims	Post-Merger Reality	Pre-Merger Claims	Post-Merger Reality
FairPoint's Acquisition of Verizon operations in ME, NH, and VT	March 2008	"Preserve 3000 In-region jobs, Add 600 New Jobs, Add 3 New In-region Local Service Centers"	Chapter 11 Reorganization Plan defers raises, creates task force to cut operating expenses by \$-millions. Nashua Telegraph 2/9/10	"the proposed transaction will further enhance FairPoint's ability to serve customers in these states by improving its overall financial flexibility and stability" FCC Appln. at 19	Oct 2009, Chapter 11 Bankruptcy Filing "FairPoint's actual performance throughout 2008 and 2009 turned out to be worse than the Board's most pessimistic assumptions." VT PSB Order 6/28/10 at 58
Frontier's Acquisition of Verizon operations in 14 states	July 2010	"Frontier will operate a regional operations headquarters in Charleston, West Virginia, creating and preserving jobs..." FCC Appln., Public Interest Stmt. at 22	Pending, too early to assess	"the transaction will transform Frontier by strengthening its balance sheet. Once the transaction closes, Frontier expects that its ratio of debt to EBITDA will decrease from 3.8 to 2.6..."	"Our net debt to adjusted EBITDA ratio at quarter end was 3.9x, comparable to Q4 2009." Frontier 1Q2010 Earnings Call Transcript 5/6/10 (Seeking Alpha.com)
CenturyTel-Embarq Merger	July 2009	No commitments made	CL "management has cut about 1,000 from its 20,000 employee base." <i>CenturyLink lays off another 600 Embarq workers</i> , Fierce Telecom 1/11/10	"the merger will ... help ensure the future financial stability of the combined enterprise." FCC Appln. at 4	"The negative rating outlook ...reflects the considerable execution risks in integrating a sizeable company so soon after another large acquisition (Embarq in July 2009)" Moody's, Rating Action 4/22/10

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN MAYES, Chairman
GARY PIERCE, Commissioner
SANDRA KENNEDY, Commissioner
PAUL NEWMAN, Commissioner
BOB STUMP, Commissioner

JOINT NOTICE AND APPLICATION OF)	
QWEST CORPORATION, QWEST)	
COMMUNICATIONS COMPANY, LLC,)	
QWEST LD CORP., EMBARQ)	Docket No. T-01051B-10-0194
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D/B/A CENTURYLINK, AND CENTURYTEL)	Docket No. T-03555A-10-0194
SOLUTIONS, LLC FOR APPROVAL OF THE)	Docket No. T-03902A-10-0194
PROPOSED MERGER OF THEIR PARENT)	
CORPORATIONS QWEST)	
COMMUNICATIONS INTERNATIONAL INC.)	
AND CENTURYTEL, INC.)	

EXHIBIT AA-3

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
RESULTING FROM THE PROPOSED TRANSACTION**

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Systems Integration	<p>“Specific integration initiatives and associated expenditures will not be fully developed until the transaction is complete, and the necessary decisions have been made on how to best integrate the two companies. It is anticipated the combined company will incur integration costs related to system and customer conversions (including hardware and software costs) and certain employee-related severance costs.”</p> <p>“Upon merger closing, CenturyLink does not anticipate any immediate changes to the Qwest CLEC OSS systems. Integration planning is in the early stages and decisions have not been made at this time... Wholesale customers will be provided advance notification of any systems changes that occur post close.”</p> <p>“Until the Transaction is complete, and the necessary decisions have been made on how to best integrate the two companies, plans for specific changes to the Qwest or CenturyLink Operations Support Systems (OSS) have not been fully developed.”</p>	Ken Buchan	<p>July 20, 2010 (AZ)</p> <p>July 19, 2010 (CO)</p> <p>July 23, 2010 (IA)</p> <p>July 14, 2010 (OR)</p> <p>July 20, 2010 (UT)</p> <p>July 16, 2010 (WA)</p>	<p>Integra AZ DR #47</p> <p>Integra CO DR #47</p> <p>PAETEC IA DR # 47</p> <p>Joint CLECs OR DR #51</p> <p>Integra UT DR # 47</p> <p>Integra WA DR # 47</p>
		Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (WA)	<p>July 20, 2010 (AZ)</p> <p>July 19, 2010 (CO)</p> <p>July 23, 2010 (IA)</p> <p>July 14, 2010 (OR)</p> <p>July 20, 2010 (UT)</p> <p>July 16, 2010 (WA)</p>	<p>Integra AZ DR # 23</p> <p>Integra CO DR # 23</p> <p>PAETEC IA DR # 23</p> <p>Joint CLECs OR DR #27</p> <p>Integra UT DR # 23</p> <p>Integra WA DR # 23</p>
		Mike Hunsucker	June 25, 2010	Washington UTC Staff DR # 84

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
RESULTING FROM THE PROPOSED TRANSACTION**

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Systems Integration	“CenturyLink has not yet conducted the detailed analysis necessary to compare and contrast Qwest’s and CenturyLink’s OSS systems.”	John Felz	July 13, 2010	Montana Consumer Counsel DR # 61
	“Integration planning is in the early stages and decisions on wholesale OSS systems have not been made at this time.”	Mike Hunsucker	July 2, 2010	Oregon PUC Staff DR # 60
	“Until the Transaction is complete, and the necessary decisions have been made on how to best integrate the two companies, plans for specific changes to any processes or systems that CLECs currently utilize in purchasing wholesale services from Qwest have not been developed.”	Mike Hunsucker	June 25, 2010	Washington UTC Staff Data Request #s 85, 87
	“No decisions on integration can reasonably be made until after the transaction is closed. At this time, system integration plans for the proposed transaction with Qwest, including plans for billing system integration, have not been fully developed.”	John Felz	June 25, 2010	Washington UTC Staff DR # 90
	“Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest billing platform. A detailed comparison of CenturyLink’s and Qwest’s Billing Support Systems has not been conducted at this time... The merger is intended to bring about improved efficiencies and practices in all parts of the combined company, so changes could be expected over time.”	Melissa Closz	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 34 Integra CO DR # 34 PAETEC IA DR # 34 Joint CLECs OR DR #38 Integra UT DR # 34 Integra WA DR # 34

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
RESULTING FROM THE PROPOSED TRANSACTION**

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	
Systems Integration	<p>“Upon merger closing, there will be no immediate changes to Qwest’s or CenturyLink’s Provisioning Systems. CenturyLink has not evaluated its processes and compared them to Qwest’s processes at this time. Integration planning is in the early stages and decisions have not been made at this time... The merger is intended to bring about improved efficiencies and practices in all parts of the combined company, so changes could be expected over time.”</p> <p>“A detailed comparison of CenturyLink’s and Qwest’s repair processes has not been conducted at this time. System integration plans for the proposed transaction with Qwest have not been fully developed.”</p> <p>“A detailed comparison of CenturyLink’s and Qwest’s trouble ticket initiation processes has not been conducted at this time. System integration plans for the proposed transaction with Qwest have not been fully developed. In fact, complete integration</p>	<p>Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (MN, UT) John Felz (OR, WA)</p>	<p>July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)</p>	<p>Integra AZ DR # 35h Integra CO DR # 35h PAETEC IA DR # 35h Integra MN DR # 2-35h Joint CLECs OR DR #39(h) Integra UT DR # 35(h) Integra WA DR # 35h</p>
		<p>Mark Akason & Mike Jewell</p>	<p>July 23, 2020 (IA) July 8, 2010 (MN) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)</p>	<p>PAETEC IA DR # 31 Integra MN DR # 31 Joint CLECs OR DR #35 Integra UT DR # 31 Integra WA DR # 31</p>
		<p>Mark Akason & Mike Jewell</p>	<p>July 23, 2010 (IA) July 8, 2010 (MN)</p>	<p>PAETEC IA DR # 30 Integra MN DR # 30 Joint CLECs OR DR #34</p>

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
RESULTING FROM THE PROPOSED TRANSACTION**

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS			
Issue	Response	CenturyLink Respondent Name	Response Date(s) Data Request Information
Systems Integration	plans cannot be developed until the merger is concluded."		(OR) July 20, 2010 (UT) July 16, 2010 (WA) July 16, 2010 (WA)
	"Upon merger closing, CenturyLink does not anticipate immediate changes to the Qwest CLEC trouble reporting system. A detailed comparison of CenturyLink's and Qwest's trouble reporting systems has not been conducted at this time."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (OR, WA)	Integra AZ DR # 32 Integra CO DR # 32 PAETEC IA DR # 32 Joint CLECs OR DR #36 Integra UT DR # 32 Integra WA DR # 32
	"Until the Transaction is complete, and the necessary decisions have been made on how to best integrate the two companies and their respective call databases, plans for specific changes to the Qwest and CenturyLink Call Management Services Data Base, Local Number Portability, and Line Information Data Base, if any, have not been fully developed."	John Felz	June 25, 2010	Washington UTC Staff DR # 82

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
RESULTING FROM THE PROPOSED TRANSACTION**

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS					
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information	
Systems Integration	<p>“Until the Transaction is complete, and the necessary decisions have been made on how to best integrate the two companies, plans for specific changes to the Qwest E911 systems, if any, have not been developed.”</p>	Mark Harper (AZ, IA)	July 20, 2010 (AZ)	Washington UTC Staff DR # 83	
		Ted Hankins (CO)	July 23, 2010 (CO)		
		Ann Prockish (UT)	July 16, 2010 (IA)		
		John Felz (WA)	July 20, 2010 (UT)		
	<p>“At this time decisions regarding the systems or platforms that will be used post-merger have not been made.”</p>	Mark Harper (AZ, IA)	July 16, 2010 (WA)	July 20, 2010 (AZ)	Integra AZ DR # 4
		Ted Hankins (CO)	Mark Harper (AZ, IA)	July 19, 2010 (CO)	PAETEC IA DR # 4
		Ann Prockish (UT)	Ted Hankins (CO)	July 23, 2010 (IA)	Integra CO DR # 4
		John Felz (OR, WA)	Ann Prockish (UT)	July 14, 2010 (OR)	Joint CLECs OR DR #8
	<p>“Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest preorder gateway. A detailed comparison of CenturyLink’s and Qwest’s processes has not been conducted at this time.”</p>	Mark Harper (AZ, IA)	John Felz (OR, WA)	July 20, 2010 (UT)	Integra UT DR # 4
		Ted Hankins (CO)	Ann Prockish (UT)	July 16, 2010 (WA)	Integra WA DR # 4
		Ann Prockish (UT)	Mark Harper (AZ, IA)	July 20, 2010 (AZ)	Integra AZ DR # 43
			Ted Hankins (CO)	July 19, 2010 (CO)	Integra CO DR # 43
		Ann Prockish (UT)	July 23, 2010 (IA)	PAETEC IA DR # 43	
			July 14, 2010 (OR)	Joint CLECs OR DR #47	

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
RESULTING FROM THE PROPOSED TRANSACTION**

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Systems Integration		John Felz (OR, WA)	July 20, 2010 (UT) July 16, 2010 (WA)	Integra UT DR # 43 Integra WA DR # 43
	"Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest CLEC order entry system. A detailed comparison of CenturyLink's and Qwest's processes has not been conducted at this time."	Mark Harper (AZ, IA)	July 20, 2010 (AZ)	Integra AZ DR # 44
		Ted Hankins (CO)	July 19, 2010 (CO)	Integra CO DR # 44
		Ann Prockish (UT)	July 23, 2010 (IA)	PAETEC IA DR # 44
		John Felz (OR, WA)	July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)	Joint CLECs OR DR #48 Integra UT DR # 44 Integra WA DR # 44
Operations Integration	"A detailed integration planning statement indicating specific dates and events has not been developed. Detailed planning processes will begin on or about the close of the merger and will involve the review of existing systems and practices." "Identification of 'best practices' associated with the integration of CenturyLink and Qwest operations will be completed as part of the detailed integration planning efforts. Until the integration teams are formed, and the detailed data gathering process can be completed, an analysis regarding the identification and/or adoption of 'best practices' is not available."	CenturyLink response	June 16, 2010	Iowa Office of Consumer Advocate DR # 1-012A
		Mark Gast	July 20, 2010 (AZ)	Integra AZ DR # 52(g)
			July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN)	Integra CO DR # 52(g) PAETEC IA DR # 52(g) Integra MN DR # 52(g)

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
RESULTING FROM THE PROPOSED TRANSACTION**

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Operations Integration			July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)	Joint CLECs OR DR #56(g) Integra UT DR # 52(g) Integra WA DR # 52(g)
	“Until the transaction is complete, and the necessary decisions have been made on how to best to coordinate and/or integrate the Qwest and CenturyLink operating entities, specific plans related to the wholesale operations of CenturyLink and Qwest cannot be developed.”	John Felz	July 13, 2010	Montana Consumer Counsel DR # 62
	“No decisions on integration can reasonably be made until after the transaction is closed. Before the company can make a determination on any changes in Network Operations Centers (NOC), the company needs more time and data to assess the work being performed at various NOCs, the appropriate location for centers in order to best serve the needs of customers and the scope of those centers.”	John Felz	July 1, 2010	Washington UTC Staff DR # 107
	“Until the transaction has been completed and the necessary decisions have been made, specific details regarding the implementation (who? what? where? when? why? how?) of these planning assumptions will not be available.”	Jeff Glover	June 4, 2010	Arizona Corporation Commission Staff DR # 1-001

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
RESULTING FROM THE PROPOSED TRANSACTION**

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Operations Integration	“Integration planning is in the early stages and decisions on [wholesale] personnel, location of [wholesale] personnel, etc. have not been made at this time”	Mike Hunsucker	July 2, 2010	Oregon PUC Staff DR # 54
	“ . . . upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest wholesale operations. A detailed comparison of CenturyLink’s and Qwest’s processes has not been conducted at this time. However, because the transaction results in the entirety of Qwest, including operations and systems, merging into and operating as a subsidiary of CenturyLink, it will allow a disciplined approach to reviewing systems and practices and will allow integration decisions to proceed in an orderly manner.”	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (OR, WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 46 Integra CO DR # 46 PAETEC IA DR # 46 Joint CLECs OR DR #50 Integra UT DR # 46 Integra WA DR # 46
		Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (OR, WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 64 Integra CO DR # 64 PAETEC IA DR # 64 Joint CLECs OR DR #68 Integra UT DR # 64 Integra WA DR # 64
“Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest Firm Order Commitment dates. A detailed comparison of CenturyLink’s and Qwest’s processes has not been conducted at this time. System integration plans for the proposed transaction with Qwest have not been fully developed.”				

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
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EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Operations Integration	<p>“A detailed comparison of CenturyLink’s and Qwest’s repair processes has not been conducted at this time. System integration plans for the proposed transaction with Qwest have not been fully developed.”</p> <p>“Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest CLEC ASR and LSR processes. Integration planning is in the early stages and decisions have not been made at this time.”</p>	<p>Mark Akason & Mike Jewell</p>	<p>July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 14, 2010 (OR) July 20, 2010 (UT)</p>	<p>Integra AZ DR # 31 Integra CO DR # 31 PAETEC IA DR # 31 Joint CLECs OR DR #35 Integra UT DR # 31</p>
		<p>Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (OR, WA)</p>	<p>July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)</p>	<p>Integra AZ DR # 26 Integra CO DR # 26 PAETEC IA DR # 26 Joint CLECs OR DR #30 Integra UT DR # 26 Integra WA DR # 26</p>

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
RESULTING FROM THE PROPOSED TRANSACTION**

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Operations Integration	<p>“Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest Standard Interval Guide. A detailed comparison of CenturyLink’s and Qwest’s processes has not been conducted at this time.”</p> <p>“Decisions regarding the locations of the remaining regional headquarters have not been made.”</p> <p>“Upon merger closing CenturyLink does not anticipate any changes to the Qwest local number portability process. A detailed comparison of CenturyLink’s and Qwest’s processes has not been conducted at this time.”</p>	<p>Mark Harper (AZ, IA) Ann Prockish (MN, UT) John Felz (OR, WA)</p>	<p>July 20, 2010 (AZ) July 23, 2010 (IA) July 8, 2010 (MN) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)</p>	<p>Integra AZ DR # 82 PAETEC IA DR # 82 Integra MN DR # 82 Joint CLECs OR DR #86 Integra UT DR # 82 Integra WA DR # 82</p>
		<p>Ted Hankins (CO) Mark Harper (IA) Ann Prockish (MN, UT) John Felz (OR, WA)</p>	<p>July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)</p>	<p>Integra CO DR # 147 PAETEC IA DR # 145 Integra MN DR # 147 Joint CLECs OR DR #151 Integra UT DR # 147 Integra WA DR # 147</p>
		<p>Melissa Closz</p>	<p>July 20, 2010 (AZ) July 19, 2010 (CO)</p>	<p>Integra AZ DR # 155 Integra CO DR # 155</p>

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
RESULTING FROM THE PROPOSED TRANSACTION**

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
			July 23, 2010 (IA) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)	PAETEC IA DR # 153 Joint CLECs OR DR # 159 Integra UT DR # 155 Integra WA DR # 155
Operations Integration	“Until the transaction is complete and necessary decisions have been made on how to best integrate the two companies, CenturyLink cannot project the timing or nature of changes, if any, to employees...”	John Felz	July 13, 2010	Montana Consumer Counsel DR # 66
	“Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest CLEC trouble reporting processing. A detailed comparison of CenturyLink’s and Qwest’s locations and hours of operation has not been conducted at this time.”	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (OR, WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 33 Integra CO DR # 33 PAETEC IA DR # 33 Joint CLECs OR DR # 37 Integra UT DR # 33 Integra WA DR # 33

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
RESULTING FROM THE PROPOSED TRANSACTION**

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Operations Integration	“A more detailed management organization table for the post-merger business is not available at this time.”	CenturyLink response	June 16, 2010	Iowa Office of Consumer Advocate DR # 1-001
	“Until the Transaction is complete, and the necessary decisions have been made on how to best integrate the two companies, plans for 911 ordering and provisioning processes to be used have not been developed.”	John Felz	July 1, 2010	Washington UTC Staff DR # 106
Change Management Process	“Upon merger closing, there will be no immediate changes to Qwest’s or CenturyLink’s Change Management Processes (CMP) or CMD [sic] documents. Integration plans for the proposed transaction with Qwest have not been fully developed. The merger is intended to bring about improved efficiencies and practices in all parts of the combined company, so changes could be expected over time.”	Melissa Closz	July 20, 2010 (AZ); July 19, 2010 (CO); July 23, 2010 (IA); July 8, 2010 (MN); July 14, 2010 (OR); July 20, 2010 (UT); July 16, 2010 (WA)	Integra AZ DR # 118 Integra CO DR # 118 PAETEC IA DR # 118 Integra MN DR # 118 Joint CLECs OR DR #122 Integra UT DR # 118 Integra WA DR # 118

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
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EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS					
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information	
Change Management Process	<p>“Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest Product Catalogs. A detailed comparison of CenturyLink’s and Qwest’s processes has not been conducted at this time.”</p>	<p>Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (OR, WA)</p>	July 20, 2010 (AZ)	Integra AZ DR # 91	
			July 19, 2010 (CO)	Integra CO DR # 91	
			July 23, 2010 (IA)	PAETEC IA DR # 91	
			July 14, 2010 (OR)	Joint CLECs OR DR #95	
			July 20, 2010 (UT)	Integra UT DR # 91	
		July 16, 2010 (WA)	Integra WA DR # 91		
		<p>“Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest Technical Publications. A detailed comparison of CenturyLink’s and Qwest’s processes has not been conducted at this time.”</p>	<p>Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (OR, WA)</p>	July 20, 2010 (AZ)	Integra AZ DR # 107
				July 19, 2010 (CO)	Integra CO DR # 107
				July 23, 2010 (IA)	PAETEC IA DR # 107
				July 14, 2010 (OR)	Joint CLECs OR DR #111
July 20, 2010 (UT)	Integra UT DR # 107				
July 16, 2010 (WA)	Integra WA DR # 107				

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
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EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Performance Assurance Plan	<p>“Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest performance plans. A detailed comparison of CenturyLink’s and Qwest’s processes has not been conducted at this time.”</p>	<p>Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (MN, UT) John Felz (OR, WA)</p>	<p>July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)</p>	<p>Integra AZ DR # 61 Integra CO DR # 61 PAETEC IA DR # 61 Integra MN DR # 61 Joint CLECs OR DR #65 Integra UT DR # 61 Integra WA DR # 61</p>
Wholesale Rates	<p>“CenturyLink has not evaluated or reached any conclusions regarding this issue [whether CenturyLink will seek modification to any wholesale rates post-merger] at this time.”</p>	<p>Ted Hankins (CO) Mark Harper (IA) Ann Prockish (MN, UT) John Felz (OR, WA)</p>	<p>July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)</p>	<p>Integra CO DR # 86 PAETEC IA DR # 86 Integra MN DR # 86 Joint CLECs OR DR #90 Integra UT DR # 86 Integra WA DR # 86</p>

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
RESULTING FROM THE PROPOSED TRANSACTION**

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Wholesale Rates	<p>“The impact if any on wholesale rates cannot be determined until the transaction is complete and the necessary decisions have been made on how to best integrate the two companies.”</p> <p>“Upon merger closing there will be no immediate changes to Qwest’s or CenturyLink’s term and volume discount plans. CenturyLink has not evaluated or reached any conclusions concerning this issue at this time.”</p>	<p>Mark Gast</p> <p>Mark Harper (AZ) Ann Prockish (UT) John Felz (OR, WA)</p>	July 19, 2010 (CO)	Integra CO DR # 52(l)
			July 23, 2010 (IA)	PAETEC IA DR # 52(l)
			July 8, 2010 (MN)	Integra MN DR # 52(l)
			July 14, 2010 (OR)	Joint CLECs OR DR #56(l)
			July 20, 2010 (UT)	Integra UT DR # 52(l)
			July 16, 2010 (WA)	Integra WA DR # 52(l)
			July 20, 2010 (AZ)	Integra AZ DR # 88
			July 14, 2010 (OR)	Joint CLECs OR DR #92
			July 20, 2010 (UT)	Integra UT DR # 88
			July 16, 2010 (WA)	Integra WA DR # 88

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
RESULTING FROM THE PROPOSED TRANSACTION**

Arizona Corporation Commission
Docket No. T-01051B-10-0194
Joint CLECs – Exhibit AA-3
Direct Testimony of August Ankum, Ph.D.
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EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS		CenturyLink Respondent Name	Response Date(s)	Data Request Information
Wholesale Rates	<p>“CenturyLink has not evaluated or reached any conclusions concerning this issue [whether CenturyLink will seek reductions in cost-based wholesale rates due to reported synergy cost savings] at this time.”</p> <p>“Upon merger closing there will be no immediate changes to Qwest’s or CenturyLink’s rates for wholesale services. CenturyLink has not evaluated or reached any conclusions regarding this issue [whether CenturyLink will seek wholesale rate modifications within 3 years of the merger] at this time.”</p> <p>“The cost models to be utilized after the merger is complete have not been determined.”</p>	Ken Buchan	July 20, 2010 (AZ)	Integra AZ DR # 55(b)
			July 19, 2010 (CO)	Integra CO DR # 55(b)
			July 23, 2010 (IA)	PAETEC IA DR # 55(b)
			July 8, 2010 (MN)	PAETEC IA DR # 55(b)
		July 14, 2010 (OR)	Integra MN DR # 55(b)	
		July 20, 2010 (UT)	Joint CLECs OR DR #59(b)	
		July 16, 2010 (WA)	Integra UT DR # 55(b)	
		July 20, 2010 (AZ)	Integra WA DR # 55(b)	
		July 19, 2010 (CO)	Integra AZ DR # 86	
		July 23, 2010 (IA)	Integra CO DR # 86	
		July 14, 2010 (OR)	PAETEC IA DR # 86	
		July 20, 2010 (UT)	Joint CLECs OR DR #90	
		July 20, 2010 (AZ)	Integra UT DR # 86	
		July 19, 2010 (CO)	Integra AZ DR # 94	
		July 23, 2010 (CO)	Integra CO DR # 94	
		July 23, 2010 (CO)	PAETEC IA DR # 94	

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
RESULTING FROM THE PROPOSED TRANSACTION**

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Wholesale Rates			(IA) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)	Joint CLECs OR DR #98 Integra UT DR # 94 Integra WA DR # 94
		Mike Hunsucker	July 22, 2010	Oregon PUC Staff DR # 122
Wholesale Services		Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (MN, UT) John Felz (OR, WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 96 Integra CO DR # 96 PAETEC IA DR # 96 Integra MN DR # 96 Joint CLECs OR DR #100 Integra UT DR # 96 Integra WA DR # 96
		“Upon merger closing there will be no immediate changes to Qwest’s rates for wholesale services. CenturyLink has not evaluated or reached any conclusions concerning future changes to Qwest’s UNE rates at this time.”		
	“CenturyLink has not evaluated or reached any conclusions regarding this issue [whether CenturyLink plans to discontinue any wholesale services post-merger] at this time.”			

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
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EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS					
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information	
Wholesale Services	<p>“There will be no immediate changes to Qwest’s current template interconnection agreements [...] The merger is intended to bring about improved efficiencies and practices in all parts of the combined company, so changes could be expected over time.”</p>	Diane Roth	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 14, 2010 (OR)	Integra AZ DR #115 Integra CO DR # 115 PAETEC IA DR # 115 Joint CLECs OR DR #119	
		<p>Ted Hankins (CO) Ann Prockish (MN, UT) Mark Harper (IA) John Felz (OR, WA)</p>	July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)	Integra CO DR # 117 PAETEC IA DR # 117 Integra MN DR # 117 Joint CLECs OR DR #121 Integra UT DR # 117 Integra WA DR # 117	
			Diane Roth	July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)	Joint CLECs OR DR #119 Integra UT DR # 115 Integra WA DR # 115
			Mark Harper (AZ, IA) Ted Hankins	July 20, 2010 (AZ) July 19, 2010 (WA)	Integra AZ DR # 117 Integra CO DR # 117
	<p>“There will be no immediate changes to Qwest’s current template interconnection agreements. As the companies integrate operations post-merger, it is expected that the merged company will naturally gravitate toward consistent terms in a state...”</p>	<p>“Upon merger closing there will be no immediate changes to Qwest’s agreements [...] The merger is intended to bring about improved efficiencies and practices in all parts of the combined</p>			

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
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EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
	company, so changes could be expected over time.”	(CO) Ann Prockish (UT)	(CO) July 23, 2010 (IA) July 20, 2010 (UT)	PAETEC IA DR # 117 Integra UT DR # 117
Wholesale Services	“CenturyLink has not evaluated or reached any conclusions regarding this issue [any subsequent service, term or price changes] at this time.”	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (OR, WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 95 Integra CO DR # 95 PAETEC IA DR # 95 Joint CLECs OR DR #99 Integra UT DR # 95 Integra WA DR # 95

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
RESULTING FROM THE PROPOSED TRANSACTION**

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Wholesale Services	<p>“CenturyLink states that it has not made any determination on this issue [plans to retire copper] at this time.”</p>	<p>Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (OR, WA)</p>	<p>July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)</p>	<p>Integra AZ DR # 104 Integra CO DR # 104 PAETEC IA DR # 104 Joint CLECs OR DR #108 Integra UT DR # 104 Integra WA DR # 104</p>
	<p>“Upon merger closing there will be no immediate changes to Qwest’s or CenturyLink’s intrastate or interstate tariffs. As far as future changes, CenturyLink has not evaluated or reached any conclusions regarding the issue at this time.”</p>	<p>Mark Harper (AZ, IA) Ted Hankins (CO) John Felz (OR) Ann Prockish (UT)</p>	<p>July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 14, 2010 (OR) July 20, 2010 (UT)</p>	<p>Integra AZ DR # 89 Integra CO DR # 89 PAETEC IA DR # 89 Joint CLECs OR DR #93 Integra UT DR # 90</p>

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
RESULTING FROM THE PROPOSED TRANSACTION**

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Wholesale Services	“CenturyLink has not evaluated or reached any conclusions regarding the issue [whether CenturyLink intends to adopt Qwest’s intrastate and/or interstate access tariffs post-merger] at this time.”	Ted Hankins (CO) Ann Prockish (MN) Mark Harper (IA) John Felz (OR, WA)	July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 14, 2010 (OR) July 16, 2010 (WA)	Integra CO DR # 89 PAETEC IA DR # 89 Integra MN DR # 89 Joint CLECs OR DR #93 Integra WA DR # 89
	“CenturyLink has not evaluated or reached any conclusions regarding this issue [whether CenturyLink anticipates seeking modifications to its access terms, conditions or rates post-merger] at this time.”	Ted Hankins (CO) Ann Prockish (MN, UT) Mark Harper (IA) John Felz (OR, WA)	July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)	Integra CO DR # 90 PAETEC IA DR # 90 Integra MN DR # 90 Joint CLECs OR DR #94 Integra UT DR # 90 Integra WA DR # 90

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
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EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Wholesale Services	<p>“CenturyLink states that it has not made any determination on this issue [whether CenturyLink will seek forbearance from its obligations under section 251 of the Act] at this time.”</p>	<p>Mark Harper (AZ)</p> <p>Ted Hankins (CO)</p> <p>Mark Harper (IA)</p> <p>Ann Prockish (UT)</p> <p>John Felz (OR, WA)</p>	<p>July 20, 2010 (AZ)</p> <p>July 19, 2010 (CO)</p> <p>July 23, 2010 (IA)</p> <p>July 14, 2010 (OR)</p> <p>July 20, 2010 (UT)</p> <p>July 16, 2010 (WA)</p>	<p>Integra AZ DR # 99</p> <p>Integra CO DR # 99</p> <p>PAETEC IA DR # 99</p> <p>Joint CLECs OR DR #103</p> <p>Integra UT DR # 99</p> <p>Integra WA DR # 99</p>
		<p>Ted Hankins (CO)</p> <p>Mark Harper (AZ, IA)</p> <p>Ann Prockish (UT)</p> <p>John Felz (OR, WA)</p>	<p>July 20, 2010 (AZ)</p> <p>July 19, 2010 (CO)</p> <p>July 23, 2010 (IA)</p> <p>July 14, 2010 (OR)</p> <p>July 20, 2010 (UT)</p> <p>July 16, 2010 (WA)</p>	<p>Integra AZ DR # 108</p> <p>Integra CO DR # 108</p> <p>PAETEC IA DR # 108</p> <p>Joint CLECs OR DR #112</p> <p>Integra UT DR # 108</p> <p>Integra WA DR # 108</p>
	<p>“Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest collocations procedures. A detailed comparison of CenturyLink’s and Qwest’s processes has not been conducted at this time.”</p>			

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
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EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Wholesale Services	“Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest hot loop cut process. A detailed comparison of CenturyLink’s and Qwest’s processes has not been conducted at this time.”	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (OR, WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 112 Integra CO DR # 112 PAETEC IA DR # 112 Joint CLECs OR DR #116 Integra UT DR # 112 Integra WA DR # 112
Wholesale Customer Service	“CenturyLink has not made any determination on this issue [whether CenturyLink plans to make changes to CLEC account and service manager assignments post-merger] at this time.”	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (MN, UT) John Felz (OR, WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 93 Integra CO DR # 93 PAETEC IA DR # 93 Integra MN DR # 93 Joint CLECs OR DR #97 Integra UT DR # 93 Integra WA DR # 93

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
RESULTING FROM THE PROPOSED TRANSACTION**

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS			
Issue	Response	CenturyLink Respondent Name	Response Date(s)
Wholesale Customer Service	"Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest Wholesale and CLEC support centers. At this time, a detailed comparison of CenturyLink's and Qwest's processes has not been conducted."	Mark Harper (AZ, IA)	July 20, 2010 (AZ)
		Ted Hankins (CO)	July 19, 2010 (CO)
		Ann Prockish (UT)	July 23, 2010 (IA)
		John Felz (OR, WA)	July 14, 2010 (OR)
			July 20, 2010 (UT)
			July 16, 2010 (WA)
Network Investment	"Until the transaction is complete, and the necessary decisions have been made on how to best integrate the two companies, plans regarding network investment and appropriate balance sheet improvement (debt reduction) have not been developed. The analysis and decisions regarding how CenturyLink plans to best utilize its free cash flow will be completed as part of the detailed integration planning efforts."		Integra AZ DR # 67
			Integra CO DR # 67
			PAETEC IA DR # 67
			Joint CLECs OR DR #71
			Integra UT DR # 67
			Integra WA DR # 67
		Integra AZ DR # 133	
		Integra CO DR # 133	
		PAETEC IA DR # 133	
		Integra MN DR # 133	
		Joint CLECs OR DR #137	
		Integra UT DR # 133	
		Integra WA DR # 133	

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
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EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Network Investment	"CenturyLink currently does not have any specific plans for investments in Qwest's service areas post-merger."	Mark Harper (AZ, IA)	July 20, 2010 (AZ)	Integra AZ DR # 103b
		Ted Hankins (CO) Ann Prockish (UT) John Felz (OR, WA)	July 19, 2010 (CO) July 23, 2010 (IA) July 14, 2010 (OR) July 20, 2010 (UT) July 16, 2010 (WA)	Integra CO DR # 103b PAETEC IA DR # 103(b) Joint CLECs OR DR #107(b) Integra UT DR # 103b Integra WA DR # 103
Broadband Deployment	"At this time, CenturyLink has not yet established any specific plans regarding Washington post-transaction broadband deployment." "Until the Transaction is complete and the necessary decisions have been made on how to best integrate the two companies, specific [DSL] product and pricing plans cannot be evaluated and finalized." "Projections for post-merger broadband deployment have not been developed." "At this time, CenturyLink has not undertaken an analysis at a wire center level to identify impediments to reaching 100% DSL service availability..."	John Felz	June 23, 2010	Washington UTC Staff DR # 55
		John Felz	June 23, 2010	Washington UTC Staff DR # 60
		John Felz	June 23, 2010	Oregon PUC Staff DR # 15
		John Felz	July 13, 2010	Montana Consumer Counsel DR # 54.

**DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY
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EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS			
Issue	Response	CenturyLink Respondent Name	Response Date(s)
IPTV Deployment	<p>“Plans for the introduction of specific new services such as IPTV in [Oregon, Washington] have not been fully developed at this point. Until the Transaction is complete and the necessary decisions have been made on how to best integrate the two companies, specific product and service plans cannot be evaluated and finalized.”</p>	John Felz	June 23, 2010
			<p>Oregon PUC Staff DR # 33</p> <p>Washington UTC Staff DR # 52</p>

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN MAYES, Chairman
GARY PIERCE, Commissioner
SANDRA KENNEDY, Commissioner
PAUL NEWMAN, Commissioner
BOB STUMP, Commissioner

JOINT NOTICE AND APPLICATION OF)	
QWEST CORPORATION, QWEST)	
COMMUNICATIONS COMPANY, LLC,)	
QWEST LD CORP., EMBARQ)	Docket No. T-01051B-10-0194
COMMUNICATIONS, INC. D/B/A)	Docket No. T-02811B-10-0194
CENTURYLINK COMMUNICATIONS,)	Docket No. T-04190A-10-0194
EMBARQ PAYPHONE SERVICES, INC.)	Docket No. T-20443A-10-0194
D/B/A CENTURYLINK, AND CENTURYTEL)	Docket No. T-03555A-10-0194
SOLUTIONS, LLC FOR APPROVAL OF THE)	Docket No. T-03902A-10-0194
PROPOSED MERGER OF THEIR PARENT)	
CORPORATIONS QWEST)	
COMMUNICATIONS INTERNATIONAL INC.)	
AND CENTURYTEL, INC.)	

EXHIBIT AA-4

**JOINT APPLICANTS' CLAIMS ABOUT ALLEGED BENEFITS
RESULTING FROM THE MERGER COMPARED TO THEIR DISCOVERY RESPONSES**

Alleged Benefit	CenturyLink's Claim About Alleged Benefit	Discovery Response
<p>Advanced Services Deployment</p>	<p>"...as we develop expanded broadband services, innovative IP products such as IPTV and other video choices, VoIP services, enhanced fiber-to-the-cell tower connectivity and other high bandwidth services."¹</p> <p>"We need to have the national breadth and local depth to provide more new and innovative IP products such as IPTV and other video services, VoIP services, enhanced fiber-to-the-cell tower connectivity and other high bandwidth services."²</p> <p>"CenturyLink will be able to capitalize on its investments in and experience with Internet Protocol television to extend new competitive video offerings in former Qwest markets... [t]here is no reason to doubt that the companies will seek to capitalize on that investment."³</p> <p>"It creates a truly nationwide platform for high-speed internet deployment by merging Qwest's long-haul fiber network with CenturyLink's complementary long-haul fiber network and its core metropolitan rings... The combined network will...heighten the ability to advance the deployment of high speed Internet services as well as for the customer-desired 'triple play' of broadband, voice and video."⁴</p> <p>"The merger of these complementary and</p>	<p>"Plans for the introduction of specific new services such as IPTV in [Oregon, Iowa, Washington] have not been fully developed at this point. Until the Transaction is complete and the necessary decisions have been made on how to best integrate the two companies, specific product and service plans cannot be evaluated and finalized. Once the transaction closes, a review of the marketplace will be done to determine needs of the [Oregon, Iowa, Washington] market. This process also includes an assessment of the capabilities of existing Qwest infrastructure necessary to support advanced communications, data, and potentially entertainment services the combined company may chose to rollout in the future..."⁸</p> <p>"An estimated timeline for the deployment of IPTV in Arizona has not been completed."⁹</p> <p>"Projections for post-merger broadband deployment have not been developed."¹⁰</p> <p>"At this time, CenturyLink has not yet established any specific plans regarding Washington broadband investment..."¹¹</p> <p>"Once the transaction closes, CenturyLink's operations and engineering team will be able to better assess the broadband capabilities of the existing Qwest infrastructure."¹²</p> <p>"CenturyLink will <i>continue</i> its current practice of evaluating the most appropriate technology, including use of FTTN..."¹³</p> <p>"At this time, CenturyLink has not yet established any specific plans for Montana broadband investment after completion of the merger. Once the merger is finalized, and the new local operating model has been implemented, individuals from the legacy Qwest and CenturyLink companies will assess the network infrastructure in Montana..."¹⁴</p> <p>"At this time, CenturyLink has not undertaken an analysis at a wire center level to identify impediments to reaching 100% DSL service availability... Once the merger is finalized, and the new local operating model has been implemented, individuals from the legacy Qwest and CenturyLink companies will assess the network infrastructure in</p>

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Alleged Benefit	CenturyLink's Claim About Alleged Benefit	Discovery Response
<p>Advanced Services Deployment</p>	<p>additive strengths, will increase the likelihood of bringing to market more advanced services and compelling choices for customers at an accelerated pace.¹⁵</p> <p>“the combined company’s national footprint and healthy financial position will support the deployment of broadband and accelerated availability of advanced services throughout the expanded territory.”¹⁶</p> <p>“Current CenturyLink customers will benefit from Qwest’s experience in building out its FTTH network.”¹⁷</p>	<p>Montana, including identification of any impediments to broadband deployment...¹⁵</p> <p>“Broadband investment information is not separately tracked and therefore is not available.”¹⁶</p> <p>“CenturyLink’s review of the condition of Qwest’s outside plant did not include any areas in Montana.”¹⁷</p> <p>“CenturyLink personnel performed a field visit of Qwest facilities in Arizona. However, CenturyLink did not prepare a report regarding the condition or maintenance of the outside plant in the Qwest legacy service areas...As a result of the field visits, CenturyLink personnel did observe a greater proportion of aerial outside plant in rural areas but that it was well maintained with no major issues or concerns.”¹⁸</p> <p>“CenturyLink did not complete any inspections of Qwest outside plant in Utah during the due diligence process.”¹⁹</p> <p>“CenturyLink did not prepare any reports concerning the condition or maintenance of Qwest outside plant in [Oregon/Washington].”²⁰</p> <p>“CenturyLink has not developed any business cases regarding deployment of alternative broadband technologies such as Fixed Wireless in Washington.”²¹</p> <p>“CenturyLink states that currently [sic] does not have any specific plans for investments in Qwest’s service areas post-merger.”²⁴</p>
<p>Network Investment</p>	<p>“From a financial standpoint, CenturyLink will have the scale and stability to make necessary, ongoing infrastructure investments needed to serve the next generation of consumers...”²²</p> <p>“the resulting cost savings will be a significant advantage that will facilitate the combined company’s ability to build out and improve its network...”²³</p>	<p>“At this time, CenturyLink has not yet established any specific plans regarding [Iowa, Washington] investment. Once the merger is finalized, and the new local operating model has been implemented, individuals from the legacy Qwest and CenturyLink companies will assess the network infrastructure in [Iowa, Washington] and make any recommendations related to changes in investment in order to better serve [Iowa, Washington] consumers.”²⁵</p>

**JOINT APPLICANTS' CLAIMS ABOUT ALLEGED BENEFITS
RESULTING FROM THE MERGER COMPARED TO THEIR DISCOVERY RESPONSES**

Alleged Benefit	CenturyLink's Claim About Alleged Benefit	Discovery Response
Network Investment		<p>“At this time, CenturyLink has not yet established any specific plans regarding Arizona capital expenditures. Once the merger is finalized, and the new operating model has been implemented, individuals from the legacy Qwest and CenturyLink companies will assess the network infrastructure in Arizona and make any recommendations related to changes in capital expenditures in order to better serve Arizona consumers.”²⁶</p> <p>“CenturyTel has not projected its wireline capital investment for Oregon for the years requested [2011, 2012, 2013, 2014, 2015].”²⁷</p> <p>In response to “2010 pro forma” CenturyLink Oregon wireline capital investments, CenturyLink responds: “Not Available.”²⁸</p> <p>“CenturyLink did not complete any inspections of Qwest outside plant in Utah during the due diligence process.”²⁹</p> <p>“CenturyLink did not prepare any reports concerning the condition or maintenance of Qwest outside plant [sic] in Washington.”³⁰</p>

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Alleged Benefit	CenturyLink's Claim About Alleged Benefit	Discovery Response
<p>“Go-To-Market” Local Operating Model</p>	<p>“A key benefit [to customers] will come from leveraging each company’s operational and network strengths, resulting in a company with an impressive national presence and local depth. CenturyLink has proven the effectiveness of its region-based local market focus...”³¹</p> <p>“CenturyLink’s region-based, local operating model will reinforce this shared philosophy and will likely be the most [direct and] noticeable positive change for Qwest customers...this approach will likely be implemented to ensure that the customer is at the center of everything the company does.”³²</p> <p>“The Company believes the improvement [in access line losses and high-speed customer growth] is tangible evidence of the impact of the customer benefits of the Company’s local operating model that moves accountability and decision-making closer to the customer.”³³</p> <p>“The transaction will help bring this same locally-focused approach to rural customers in Qwest’s legacy region.”³⁴</p>	<p>“Detailed planning regarding the integration of Qwest areas into CenturyLink’s local operating model has not begun.”³⁵</p> <p>“CenturyLink’s local operating model provides the framework for investment decisions across its operating territory...Upon completion of the merger, it is anticipated that CenturyLink will implement its local operating model in the Qwest operating territories.”³⁶</p> <p>“While CenturyLink does anticipate its local operating model will be incorporated into the areas of Qwest’s operational structure upon the completion of the Transaction, the detailed analysis and planning associated with identifying specific region headquarters has not taken place.”³⁷</p> <p>“Identification of ‘best practices’ associated with the integration of CenturyLink and Qwest operations will be completed as part of the detailed integration planning efforts. Until the integration teams are formed, and the detailed data gathering process can be completed, an analysis regarding the identification and/or adoption of ‘best practices’ is not available.”³⁸</p>

**JOINT APPLICANTS' CLAIMS ABOUT ALLEGED BENEFITS
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Alleged Benefit	CenturyLink's Claim About Alleged Benefit	Discovery Response
<p>Free Cash Flow for Debt Repayment and Network Investment</p>	<p>"The combined company...is expected to produce sufficient operating cash flows to fund a stronger and more competitive business..."³⁹</p> <p>"The combined company will be committed to network investment and appropriate balance sheet improvement (debt reduction)..."⁴⁰</p>	<p>"Until the Transaction is complete, and the necessary decisions have been made on how to best integrate the two companies, plans regarding network investment and appropriate balance sheet improvement (debt reduction) has[ve] not been developed. The analysis and decisions regarding how CenturyLink plans to best utilize its free cash flow will be completed as part of the detailed integration planning efforts."⁴¹</p> <p>"Post-merger pro-forma financial statements for the years 2011 through 2015 have not been developed."⁴²</p> <p>In response to a request for the Company's financial model showing that it can fulfill its broadband deployment build-out while servicing debt, CenturyLink responded: "The requested model does not exist for Montana."⁴³</p> <p>"CenturyLink currently does not have any specific plans for investments in Qwest's service areas post-merger."⁴⁴</p> <p>"CenturyTel has not projected its wireline capital investment for Oregon for the years requested [2011, 2012, 2013, 2014, 2015]."⁴⁵</p> <p>"Synergies were estimated at the total enterprise level only and not by entity or by state."⁴⁹</p>
<p>Synergies</p>	<p>"The merged company is projected in three-to-five years to have an estimated \$625 million in annual run-rate operating and capital synergies..."⁴⁶</p> <p>"Improved operating and capital efficiency through reductions in corporate overhead and the elimination of duplicative functions and systems."⁴⁷</p> <p>"And more generally, the savings the merged company will enjoy will make it a more efficient, stable, and nimble competitor in all realms, to the benefit of all its customers."⁴⁸</p>	<p>"The synergy analysis for the transaction was prepared on a company-wide basis only. A Washington specific analysis does not exist."⁵⁰</p> <p>"CenturyLink has not estimated synergy savings or one-time merger costs by state."⁵¹</p> <p>"CenturyLink's assessment of synergies as a result of the proposed merger was prepared on a company-wide basis. No such assessment exists on a state-by-state basis, including Arizona."⁵²</p> <p>"The estimated integration operating cost range of \$650-\$800 million was not calculated at a detailed level."⁵³</p>

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Alleged Benefit	CenturyLink's Claim About Alleged Benefit	Discovery Response
Synergies		<p>"Also, estimated integration cost ranges were not calculated at a detailed level."⁵⁴</p> <p>"Specific integration initiatives and associated expenditures will not be fully developed until the transaction is complete, and the necessary decisions have been made on how to best integrate the two companies."⁵⁵</p> <p>"Post-merger pro-forma financial statements for the years 2011 through 2015 have not been developed."⁵⁶</p> <p>"Integration planning is in the early stages and decisions on personnel, location of personnel, etc. have not been made at this time."⁵⁷</p> <p>"A more detailed management organization table for the post-merger business is not available at this time."⁵⁸</p> <p>"CenturyLink states that identification of key employees...and developing strategies to retain critical resources of all kinds, is part of the integration process."⁵⁹</p> <p>"identification of key employees...and developing strategies to retain critical resources of all kinds, is part of the integration process."⁶⁰</p> <p>"Decisions regarding the locations of the remaining regional headquarters have not been made."⁶¹</p> <p>"Until the transaction is complete and necessary decisions have been made on how to best integrate the two companies, we cannot project the timing or nature of changes, if any, to operations and employees in [Arizona, Iowa, Utah, Colorado, Minnesota, Oregon, Washington]."⁶²</p> <p>"Identification of 'best practices' associated with the integration of CenturyLink and Qwest operations will be completed as part of the detailed integration planning efforts. Until the integration teams are formed, and the detailed data gathering process can be</p>

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Alleged Benefit	CenturyLink's Claim About Alleged Benefit	Discovery Response
Competitive Choice	<p>“the Transaction will also have a positive impact on providing competitive choice and responding to customer demands.”⁶⁵</p> <p>“the Transaction will also have a positive impact on the state of competition.”⁶⁶</p> <p>“the increased scale and scope of the combined company will greatly enhance its ability to compete across the full range of services that consumers demand today.”⁶⁷</p>	<p>completed, an analysis regarding the identification and/or adoption of ‘best practices’ is not available.”⁶³</p> <p>When asked whether merger related cost savings would be flowed through to cost-based wholesale rates, CenturyLink replied: “CenturyLink has not evaluated or reached any conclusions concerning this issue at this time.”⁶⁴</p> <p>“Plans for the introduction of specific new services in [Iowa, Arizona] have not been fully developed at this point. Until the Transaction is complete and the necessary decisions have been made on how to best integrate the two companies specific product and service plans cannot be evaluated and finalized.”⁶⁸</p> <p>“Immediately after the Transaction, customers will continue to receive the same full range of high quality products and services at the same rates, terms and under the same conditions as they did immediately before the close of the Transaction... Until the Transaction is complete and the necessary decisions have been made on how to best integrate the two companies, specific product and pricing plans cannot be evaluated and finalized.”⁶⁹</p> <p>“CenturyLink has not evaluated or reached any conclusions regarding this issue [subsequent service, term, or price change] at this time.”⁷⁰</p> <p>Regarding CenturyLink's claim that the merger will have positive impacts on the state of competition, CenturyLink has provided information in discovery responses showing hundreds of CenturyLink exchanges that are adjacent to Qwest exchanges.⁷¹</p>

**JOINT APPLICANTS' CLAIMS ABOUT ALLEGED BENEFITS
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Alleged Benefit	CenturyLink's Claim About Alleged Benefit	Discovery Response
<p>Broader Array of Services to Enterprise Customers</p>	<p>"The transaction will enable post-merger CenturyLink to [leverage / build on] Qwest's strength in providing complex communications services to large businesses and government entities on a national and global scale to provide a broader array of services to enterprise customers in CenturyLink territories."⁷²</p> <p>"It will also allow for more diverse routing options, provide redundant routing for [network reliability / backup] purposes, and offer communications and information services that are attractive to businesses in the financial sector, government entities, and other customers who require solutions for highly sensitive data operations."⁷³</p> <p>"The company also will be able to leverage Qwest's more extensive enterprise service expertise to offer new and enhanced business services in CenturyLink's markets."⁷⁴</p>	<p>"Plans for the introduction of specific new services in [Iowa, Arizona] have not been fully developed at this point. Until the Transaction is complete and the necessary decisions have been made on how to best integrate the two companies specific product and service plans cannot be evaluated and finalized."⁷⁵</p> <p>"Legacy CenturyTel companies in [Colorado, Iowa] are rural carriers."⁷⁶</p> <p>"[Minnesota, Oregon, Washington] is a rural state for the legacy CenturyTel companies."⁷⁷</p>

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Alleged Benefit	CenturyLink's Claim About Alleged Benefit	Discovery Response
<p>Added Stability</p>	<p>"the merged company [should / is expected to] have improved access to capital on reasonable terms."⁷⁸</p> <p>"... will bring added stability and reliability to the telecommunications industry in [Oregon, Colorado, Minnesota, Iowa, Washington] and also position the company to better meet current and future customer demands."⁷⁹</p> <p>"... the merged company is expected to have one of the strongest balance sheets in the U.S. telecommunications industry."⁸⁰</p> <p>"The company will be better situated, both financially and operationally, with more flexibility to meet the challenges of a rapidly changing and intensely competitive communications environment."⁸¹</p> <p>"The proposed transaction will diversify and therefore reduce the financial risk of the merged company. The effect... is to lower the potential impact of operating and financial risk for the consolidated merged company by reducing its exposure to any single risk."⁸²</p>	<p>"Post-merger pro-forma financial statements for the years 2011 through 2015 have not been developed."⁸³</p> <p>CenturyLink has calculated its pre-merger cost of capital at 9.23% and Qwest has calculated its pre-merger cost of capital at 10.4% (pre-tax WACC). CenturyLink calculates its pro-forma (post-merger) cost of capital at 10.67%.⁸⁴</p> <p>"Post-merger pro-forma financial statements for the years 2011 through 2015 have not been developed."⁸⁵</p> <p>The Joint Applicants repeatedly refer to the Form S4 in response to financial questions. The Form S4 discusses numerous financial risks, including: (1) "Much of CenturyLink's and Qwest's revenues are, and following the merger will remain, dependent upon laws and regulations which, if changed, could result in material revenue reductions" (p. 21); (2) "As a result of assuming Qwest's indebtedness in connection with the merger, CenturyLink will become more leveraged. This could have material adverse consequences for CenturyLink, including (i) reducing CenturyLink's credit ratings and thereby raising its borrowing costs, (ii) hindering CenturyLink's ability to adjust to changing market, industry or economic conditions, (iii) limiting CenturyLink's ability to access the capital markets to refinance maturing debt or to fund acquisitions or emerging businesses, (iv) limiting the amount of free cash flow available for future operations, acquisitions, dividends, stock repurchases or other uses, (v) making CenturyLink more vulnerable to economic or industry downturns, including interest rate increases, and (vi) placing CenturyLink at a competitive disadvantage compared to less leveraged competitors." (p. 23)</p>

**JOINT APPLICANTS' CLAIMS ABOUT ALLEGED BENEFITS
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ENDNOTES:

- ¹ Direct Testimony of John Jones, Colorado PUC Docket No. 10A-350T, May 27, 2010 (“Jones CO Direct”), at p. 9; Direct Testimony of John Jones, Iowa Board Docket No. SPU-2010-0006, May 24, 2010 (“Jones IA Direct”), at p. 8; Direct Testimony of John Jones, Minnesota PUC Docket No. PA-10-456, June 14, 2010 (“Jones MN Direct”), at p. 6; Direct Testimony of John Jones, Oregon PUC Docket No. UM 1484, May 21, 2010 (“Jones OR Direct”), at p. 10; Direct Testimony of John Jones, Washington UTC Docket No. UT-100820, May 21, 2010 (“Jones WA Direct”), at p. 8.
- ² Direct Testimony of Kristen McMillan, Arizona Corporation Commission, Docket T-01051B-10-0194, May 24, 2010 (“McMillan AZ Direct”), at p. 9; Direct Testimony of Jeremy Ferkin, Montana PSC Docket D2010.5.55, May 28, 2010 (“Ferkin MT Direct”), at p. 7; Direct Testimony of Jeremy Ferkin, Utah PSC Docket No. 10-049-16, May 27, 2010 (“Ferkin UT Direct”), at p. 7.
- ³ Reply Comments of CenturyLink, Inc. and Qwest Communications International, Inc., WC Docket No. 10-110, July 27, 2010 (“Joint Applicants’ FCC Reply Comments”), at pp. i and 4-5.
- ⁴ Jones CO Direct at p. 9; Jones IA Direct at p. 9; Jones MN Direct at pp. 11-12; Jones WA Direct at pp. 8-9. See also, McMillan AZ Direct at p. 10; Ferkin MT Direct at p. 8; Ferkin UT Direct at p. 8 (“It creates a truly nationwide platform for high-speed internet deployment by merging Qwest’s long-haul fiber network with CenturyLink’s complementary long-haul fiber network and its core metropolitan rings... heighten the ability to *compete for broadband* Internet services as well as for the customer-desired ‘triple play’ of broadband, voice and video.” *Bold/italics* text shows the difference between CenturyLink’s Arizona testimony and Oregon testimony).
- ⁵ McMillan AZ Direct at p. 10; Jones CO Direct at p. 10; Jones IA Direct at p. 9; Jones MN Direct at p. 8; Ferkin MT Direct at p. 8; Ferkin OR Direct at p. 12; Ferkin UT Direct at p. 8; Jones WA Direct at p. 9.
- ⁶ Joint Applicants’ FCC Reply Comments at p. 2.
- ⁷ Direct Testimony of James Campbell, Arizona Corporation Commission Docket T-01051B-10-0194, May 24, 2010 (“Campbell AZ Direct”) at p. 22; Direct Testimony of Charles Ward, Colorado PUC Docket No. 10A-350T, May 27, 2010 (“Ward CO Direct”) at p. 24; Direct Testimony of Max Phillips, Iowa Board Docket No. SPU-2010-0006, May 24, 2010 (“Phillips IA Direct”) at p. 25; Direct Testimony of John Stanoch, Minnesota PUC Docket No. PA-10-456, June 14, 2010 (“Stanoch MN Direct”) at p. 28; Direct Testimony of David Gibson, Montana PSC Docket D2010.5.55, May 28, 2010 (“Gibson MT Direct”) at p. 16; Direct Testimony of Jerry Fenn, Utah PSC Docket No. 10-049-16, May 27, 2010 (“Fenn UT Direct”) at p. 22; Direct Testimony of Mark Reynolds, Washington UTC Docket No. UT-100820, May 21, 2010 (“Reynolds WA Direct”) at p. 24.
- ⁸ CenturyLink (“CL”) response to Oregon Public Utility Commission (“ORPUC”) Staff Data Request (“DR”) #33; CL response to Iowa Office of Consumer Advocate (“IAOCA”) DR #004A; and CL response to Washington Utilities and Transportation Commission (“ACC”) Staff DR #4.4.
- ⁹ CL response to Arizona Corporation Commission (“ACC”) Staff DR #4.4.
- ¹⁰ CL response to ORPUC Staff DR #15.
- ¹¹ CL response to WAUTC Staff DR #50; CL response to WAUTC Staff DR #55.
- ¹² CL response to ACC Staff DR #2.34.
- ¹³ CL response to Montana Consumer Counsel (“MCC”) DR #38c. (emphasis added)
- ¹⁴ CL response to MCC DR #38.
- ¹⁵ CL response to MCC DR #54.

**JOINT APPLICANTS' CLAIMS ABOUT ALLEGED BENEFITS
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- ¹⁶ CL response to ORPUC Staff DR #13.
¹⁷ CL Response to MCC DR #72.
¹⁸ CL Response to Integra AZ DR #128.
¹⁹ CL response to Integra UT DR #128.
²⁰ CL Response to Joint CLECs OR DR #132; CL response to Integra WA DR #128.
²¹ CL Response to WAUTC Staff DR #58.
²² McMillan AZ Direct at p. 4; Jones CO Direct at p. 4; Jones IA Direct at p. 4; Jones MN Direct at p. 3; Ferkin MT Direct at p. 4; Jones OR Direct at p. 5; Jones WA Direct at p. 3.
²³ Joint Applicants' FCC Reply Comments at p. 7.
²⁴ CL Response to Joint CLECs OR DR #107; CL response to PAETEC IA DR #103; CL response to Integra CO DR #103, CL response to Integra MN DR #103; CL response to Integra WA DR #103. *See also*, CL response to Integra AZ DR #103(b); CL response to Integra UT DR #103(b).
²⁵ CL response to IAOCA DR #005C; CL Response to WAUTC Staff DR #51.
²⁶ CL response to ACC Staff DR #2.10.
²⁷ CL response to ORPUC Staff DR #27.
²⁸ CL response to ORPUC Staff DR #25.
²⁹ CL response to Integra UT DR #128.
³⁰ CL response to Integra WA DR #128.
³¹ McMillan AZ Direct at p. 10; Jones CO Direct at p. 10; Jones IA Direct at p. 9; Jones MN Direct at p. 7; Ferkin MT Direct at p. 8; Ferkin UT Direct at p. 8; Jones WA Direct at p. 9.
³² McMillan AZ Direct at p. 15; Jones CO Direct at p. 15; Jones IA Direct at p. 14; Jones MN Direct at p. 11; Ferkin MT Direct at p. 12; Jones OR Direct at p. 18; Ferkin UT Direct at p. 12; Jones WA Direct at p. 14.
³³ Direct Testimony of G. Clay Bailey, Colorado Docket No. 10A-350T, May 27, 2010 ("Bailey CO Direct"), at p. 15; Direct Testimony of G. Clay Bailey, Montana Docket No. D2010.5.55, May 28, 2010 ("Bailey MT Direct"), at pp. 14-15; Direct Testimony of G. Clay Bailey, Oregon Docket No. UM1484, May 21, 2010 ("Bailey Oregon Direct"), at pp. 17-18; Direct Testimony of G. Clay Bailey, Washington UTC Docket No. UT-100820 ("Bailey WA Direct"), at p. 15.
³⁴ Joint Applicants' FCC Reply Comments at p. 8.
³⁵ CL response to IAOCA DR #1-008C.
³⁶ CL response to WAUTC Staff DR #92.
³⁷ CL response to WAUTC Staff DR #80.
³⁸ CL response to WAUTC Staff DR #93; CL Response to Joint CLECs OR DR #56(g); CL response to PAETEC IA DR #52; CL response to Integra AZ DR #52(g); CL response to Integra UT DR #52(g); CL response to Integra CO DR #52(g); CL response to Integra MN DR #52(g); CL response to Integra WA DR #52(g).
³⁹ Direct Testimony of Jeff Glover, Arizona Corporation Commission Docket T-01051B-10-0194, May 24, 2010 ("Glover AZ Direct"), at p. 6; Bailey CO Direct, at p. 5; Direct Testimony of Jeff Glover, Iowa Board Docket No. SPU-2010-0006, May 24, 2010 ("Glover IA Direct"), at p. 5; Direct Testimony of Mark Gast, Minnesota PUC Docket No. PA-10-456, June 14, 2010 ("Gast MN Direct"), at p. 6; Bailey MT Direct at p. 5; Bailey OR Direct at p. 6; Direct Testimony of Jeff Glover, Utah PSC Docket No. 10-049-16, May 27, 2010 ("Glover UT Direct"), at p. 5; Bailey WA Direct at p. 5.
⁴⁰ Glover AZ Direct at p. 6; Bailey CO Direct at p. 5; Glover IA Direct at p. 6; Gast MN Direct at p. 6; Bailey MT Direct at p. 4; Bailey OR Direct at p. 6; Glover UT Direct at p. 5;

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Bailey WA Direct at p. 5. (The word “appropriate” appears in CenturyLink testimony in some states but not others).

⁴¹ CL Response to Joint CLECs OR DR #137; CL response to Integra MN DR #133; CL response to PAETEC IA DR #133; CL response to Integra AZ DR #133; CL response to Integra UT DR #133; CL response to Integra CO DR #133.

⁴² CL response to ORPUC Staff DR #6.

⁴³ CL response to MCC DR #38e.

⁴⁴ CL Response to Joint CLECs OR DR #107; CL response to Integra AZ DR #103(b); CL response to Integra UT DR #103(b); CL response to Integra CO DR #103(b).

⁴⁵ CL response to ORPUC Staff DR #27.

⁴⁶ Glover AZ Direct at p. 6; Bailey CO Direct at p. 5; Glover IA Direct at p. 5; Gast MN Direct at p. 6; Bailey MT Direct at p. 4; Bailey OR Direct at pp. 6 and 14; Glover UT Direct at p. 5; Bailey WA Direct at pp. 4-5.

⁴⁷ Glover AZ Direct at p. 12; Bailey CO Direct at p. 11; Glover IA Direct at p. 11; Glover MN Direct at p. 9; MT Direct at p. 11; Bailey OR Direct at p. 13; Glover UT Direct at p. 10;

Bailey WA Direct at p. 11.

⁴⁸ Joint Applicants' FCC Reply Comments at p. 5.

⁴⁹ CL response to IAOCA DR #1-013F; CL response to Minnesota Department of Commerce (“MNDOC”) DR #3.

⁵⁰ CL response to WAUTC Staff DR #24.

⁵¹ CL Response to Joint CLECs OR DR #57; CL response to Integra MN DR #53; CL response to PAETEC IA DR #53; CL response to Integra AZ DR #53; CL response to Integra UT DR #53; CL response to Integra CO DR #53; CL response to Integra WA DR #53.

⁵² CL response to AZ Staff DR #2.12.

⁵³ CL response to MNDOC DR #12.

⁵⁴ CL response to Integra MN DR #52.

⁵⁵ CL Response to Joint CLECs OR DR #51; CL response to Integra MN DR #47; CL response to PAETEC IA DR #47; CL response to Integra AZ DR #47; CL response to Integra UT DR #47; CL response to Integra CO DR #47; CL response to Integra WA DR #47.

⁵⁶ CL response to ORPUC Staff DR #6.

⁵⁷ CL response to ORPUC Staff DR #54.

⁵⁸ CL response to IAOCA DR #001.

⁵⁹ CL Response to Joint CLECs OR DR #78; CL response to Integra MN DR #74; CL response to Integra WA DR #74.

⁶⁰ CL response to Integra MN DR #74; CL response to Integra WA DR #74.

⁶¹ CL Response to Joint CLECs OR DR #151; CL response to Integra MN DR #147; CL response to PAETEC IA DR #145; CL response to Integra UT DR #147; CL response to Integra CO DR #147; CL response to Integra WA DR #147.

⁶² CL Response to Joint CLECs OR DR #140; CL response to AZ Staff DR #2.38; CL response to PAETEC IA DR #136; CL response to Integra AZ DR #136; CL response to Integra UT DR #136; CL response to Integra CO DR #136; CL response to Integra MN DR #136; CL response to Integra WA DR #136.

⁶³ CL Response to Joint CLECs OR DR #56(g); CL response to WAUTC Staff DR #93; CL response to PAETEC IA DR #52; CL response to Integra AZ DR #52(g); CL response to Integra UT DR #52(g); CL response to Integra CO DR #52(g); CL response to Integra MN DR #52(g); CL response to Integra WA DR #52(g).

⁶⁴ CL Response to Joint CLECs OR DR #59(b); CL response to Integra Colorado DR #55(b).

**JOINT APPLICANTS' CLAIMS ABOUT ALLEGED BENEFITS
RESULTING FROM THE MERGER COMPARED TO THEIR DISCOVERY RESPONSES**

⁶⁵ Jones CO Direct at p. 15; Jones IA Direct at p. 14; Jones MN Direct at p. 12; Jones OR Direct at p. 18; Jones WA Direct at p. 14.
⁶⁶ McMillan AZ Direct at p. 15; Ferkin MT Direct at p. 12; Ferkin UT Direct at p. 12.

⁶⁷ Joint Applicants' FCC Reply Comments at p. 2.

⁶⁸ CL response to IAOCA DR #1-004; CL response to AZ Staff DR #2.30.

⁶⁹ CL response to WAUTC Staff DR #60.

⁷⁰ CL Response to Joint CLECs OR DR #99; CL response to PAETEC IA DR #95; CL response to Integra AZ DR #95; CL response to Integra UT DR #95; CL response to Integra CO DR #95; CL response to Integra MN DR #95; CL response to Integra WA DR #95.

⁷¹ *See, e.g.,* CenturyLink response to Integra Colorado DR #15, Attachment, showing about 93% of CenturyLink's exchanges in Colorado as being either directly adjacent to a Qwest exchange or adjacent to another CenturyLink exchange that is adjacent to a Qwest exchange. *See also,* CenturyLink response to Washington UTC Staff DR #65 ("CenturyLink provides certain Ethernet services to a small number of customers (less than 20) in the Olympia, Tumwater and Spokane markets in Qwest territory.")

⁷² McMillan AZ Direct at p. 11; Jones CO Direct at p. 11; Jones IA Direct at p. 10; Jones MN Direct at p. 8; Ferkin MT Direct at p. 9; Jones OR Direct at p. 13; Jones WA Direct at p. 10.

⁷³ McMillan AZ Direct at p. 12; Jones CO Direct at p. 11; Jones IA Direct at p. 10; Jones MN Direct at p. 9; Ferkin MT Direct at p. 14; Ferkin UT Direct at p. 9; Jones WA Direct at pp. 10-11.

⁷⁴ Joint Applicants' FCC Reply Comments at p. 4.

⁷⁵ CL response to IAOCA DR #1-004; CL response to AZ Staff DR #2.30.

⁷⁶ CL response to Integra Colorado DR #114; CL response to Integra Iowa DR #114.

⁷⁷ CL Response to Joint CLECs OR DR #118; CL response to Integra Minnesota DR #114; CL response to Integra Washington DR #114.

⁷⁸ Glover AZ Direct at p. 8; Bailey CO Direct at p. 6; Gast MN Direct at p. 14; Bailey MT Direct at p. 6; Bailey OR Direct at p. 8; Glover UT Direct at p. 6; Bailey WA Direct at p. 6.

⁷⁹ Jones CO Direct at p. 8; Jones IA Direct at p. 8; Jones MN Direct at p. 6; Jones OR Direct at p. 10; Jones WA Direct at pp. 7-8.

⁸⁰ Glover AZ Direct at p. 6; Bailey CO Direct at p. 5; Glover IA Direct at p. 5; Gast MN Direct at p. 6; Bailey MT Direct at p. 4; Bailey OR Direct at p. 6; Glover UT Direct at pp. 4-5; Bailey WA Direct at p. 4.

⁸¹ McMillan AZ Direct at p. 10; Jones CO Direct at p. 10; Jones IA Direct at p. 10; Jones MN Direct at p. 9; Jones OR Direct at p. 8; Ferkin MT Direct at p. 13; Ferkin UT Direct at p. 8; Jones WA Direct at pp. 9-10.

⁸² Bailey CO Direct at p. 15; Gast MN Direct at p. 10; Bailey MT Direct at p. 15; Bailey OR Direct at p. 18; Bailey WA Direct at p. 15.

⁸³ CL response to ORPUC Staff DR #6.

⁸⁴ CL response to ORPUC Staff DR #3 and Qwest response to ORPUC Staff DR #3 Attachment A.

⁸⁵ CL response to ORPUC Staff DR #6.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN MAYES, Chairman
GARY PIERCE, Commissioner
SANDRA KENNEDY, Commissioner
PAUL NEWMAN, Commissioner
BOB STUMP, Commissioner

JOINT NOTICE AND APPLICATION OF)	
QWEST CORPORATION, QWEST)	
COMMUNICATIONS COMPANY, LLC,)	
QWEST LD CORP., EMBARQ)	Docket No. T-01051B-10-0194
COMMUNICATIONS, INC. D/B/A)	Docket No. T-02811B-10-0194
CENTURYLINK COMMUNICATIONS,)	Docket No. T-04190A-10-0194
EMBARQ PAYPHONE SERVICES, INC.)	Docket No. T-20443A-10-0194
D/B/A CENTURYLINK, AND CENTURYTEL)	Docket No. T-03555A-10-0194
SOLUTIONS, LLC FOR APPROVAL OF THE)	Docket No. T-03902A-10-0194
PROPOSED MERGER OF THEIR PARENT)	
CORPORATIONS QWEST)	
COMMUNICATIONS INTERNATIONAL INC.)	
AND CENTURYTEL, INC.)	

EXHIBIT AA-5



April 30, 2010

Kim Isaacs
OneEighty Communications Inc
6160 Golden Hills Drive
Golden Valley, MN 55416
kdisaacs@integratelecom.com

TO:Kim Isaacs

Announcement Date:	April 30, 2010
Effective Date:	June 1, 2010
Document Number:	PROD.RESL.04.30.10.F.07809.DS1_DS3_Services
Notification Category:	Product Notification
Target Audience:	CLECs, Resellers and ISP-GET
Subject:	DS1/DS3 Services

This is to advise you of changes to a Qwest retail service offering. Please be advised that retail offers that are subject to Commission approval may change. Resellers should monitor filings since Qwest will not provide notification of changes.

Tariff/catalog/price list reference: Qwest Tariff F.C.C. No. 1.

State(s): All 14 Qwest States covered by Tariff F.C.C. No. 1.

Product Description: Qwest Corporation (Qwest) plans to change its Regional Commitment Program (RCP) from a unit based plan to a revenue based plan and raise the commitment level from 90% to 95% of the total Company-provided in-service DS1 and DS3 Revenue. The effective date of this restructure will be June 1, 2010.

If you have any questions or would like to discuss this notice please contact your Qwest Service Manager, Maryann Wiborg on (612) 359-5107 or at MaryAnn.Wiborg@qwest.com or Rita Urevig on (218) 723-5801 or at Rita.Urevig@qwest.com. Qwest appreciates your business and we look forward to our continued relationship.

Sincerely,

Qwest Corporation

If you would like to subscribe, unsubscribe or change your current profile to Qwest Wholesale mailouts please go to the 'Subscribe/Unsubscribe' web site and follow the subscription instructions. The site is located at:

<http://www.qwest.com/wholesale/notices/cnla/maillist.html>

cc: Maryann Wiborg or Rita Urevig
Stephanie Smith

Qwest Communications, 120 Lenora St, 11th Floor, Seattle WA 98121

From: Johnson, Bonnie J.
Sent: Friday, June 04, 2010 10:44 AM
To: 'Schipper, Scott'
Cc: Johnson, Bonnie J.
Subject: Meeting follow-up/RCP

Hi Scott,
Thanks again for meeting with me. I am still working on pulling together contacts for AQCB requests (including QMOE), but I did follow up with Doug Denney regarding the RCP agreements.

Integra recently had discussions about the fact that some of these plans are about to expire. Integra is disappointed in the changes Qwest recently announced with respect to the RCP. They made two changes that greatly diminish the value of the RCP. Changing from a circuit based commitment to a revenue based commitment, limits our ability to groom our network to the greatest ability. In addition, Qwest is changing the commitment level from 90 to 95%. Both of these substantially decrease the value of the RCP by increasing the risk associated with the plan.

You indicated that you have little leverage regarding RCP, however, I wanted you to know the impact of the changes Qwest made.

Thanks again,

Bonnie



Bonnie J. Johnson | Director Carrier Relations
| direct 763.745.8464 | fax 763.745.8459 |
6160 Golden Hills Drive
Golden Valley, MN 55416-1020
bjjohnson@integratelecom.com

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN MAYES, Chairman
GARY PIERCE, Commissioner
SANDRA KENNEDY, Commissioner
PAUL NEWMAN, Commissioner
BOB STUMP, Commissioner

JOINT NOTICE AND APPLICATION OF)	
QWEST CORPORATION, QWEST)	
COMMUNICATIONS COMPANY, LLC,)	
QWEST LD CORP., EMBARQ)	Docket No. T-01051B-10-0194
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CENTURYLINK COMMUNICATIONS,)	Docket No. T-04190A-10-0194
EMBARQ PAYPHONE SERVICES, INC.)	Docket No. T-20443A-10-0194
D/B/A CENTURYLINK, AND CENTURYTEL)	Docket No. T-03555A-10-0194
SOLUTIONS, LLC FOR APPROVAL OF THE)	Docket No. T-03902A-10-0194
PROPOSED MERGER OF THEIR PARENT)	
CORPORATIONS QWEST)	
COMMUNICATIONS INTERNATIONAL INC.)	
AND CENTURYTEL, INC.)	

EXHIBIT AA-6

May 13, 2010

VIA ECFS

EX PARTE

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW, Room TW-A325
Washington, DC 20554

Re: *Applications Filed by Frontier Communications Corporation and Verizon Communications Inc. for Assignment or Transfer of Control, WC Dkt. No. 09-95*

Dear Ms. Dortch:

Yesterday, Jeff Oxley, Executive Vice President and General Counsel, and Russ Merbeth, Federal Counsel, Law & Policy, for Integra Telecom, Inc. ("Integra"), and the undersigned, representing Integra, tw telecom inc., Cbeyond, Inc., and One Communications Corp. (the "Joint Commenters"), met with Nick Alexander, Alex Johns, Steve Rosenberg, Carol Simpson, Don Stockdale, and Matt Warner of the Wireline Competition Bureau, and Zac Katz of the Office of Strategic Planning and Policy Analysis, to discuss the above-referenced proceeding. In addition, Dennis Ahlers, Associate General Counsel, and Kim Isaacs, ILEC Relations Process Specialist, for Integra participated in the meeting via phone.

During the meeting, Mr. Oxley and Ms. Isaacs discussed some of the problems that Integra¹ has experienced with the systems that Verizon recently replicated and that will be used by Frontier to fulfill orders for unbundled network elements and other wholesale services in the 13 affected states post-transaction (the "Replicated Systems"). As Mr. Oxley and Ms. Isaacs explained, since the transition from Verizon's systems for its West region to the Replicated Systems for Verizon's new North Central Region, Integra has experienced the following problems with Verizon's wholesale ordering and provisioning functions during the last two weeks of April and throughout May. *First*, Verizon's Access Service Request ("ASR") response times have increased, resulting in either missed due dates or orders that need to be escalated or expedited in order to meet the due dates expected by Integra's end-user customers. *Second*, coding errors in Verizon's Access Ordering system have

¹ Integra is a competitive local exchange carrier that offers service in two of the states affected by the proposed transaction, Oregon and Washington. As of April 2009, Integra had 17,537 access lines in Oregon and 12,604 access lines in Washington.

Marlene H. Dortch
May 13, 2010

increased, thereby delaying Integra's ability to submit ASRs. *Third*, Verizon has not been providing Integra with timely completion notices for Local Service Requests ("LSRs"). *Fourth*, Verizon's designated center for wholesale customers to report system errors, the Partner Solutions Customer Care center, has developed a backlog of trouble tickets. It is Integra's understanding based on statements made by Verizon employees that there is currently only one Verizon employee assigned to resolve these trouble tickets for Verizon's entire North Central region. *Fifth*, when Integra employees have called Verizon's Access Ordering centers to report problems with the processing of ASRs, Integra employees have experienced hold times of 30 minutes or more. It is Integra's understanding based on statements made by Verizon employees that Verizon's Access Ordering staff for the North Central region was initially reduced from 50 employees to 12 employees and has been further reduced from 12 employees to only 6 employees. *Sixth*, when Integra employees have called Verizon's National Market Center to report problems with the processing of LSRs, Integra employees have experienced hold times of 30 minutes or more. *Seventh*, when Integra has submitted supplemental LSRs for coordinated conversions, Verizon's coordinated conversion process has increasingly failed, ultimately resulting in service outages for customers migrating from Verizon to Integra. Finally, Verizon has increasingly missed so-called "meets" (coordinated dispatches) with Integra and its vendors. All of these problems have resulted in delays in the provisioning of retail service to Integra's end-user customers.

At the meeting, Mr. Oxley also stated that, on January 21, 2010, Verizon and Frontier sent a letter and Adoption Agreement to Integra (attached hereto as "Attachment A") effectively asking Integra to agree to an amendment of its Wholesale Advantage Services Agreement with Verizon. Mr. Oxley explained that Verizon and Frontier's request was inconsistent with the stipulations entered into by the parties (which were approved by the Oregon and Washington state commissions) in which Frontier agreed to assume Verizon's existing wholesale agreements. Mr. Oxley distributed a copy of Integra's May 10, 2010 response to that effect (*see* "Attachment B" hereto, at 2) at the meeting.

During the meeting, the undersigned distributed a document (attached hereto as "Attachment C") quoting the commitments that Frontier has made in its Application and Reply Comments in this proceeding regarding the assumption of interconnection agreements and other wholesale arrangements, wholesale rates and volume/term agreements, and the status of the Merged Firm as a Bell Operating Company ("BOC"). We explained that these commitments must be supplemented as necessary to address deficiencies, and that they must be made binding conditions of the Commission's approval of the proposed transaction. Specifically, the Commission should adopt condition numbers 5, 8, and 9 proposed by the Joint Commenters in this proceeding (*see* "Attachment D" hereto)² for the following reasons:

- The Commission should adopt Joint Commenters' Condition # 5 because, among other reasons, unlike Frontier's voluntary commitment in its Reply Comments, Condition # 5 requires

² The proposed conditions listed in Attachment D hereto are the same proposed conditions submitted by the Joint Commenters in their January 28, 2010 ex parte filing in this proceeding. *See* Letter from Thomas Jones, Counsel for One Communications Corp. et al., to Marlene H. Dortch, Secretary, FCC, WC Dkt. No. 09-95, Attachment A (filed Jan. 28, 2010) ("Joint Commenters' January 28th Ex Parte Filing").

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Frontier to assume not only Verizon's current interconnection agreements, but Verizon's current interstate special access tariffs, commercial agreements, line sharing agreements, and other existing arrangements with wholesale customers. In addition, Condition # 5 prohibits Frontier from changing the rates, terms or conditions in the assumed agreements. *See* Attachment D, Condition # 5.

- The Commission should adopt Joint Commenters' Condition # 8 in part because, unlike Frontier's voluntary commitment in its Reply Comments, Condition # 8 prohibits Frontier from increasing rates not only for unbundled network elements, but for tandem transit service, any interstate special access tariffed offerings, reciprocal compensation, interconnection, collocation, Ethernet service, or any other wholesale services. *See* Attachment D, Condition # 8.
- The Commission should adopt Joint Commenters' Condition # 9 to address any ambiguities in Frontier's commitment in its Reply Comments and make clear that post-merger Frontier will be classified as a BOC in the portions of West Virginia currently served by Verizon. *See* Attachment D, Condition # 9. This would be consistent with the Commission's holding in the *FairPoint-Verizon Merger Order*.³

We explained further that, in addition to the conditions listed above, it is critical that the Commission impose Joint Commenters' condition numbers 1, 2, 10, 19, 21, 23, and 25 for the following reasons:⁴

- Conditions # 1 and 2 address merger-specific concerns and are very similar to conditions already agreed to by the Applicants in some of the state commission proceedings. *See* Attachment D, Conditions # 1-2.
- Condition # 10 is needed to ensure that Frontier will not seek to avoid its wholesale obligations under Section 251(c) by invoking the protections of Section 251(f)(1) or (f)(2).⁵ Frontier has stated in its response to the Commission's initial data request that "Frontier has no intention of asserting the rural exemption [under Section 251(f)(1)] in the transaction market areas."⁶

³ *See In re Applications Filed for the Transfer of Certain Spectrum Licenses and Section 214 Authorizations in the States of Maine, New Hampshire, and Vermont from Verizon Communications Inc. and its Subsidiaries to FairPoint Communications, Inc.*, Memorandum Opinion and Order, 23 FCC Rcd. 514, ¶¶ 33-35 (2008) ("*FairPoint-Verizon Merger Order*").

⁴ *See also generally* Joint Commenters' January 28th Ex Parte Filing; Petition to Deny of tw telecom inc. et al, WC Dkt. No. 09-95 (filed Sept. 21, 2009) ("Joint Commenters' Petition to Deny").

⁵ *See* Joint Commenters' January 28th Ex Parte Filing at 14-16.

⁶ *See* Response of Frontier Communications Corp. to the Commission's February 12, 2010 Information and Document Request, WC Dkt. No. 09-95, at 42 (filed Feb. 26, 2010) (responding to Request # 22 as revised by the FCC Staff).

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Accordingly, there is no reason that Frontier should be opposed to a binding merger condition to that effect.

- As discussed in the Joint Commenters' January 28th Ex Parte Filing,⁷ Conditions # 19 and 21 are needed to ensure that Frontier does not perpetuate Verizon's anticompetitive conduct with respect to access to remote terminals and DS1 UNE loop facilities. *See* Attachment D, Conditions # 19 & 21.
- As discussed in the Joint Commenters' Petition to Deny,⁸ when customers such as tw telecom order DS1 special access circuits under Verizon's Term Volume Plan, Verizon is able to automatically bill the transport component of each DS1 special access circuit as a "MetroLAN" rate element when MetroLAN is the least expensive option available to the customer. The Commission should adopt Condition # 23 to ensure that Frontier's systems retain this billing capability. Importantly, even though Verizon's existing OSS for the 13 affected states have been replicated and the Replicated Systems will be transferred to Frontier, it is not at all clear that Frontier's *billing* systems will have the same capability as Verizon to automatically bill qualifying customers for MetroLAN when it is the least-cost option.
- The Commission should also adopt Condition # 25. The monetary penalties proposed in Condition # 25 were designed to supplement other enforcement mechanisms needed to ensure compliance with the conditions proposed by the Joint Commenters. If the FCC were to adopt its own performance reporting and service quality requirements, however, a separate regime of self-executing penalties would be needed to ensure compliance with such requirements. For example, the Commission could impose an automatic penalty of a certain percentage of Frontier's wholesale revenues for each failure to meet the established benchmark or standard. Alternatively, the Commission could establish two kinds of failures for the relevant performance metrics. "Ordinary" failures would be failures on a measure for one month or two consecutive months. "Chronic" failures would be failures on a measure for three consecutive months. Under this regime, Frontier would pay a fixed dollar amount for each ordinary failure in excess of the established benchmark or standard and five times that dollar amount for each chronic failure in excess of the established benchmark or standard.

Finally, the wholesale performance metrics and benchmark proposed by Frontier in Voluntary Commitment # 12 of its May 10, 2010 letter in this proceeding⁹ are insufficient. To begin with, for each of the metrics proposed by Frontier in Voluntary Commitment # 12, the Commission should require Frontier to meet or exceed Verizon's average monthly performance for the first six months of

⁷ *See* Joint Commenters' January 28th Ex Parte Filing at 12-14.

⁸ *See* Joint Commenters' Petition to Deny at 26 & n.86.

⁹ *See* Attachment A to Letter from Kathleen Q. Abernathy, Chief Legal Officer, Frontier Communications Corp., to Julius Genachowski, Chairman, FCC et al., WC Dkt. No. 09-95 (filed May 10, 2010) (listing "Further Commitments by Frontier Communications Corp.").

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May 13, 2010

2008 rather than Verizon's performance for 2009. This is because Verizon consolidated its Verizon West order processing centers from Coeur d'Alene, Idaho to Chesapeake, Virginia in June 2008, and in Integra's experience, Verizon's wholesale performance deteriorated significantly following this workforce realignment. These problems lasted through much of 2009. As a result, reliance on Verizon's performance in 2009 would set the bar for OSS performance at an unreasonably low level. In addition, the Commission should add to the list of metrics in Frontier's Voluntary Commitment # 12 the following metrics that Verizon is currently required to report to wholesale customers in certain states under the Joint Partial Settlement Agreement ("JPSA"):¹⁰

Ordering Performance

- OR-1 FOC/LSC Notice Timeliness (Order Confirmation Timeliness)
- OR-4-18 Completion Notice Interval

Provisioning Performance—Installation Quality

- PR 6-01 % Troubles in 30 Days for Special Services Orders
- PR-6-02 % Troubles in 7 Days for Non-Special Orders
- PR-6-04 Provisioning Trouble Reports
- PR-6-05 Average Time to Restore Provisioning Troubles

Provisioning Performance—Jeopardy Reports

- PR-7-01 % Orders Jeopardized
- PR-7-02 Jeopardy Notices Returned by Required Interval

Maintenance Performance

- MR-5-01 % Repeat Reports within 30 Days

Billing Performance

- BI-3-01 Bill Accuracy

¹⁰ The Joint Partial Settlement Agreement is available at http://www22.verizon.com/wholesale/attachments/east-perf_meas/CA_FL_IN_NC_OH_JPSA_BLACKLINE.doc (last visited May 13, 2010).

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May 13, 2010

Again, for each of these metrics, Frontier should be required to meet or exceed Verizon's average monthly performance for the first six months of 2008. In addition, this requirement should apply in all 14 affected states.

Respectfully submitted,

/s/ Thomas Jones

Thomas Jones

Nirali Patel

*Counsel for Integra Telecom, Inc., tw telecom inc.,
Cbeyond, Inc., and One Communications Corp.*

Attachments

cc (via e-mail): Nick Alexander
Alex Johns
Steve Rosenberg
Carol Simpson
Don Stockdale
Matt Warner
Zac Katz
Angela Kronenberg
Christine Kurth
Jennifer Schneider
Christi Shewman

ATTACHMENT A



Carrier Sales and Service
180 S. Clinton Ave.
Rochester, NY 14623



Verizon Partner Solutions
600 Hidden Ridge
HQEWMNOTICES
P.O. Box 152092
Irving, TX 75038

January 21, 2010

J. Jeffery Oxley, EVP, General Counsel
Integra Telecom Holdings, Inc., Integra Telecom of Oregon, Inc. and Integra Telecom of Washington, Inc.,
Eschelon Telecom of Washington, Inc., Eschelon Telecom of Oregon, Inc., Advanced Telcom, Inc., and
Advanced Telcom Group, Inc., Oregon Telecom, Inc.,
1201 NE Lloyd Boulevard, Suite 500
Portland, OR 97232

Subject: Wholesale Advantage Services Agreement between Verizon Services Corp. and Integra
Telecom Holdings, Inc., Integra Telecom of Oregon, Inc. and Integra Telecom of
Washington, Inc., Eschelon Telecom of Washington, Inc., Eschelon Telecom of Oregon,
Inc., Advanced Telcom, Inc., and Advanced Telcom Group, Inc., Oregon Telecom, Inc.,
dated August 31, 2009 (the "Agreement")

On May 13, 2009, Verizon Communications Inc. ("Verizon") entered into a merger agreement (the
"Merger Agreement") with Frontier Communications Corporation ("Frontier") whereby Verizon agreed that
through a series of internal transfers, it would transfer control of certain assets, liabilities and contracts in
Arizona, Nevada, Idaho, Oregon, Washington, Ohio, Illinois, Michigan, Indiana, Wisconsin, West Virginia,
North Carolina, South Carolina and certain wire centers in California³¹ (the "Transferred Service
Territories") to a newly created Verizon affiliate, New Communications ILEC Holdings Inc. ("ILEC
Holdings") Verizon has further agreed to merge New Communications Holdings Inc., the parent of ILEC
Holdings, with Frontier pursuant to the Merger Agreement (the "Transaction"), with Frontier being the
surviving entity.

Verizon and Frontier have petitioned regulatory bodies in the Transferred Service Territories for approval
of the Transaction and upon closing to withdraw Verizon's authority as a local exchange carrier in the
Transferred Service Territories. When these petitions are approved and the Transaction closes, Frontier
will be the authorized local exchange carrier in the Transferred Service Territories.

Under the Agreement Verizon or its affiliate agreed to provide certain services in at least one state
comprising the Transferred Service Territories as well as in at least one other state not involved in the
Transaction.

In connection with the Transaction, pursuant to the terms of the Agreement, Verizon is hereby providing
notice that it will terminate the Agreement only in the Transferred Service Territories as of the closing of
the Transaction. Verizon will continue to provide the services set forth in the Agreement in other states,
as applicable, after the closing of the Transaction.

Frontier has prepared an agreement mirroring the Agreement in the Transferred Service Territories
pursuant to which Frontier will continue providing the services previously provided under the Agreement
in the Transferred Service Territories. An agreement for this purpose is attached hereto (the "Adoption
Agreement").

Please note that this joint letter is being sent for administrative convenience. No obligations of either
Verizon or Frontier arise from this letter. Rather, all obligations of Verizon or Frontier described herein
are set forth in the Agreement and the Adoption Agreement.

³¹ California wire centers: Blythe, Palo Verde (PALSVDE), Alpine, Coleville, Earp, Havasu

Subject to regulatory approval, the closing of the Transaction is currently expected to occur in the second quarter 2010. Our desire and expectation is that your organization will execute the Adoption Agreement with Frontier well before that date. This agreement would only become effective upon closing of the Transaction. We would appreciate your execution and return of this document no later than 45 days from the date of this letter, so all will proceed smoothly at closing.

Please have all originals (four included; sign where marked) executed by an authorized representative and returned to Frontier at the following address:

Lucy Buhrmaster
Frontier Communications Corporation
137 Harrison Street
Gloversville, NY 12078-4815

Once Frontier receives these documents we will execute them and return one fully executed original to you for your records.

Should you wish to discuss this letter with Verizon please contact your account team. For questions on the Frontier Adoption Agreement, please contact Lucy Buhrmaster at 518-773-6162.

Sincerely,

VERIZON PARTNER SOLUTIONS



David J. Goldhirsch
Director-Contract Management

FRONTIER COMMUNICATIONS CORPORATION



Stephen LeVan
SVP Carrier Sales and Service

Enclosures (4)

VIA FedEx 2-Day Delivery

AGREEMENT WITH ADOPTION OF TERMS

This Agreement with Adoption of Terms (this "Adoption Agreement") is between Frontier Communications Corporation, on behalf of itself and its subsidiaries, with offices at 180 South Clinton Avenue, Rochester, NY 14546 ("Frontier") and Integra Telecom Holdings, Inc., Integra Telecom of Oregon, Inc. and Integra Telecom of Washington, Inc., Eschelon Telecom of Washington, Inc., Eschelon Telecom of Oregon, Inc., Advanced Telcom, Inc., and Advanced Telcom Group, Inc., Oregon Telecom, Inc., with offices at 1201 NE Lloyd Boulevard, Suite 500, Portland, OR 97232 ("Customer") (hereinafter together "the Parties").

WHEREAS, Verizon Communications Inc. ("Verizon"), New Communications Holdings Inc. ("NewCo") and Frontier have entered into an agreement whereby Verizon shall through a series of internal transfers, transfer control certain operations in Arizona, Nevada, Idaho, Oregon, Washington, Ohio, Illinois, Michigan, Indiana, Wisconsin, West Virginia, North Carolina, South Carolina and certain wire centers in California¹ ("Transferred Service Territories") to a newly created Verizon affiliate, New Communications ILEC Holdings Inc. ("ILEC Holdings") and following Verizon's transfer of control of such operations to ILEC Holdings, NewCo, the parent of ILEC Holdings, shall merge with and into Frontier pursuant to an Agreement and Plan of Merger dated as of May 13, 2009 (the "Transaction"), with Frontier being the surviving entity; and

WHEREAS, prior to the Transaction, a subsidiary or subsidiaries of Verizon and Customer entered into an agreement entitled Wholesale Advantage Services Agreement between Customer and The Verizon Telephone Operating Companies and dated as of August 31, 2009, (as such agreement is in effect immediately prior to the Transaction, the "Agreement"), such Agreement providing for the provision of services in a service area that includes, but is not exclusive to, the pre-Transaction Verizon operating territories in the Transferred Service Territories; and

WHEREAS, the Parties desire that Frontier or an acquired subsidiary of Frontier continue providing the services previously provided under the Agreement in the Transferred Service Territories following the Transaction upon the same terms and conditions as provided in the Agreement.

NOW THEREFORE, the Parties agree as follows:

1. On and after the closing date of the Transaction (the "Transaction Closing Date"), the Customer and Frontier, by and through its subsidiary acquired in the Transaction, agree to be bound by the Agreement, except as otherwise expressly set forth in this Adoption Agreement, at the same rates, terms and conditions set forth in the Agreement and applicable Frontier tariffs in the former Verizon operating territories in the Transferred Service Territories. Customer agrees that it shall look exclusively to Frontier and its subsidiary acquired in the Transaction, as holder of all rights and obligations

¹ California wire centers: Blythe, Palo Verde (PALSVDE), Alpine, Coleville, Earp, Havasu

previously held by Verizon or its affiliates under the Agreement and not to Verizon or any Verizon affiliate or subsidiary for enforcement of any rights or performance of any obligation under the Agreement in the Transferred Service Territories after the Transaction Closing Date.

2. Notice to Frontier or its subsidiary acquired in the Transaction as may be required or permitted under the Agreement, in the Transferred Service Territories shall be provided as follows:

Frontier Communications Corporation
ATTN: Kim Czak
180 South Clinton Avenue
Rochester, NY 14546

With a copy to:

Frontier Communications Corporation
ATTN: General Counsel
180 South Clinton Avenue
Rochester, NY 14546

3. Notwithstanding anything in the Agreement to the contrary, the Parties agree that the term of the Agreement as hereby adopted in the Transferred Service Territories shall expire on the later of (a) twelve (12) months following the Transaction Closing Date or (b) the termination date contained in the Agreement unless otherwise agreed to by the Parties in writing.

4. Notwithstanding anything in the Agreement to the contrary, the Parties agree that any and all references in the Agreement to specific and general tariffs of Verizon and its affiliates are inapplicable to Frontier's or its acquired subsidiary's provision of services in the Transferred Service Territories under the Agreement as hereby adopted and for purposes of Frontier's or its acquired subsidiary's delivery of services under this Adoption Agreement and for all other contract matters any such tariff references are deemed to and shall refer to Frontier's or its acquired operating subsidiary's applicable tariffs.

5. Notwithstanding anything in the Agreement to the contrary, the Parties agree that any and all references in the Agreement to specific and general policies, procedures, product guides, handbooks or other collateral material of Verizon or any Verizon subsidiary are deemed to and shall refer to Frontier's or its acquired operating subsidiary's applicable policies, procedures, product guides, handbooks or other Frontier collateral material.

6. Notwithstanding anything in the Agreement to the contrary, the Parties agree that all references to Verizon state operating territories other than references to the Transferred Service Territories and listings of Verizon state or regional operating entities,

subsidiaries or affiliates are inapplicable to Frontier's or its acquired subsidiary's provision of service under the Agreement as adopted hereby and this Adoption Agreement and are excluded from the Agreement as adopted by this Adoption Agreement.

7. The Parties agree that any and all references in the Agreement to rate listings other than those applicable to the Transferred Service Territories are inapplicable to Frontier's or its acquired subsidiary's provision of services under the Agreement as hereby adopted and are hereby revised and amended to exclude those rates set forth in the Agreement that are applicable exclusively outside the Transferred Service Territories.

8. The Parties agree that effective immediately upon the closing of the Transaction, Frontier shall assign and transfer the Agreement as hereby adopted to the appropriate acquired operating subsidiary and shall cause such acquired operating subsidiary to assume all of the obligations thereof.

9. This Adoption Agreement shall become effective only as of the Transaction Closing Date and may only be amended by written agreement of the Parties.

The Parties hereby execute this Agreement effective as of the last to execute below.

Frontier Communications Corporation

**Integra Telecom Holdings, Inc., Integra
Telecom of Oregon, Inc. and Integra
Telecom of Washington, Inc., Eschelon
Telecom of Washington, Inc., Eschelon
Telecom of Oregon, Inc., Advanced Telecom,
Inc., and Advanced Telecom Group, Inc.,
Oregon Telecom, Inc.,**

Print Name: _____

Print Name: _____

Signature: _____

Signature: _____

Title: _____

Title: _____

Date: _____

Date: _____

ATTACHMENT B



May 10, 2010

Integra Telecom
6160 Golden Hills Drive
Golden Valley, MN 55416
www.integratelecom.com

David J. Goldhirsch
Verizon Partner Solutions
600 Hidden Ridge
HQEWMNOTICES
P.O. Box 152092
Irving, TX 75038

Stephen LeVan
SVP Carrier Sales and Service
Frontier Communications Corporation
180 South Clinton Avenue
Rochester, NY 14623

Re: Wholesale Advantage Services Agreement between Verizon Services Corp. and Integra Telecom Holdings, Inc, Integra Telecom of Oregon, Inc. and Integra Telecom of Washington, Inc., Eschelon Telecom of Washington, Inc., Eschelon Telecom of Oregon, Inc., Advanced TelCom, Inc., and Advanced TelCom Group, Inc., and Oregon Telecom, Inc., dated August 31, 2009.

Dear Messers. Goldhirsch and LeVan:

Integra Telecom (Integra) has received a letter from Verizon Communications Inc. (Verizon) and Frontier Communications Corporation (Frontier), dated January 21, 2010, referring to the above-referenced Wholesale Advantage Services Agreement (WASA) and the transfer of certain contracts from Verizon to Frontier. First, it should be noted that the description of the Agreement in the letter is not accurate. The WASA in question has recently been amended to include United Communications, Inc. d/b/a UNICOM ("UNICOM") and Electric Lightwave, LLC ("ELI").

More importantly, the letter and attached "Adoption Agreement" are premature and do not reflect the commitments made to and ordered by state and federal regulatory agencies. They are premature because all of the regulatory agencies have not yet completed their review of the transfer. They also do not fully reflect the orders issued by the regulatory commissions and the agreements made by Verizon and Frontier. For example, in Oregon, Verizon and Frontier agreed and the Commission approved the following condition of approval of the transaction:

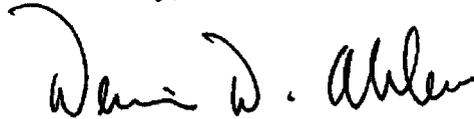
David J. Goldhirsch
Stephen LeVan
May 10, 2010
Page 2

"All VNW existing agreements with wholesale customers, retail customers, and utility operators and licensees for services provided in Oregon including, but not limited to interconnection agreements, commercial agreements, line sharing commercial agreements, and special access discount and/or term plan agreements will be assigned to or assumed by Frontier or its subsidiary and will be honored by the Company for the term of the agreement."

Similar language was agreed to and adopted by the Washington Commission. However, the proposed "Adoption Agreement" purports to change the terms of the Wholesale Agreement by changing all references to "specific and general policies, procedures, product guides, handbooks or other collateral material of Verizon" to refer to Frontier's "policies, procedures, product guides, handbooks or other Frontier collateral material." This is not the same as an assumption of the Verizon agreement by Frontier, but is instead an amendment and modification of the Verizon Wholesale Agreement, is contrary to the stipulation entered into by the parties in the Oregon and Washington proceedings before the state commissions, and inconsistent with the Oregon Commission's Order.

It would seem, in light of the agreements and Commission Order, the more appropriate course of action would be to have a simple and straight-forward assumption of the Verizon WASA by Frontier.

Sincerely,



Dennis D. Ahlers
Associate General Counsel
763-745-8460 (Direct/Voice)
763-745-8459 (Department Fax)
ddahlers@integratelecom.com

cc: J. Jeffery Oxley
Mark Trincherro

ATTACHMENT C

FRONTIER'S COMMITMENTS IN ITS APPLICATION AND REPLY COMMENTS
WC Dkt. No. 09-95

A. Assumption of Interconnection Agreements and Other Wholesale Arrangements

Frontier has stated in its Reply Comments (at 44-45) that:

“Wholesale arrangements will remain the same as a result of this transaction. Frontier will assume those interconnection agreements between Verizon and other carriers that relate to service wholly within the new Frontier areas. . . . In [the case of Verizon interconnection agreements relating in part to service outside of those states], Frontier stands ready to put in place new interconnection agreements on substantially the same terms and conditions, so as not to disrupt existing arrangements.”

See also Application at 19-20.

B. Wholesale Rates and Volume/Term Agreements

Frontier has stated in its Reply Comments (at 45) that:

“With respect to concerns raised regarding whether Frontier will alter rates for Unbundled Network Elements, Frontier plans to continue to adhere to Verizon’s Statement of Rates for Unbundled Network Elements as part of its commitment to honor Verizon’s obligations under interconnection agreements and other wholesale arrangements.”

The Applicants have also stated in their Application (at 20) that:

“For both retail enterprise and wholesale customers with volume and term agreements, following the transaction the parties will adjust all revenue commitments and volume thresholds so that customers that maintain the volumes they currently purchase in acquired states and Verizon’s remaining states, respectively, will continue to qualify for the same volume discounts in the respective areas. Frontier will reduce pro rata the volume commitments provided for in agreements to be assigned to or entered into by Frontier or tariffs to be concurred in and then adopted by Frontier, without any change in rates and charges or other terms and conditions, so that such volume pricing terms will in effect exclude volume requirements from states outside of the affected states. Verizon will do the same with respect to service it will continue providing outside of those regions. Both parties will amend their tariffs or satisfy other filing requirements and amend other customer agreements as may be necessary to restate the applicable volume commitments. As a result, retail and wholesale customers will receive the same benefits in the aggregate following the transaction as those provided pursuant to the existing Verizon volume discount arrangement.”

C. Status of the Merged Firm as a “Bell Operating Company”

Frontier has stated in its Reply Comments (at 45) that:

“This transaction also does not alter the applicability of Section 271 or any other Bell Company-specific requirement to Verizon West Virginia. Frontier will abide by all the Section 271 requirements applicable to Verizon West Virginia (the successor or assignor of the former Chesapeake and Potomac Telephone Company of West Virginia property). This includes continued compliance with those parts of the competitive checklist that have not been the subject of forbearance, as well as being subject to Section 271’s complaint procedures”

ATTACHMENT D

PROPOSED CONDITIONS

For purposes of the conditions proposed herein, the following definitions apply:

“Transaction” means the proposed acquisition of the incumbent LEC assets of Verizon Communications Inc. by Frontier Communications Corporation that is the subject of the applications for FCC approval in WC Docket No. 09-95.

“Closing Date” means the date on which the Transaction is consummated.

“Verizon” means Verizon Communications Inc. and its subsidiaries.

“Frontier” means Frontier Communications Corporation and its subsidiaries after the consummation of the Transaction.

“Legacy Frontier” means Frontier Communications Corporation and its subsidiaries prior to the consummation of the Transaction.

“14 Affected States” means Arizona, California, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia, and Wisconsin.

All of the conditions proposed herein apply for 36 months from the Closing Date of the Transaction, except as otherwise indicated. All of the conditions proposed herein apply throughout the entirety of Frontier’s service territory in the 14 Affected States, excepted as otherwise indicated. Any failure to comply with the conditions proposed herein shall be subject to an enforcement action by the FCC or a private party. The procedures governing such enforcement action shall be the same as those that would apply if the conditions set forth below were requirements of Title II of the Communications Act.

1. Frontier will not discontinue, withdraw or stop providing, or seek to discontinue, withdraw or stop providing, any Verizon wholesale service offered to CLECs as of the Closing Date for one year after the Closing Date except as approved by the FCC.

[Relevance Of State-Level Conditions: This proposed condition is similar to OR/WA CLEC Settlement Condition 1, Comcast 4-State Settlement Condition a, and Comcast West Virginia Settlement Condition a, and should be applied to all 14 Affected States.]

2. Frontier will not seek to recover, directly or indirectly, through wholesale service rates or other fees paid by CLECs any Transaction-related costs including but not limited to one-time transfer, branding or transaction costs, management costs, or OSS transition costs.

[Relevance Of State-Level Conditions: This proposed condition is similar to OR/WA CLEC Settlement Conditions 2 & 3, Comcast 4-State Settlement Conditions b & c, Comcast West Virginia Settlement Conditions b & c, and West Virginia CLEC Settlement Condition 16, and should be applied to all 14 Affected States.]

3. Frontier will (1) comply with all wholesale performance reporting requirements and associated penalty regimes currently applicable to Verizon, including but not limited to those applicable under Performance Assurance Plans and Carrier-to-Carrier Guidelines; (2) continue to provide the performance reports that Verizon currently provides to wholesale customers under the Joint Partial Settlement Agreement, effective March 2008, for California, Florida, Indiana, North Carolina, Ohio, Oregon, and Washington (“Joint Partial Settlement Agreement”);¹ (3) provide the performance reports that Verizon currently provides to existing wholesale customers to any new entrants in the legacy Verizon territory in the 14 Affected States; (4) add the wholesale service that Frontier provides to wholesale customers in Michigan to the performance reporting required under the Joint Partial Settlement Agreement; (5) meet or exceed Verizon’s average monthly performance for 2008 for each metric contained in the reports provided under the Joint Partial Settlement Agreement; and (6) not seek any changes to any of the wholesale performance reporting requirements and associated penalty regimes currently applicable to Verizon.

[Relevance Of State-Level Conditions: This condition covers the same subject matter as Comcast 4-State Settlement Condition d, Comcast West Virginia Settlement Condition d, OR/WA CLEC Settlement Condition 4, and West Virginia CLEC Settlement 4, but it addresses the flaws in those conditions. Those conditions are insufficient because they do not require Frontier to (1) provide the performance reports to new entrants in the legacy Verizon territory, (2) provide performance reporting to wholesale customers in Michigan, (3) meet or exceed Verizon’s average monthly performance for 2008, or (4) not seek any changes to the performance reporting requirements and associated penalty regimes.]

4. Frontier will retain, at its sole expense, an independent third-party consultant to conduct an analysis of the level of service provided to wholesale customers in the legacy Verizon territory in the 14 Affected States before and after the Transaction. This analysis will begin 18 months following the Closing Date and will be completed within 90 days. Frontier will provide each CLEC with CLEC-specific results of the analysis and Frontier will provide the public with aggregate results of the analysis.

[Relevance Of State-Level Conditions: This proposed condition is not addressed by the various state-level settlement agreements.]

5. Frontier will assume or take assignment of all obligations under Verizon’s current interconnection agreements, interstate special access tariffs, commercial agreements, line sharing agreements, and other existing arrangements with wholesale customers (“Assumed Agreements”). Frontier shall not terminate or change the rates, terms or conditions of any effective Assumed Agreements during the unexpired term of any Assumed Agreement or for a period of 36 months from the Closing Date, whichever

¹ The Joint Partial Settlement Agreement is available at http://www22.verizon.com/wholesale/attachments/east-perf_meas/CA_FL_IN_NC_OH_JPSA_BLACKLINE.doc (last visited Jan. 28, 2010).

occurs later unless requested by the wholesale customer, or required by a change of law.

[Relevance Of State-Level Conditions: This proposed condition is modeled after OR/WA CLEC Settlement Condition 5, Comcast 4-State Settlement Condition e, and Comcast West Virginia Settlement Condition f, and addresses issues that are also covered in West Virginia CLEC Settlement Condition 2. Like West Virginia CLEC Settlement Condition 2, this proposed condition applies for 36 months.]

6. Frontier will allow requesting carriers to extend existing interconnection agreements with Legacy Frontier, whether or not the initial or current term has expired, until at least 36 months from the Closing Date, or the date of expiration, whichever is later.

[Relevance Of State-Level Conditions: This proposed condition is modeled after OR/WA CLEC Settlement Condition 6, Comcast 4-State Settlement Condition f, and Comcast West Virginia Settlement Condition g and addresses issues that are also covered in West Virginia CLEC Settlement Condition 3. Like West Virginia CLEC Settlement Condition 3, this proposed condition applies for 36 months.]

7. Frontier shall allow a requesting carrier to use its pre-existing interconnection agreement, including agreements entered into with Verizon, as the basis for negotiating a new replacement interconnection agreement. Such new replacement interconnection agreement shall apply throughout the state in question.

[Relevance Of State-Level Conditions: This proposed condition is similar to OR/WA CLEC Settlement Condition 7, Comcast 4-State Settlement Condition g, Comcast West Virginia Settlement Condition h, and West Virginia CLEC Settlement Condition 3, except that it requires the new replacement interconnection agreement to apply throughout the state in question.]

8. For at least 36 months from the Closing Date, Frontier shall not increase rates for tandem transit service, any interstate special access tariffed offerings, reciprocal compensation, interconnection, collocation, unbundled network elements, Ethernet service, or any other wholesale services. For at least 36 months from the Closing Date, Frontier will not create any new rate elements or charges for distinct facilities or functionalities that are currently already provided under existing rates. Frontier shall continue to offer any currently offered Term and Volume Discount plans until at least 36 months from the Closing Date. Frontier will honor any existing contracts for services on an individualized term pricing plan arrangement for the duration of the contracted term. Frontier will reduce pro rata the volume commitments provided for in agreements to be assigned to or entered into by Frontier or tariffs to be concurred in and then adopted by Frontier without any change in rates and charges or other terms and conditions, so that such volume pricing terms will in effect exclude volume requirements from states not affected by the proposed Transaction.

[Relevance Of State-Level Conditions: This proposed condition is modeled after OR/WA CLEC Settlement Condition 8, Comcast 4-State Settlement Condition h, and Comcast West Virginia Settlement Condition i, and it also addresses issues that are covered by West Virginia CLEC Settlement Condition 2. Like West Virginia CLEC Settlement

Condition 2, this proposed condition applies for 36 months. However, West Virginia CLEC Settlement Condition 2 does not address volume-term agreements.]

9. In the portions of West Virginia served by Verizon prior to the Closing Date, Frontier shall be classified as a Bell Operating Company (“BOC”), pursuant to Section 3(4)(A)-(B) of the Communications Act of 1934 (“Communications Act”) and shall be subject to all requirements applicable to BOCs, including but not limited to the “competitive checklist” set forth in Section 271(c)(2)(B) and the nondiscrimination requirements of Section 272(e) of the Communications Act.

[Relevance Of State-Level Conditions: This proposed condition covers the same subject matter as West Virginia CLEC Settlement Condition 8 and Comcast West Virginia Settlement Condition j, but it addresses the flaws in those conditions. West Virginia CLEC Settlement Condition 8 is insufficient because it merely states that “Frontier WV will comply with statutory obligations under Section 271 of the Act.” Comcast West Virginia Settlement Condition j is insufficient because it merely prevents Frontier from avoiding any of its obligations under the Assumed Agreements on the grounds that Frontier is not subject to Section 271.]

10. Frontier will not seek to avoid any of its obligations under the Assumed Agreements on the grounds that Frontier is not an incumbent local exchange carrier (“ILEC”) under the Communications Act. Frontier will waive, in perpetuity, its right to seek the exemption for rural telephone companies under Section 251(f)(1) and its right to seek suspensions and modifications for rural carriers under Section 251(f)(2) of the Communications Act.

[Relevance Of State-Level Conditions: This condition covers the same subject matter as OR/WA CLEC Settlement Condition 9, Comcast 4-State Settlement Condition i, Comcast West Virginia Settlement Condition j, and West Virginia CLEC Settlement Condition 8, but it addresses the flaw in those conditions. Those conditions merely prevent Frontier from invoking the protections of Section 251(f)(1) and (2) for purposes of avoiding any of its obligations under the Assumed Agreements for three years.]

11. For one year following the Closing Date, Frontier will not seek to reclassify as “non-impaired” any wire centers for purposes of Section 251 of the Communications Act. For one year following the Closing Date, Frontier will not file any new petition under Section 10 of the Communications Act seeking forbearance from any Section 251 obligation, dominant carrier regulation, or *Computer Inquiry* requirements.

[Relevance Of State-Level Conditions: This proposed condition is similar to OR/WA CLEC Settlement Condition 10, Comcast 4-State Settlement Condition j, Comcast West Virginia Settlement Condition k, and West Virginia CLEC Settlement Condition 15, except that it also covers the Computer Inquiry requirements.]

12. Frontier shall provide and maintain on a going-forward basis updated escalation procedures, contact lists, and account manager information at least 30 days prior to the Closing Date. The updated contact list shall, for each CLEC, identify and assign a single point of contact with the authority to address the CLEC’s ordering, provisioning, billing,

maintenance, and OSS systems transition and integration issues.

[Relevance Of State-Level Conditions: This proposed condition is similar to OR/WA CLEC Settlement Condition 11, Comcast 4-State Settlement Condition k, Comcast West Virginia Settlement Condition l, and West Virginia CLEC Settlement Condition 9, except that it also covers "OSS systems transition and integration issues."]

13. Frontier will continue to make available to each CLEC the types of information that Verizon currently makes available to CLECs concerning wholesale operations support systems and wholesale business practices via its website, the CLEC Manual, industry letters, and the Change Management Process ("CMP"). In addition, Frontier will establish a CLEC User Forum process similar to the CLEC User Forum that Verizon currently offers and Frontier will maintain quarterly CLEC User Forum meetings. Frontier will provide CLECs with training and education on any wholesale OSS implemented by Frontier without charge to the CLECs. Frontier will maintain a CMP similar to Verizon's current CMP process. For the first 12 months following the Closing Date, Frontier shall hold monthly CMP meetings. Thereafter, the frequency of the CMP meetings will be agreed upon by the parties. Frontier will also commit to at least two OSS releases per year and commit to deploying at least two CLEC-initiated Change Requests per OSS release. Pending CLEC Change Requests will be completed in a commercially reasonable timeframe.

[Relevance Of State-Level Conditions: This proposed condition is similar to OR/WA CLEC Settlement Conditions 12 & 13, Comcast 4-State Settlement Conditions l & m, Comcast West Virginia Settlement Conditions m & n, and West Virginia CLEC Settlement Conditions 11 & 12, except that it also requires Frontier to "commit to deploying at least two CLEC-initiated Change Requests per OSS release."]

14. Frontier shall ensure that its wholesale and CLEC support centers are sufficiently staffed by adequately trained personnel dedicated exclusively to wholesale operations so as to provide a level of service that is comparable to that which was provided by Verizon prior to the Closing Date and to ensure the protection of CLEC information from being used for Frontier's retail operations.

[Relevance Of State-Level Conditions: This proposed condition is similar OR/WA CLEC Settlement Condition 14, Comcast 4-State Settlement Condition n, Comcast West Virginia Settlement Condition o, and West Virginia CLEC Settlement 17, and it should be applied to all 14 Affected States.]

15. At least 90 days prior to the Closing Date, Frontier will retain, at its sole expense, an independent third-party consultant ("Consultant") acceptable to the Chief of the FCC's Wireline Competition Bureau ("WCB Chief") to assess the readiness of Frontier's wholesale OSS in West Virginia. The Consultant will review Verizon and Frontier's cutover plan. CLECs will also be permitted to review the cutover plan and to provide their feedback on the cutover plan to the Consultant. The Consultant will propose readiness criteria, permit interested parties to comment on the proposed readiness criteria, and finalize the readiness criteria based on the comments received. The Consultant will

use the readiness criteria to conduct a pre-cutover assessment, including testing and a mock cutover, of Frontier's wholesale OSS in West Virginia, to determine the readiness of those systems for cutover. At least 30 days before the Closing Date, CLECs will be permitted to test Frontier's systems, including Frontier's wholesale gateway, and report their results to the Consultant. CLECs will be permitted to submit test orders, including pre-ordering and ordering for new facilities, submit sample repair tickets, and view sample bills electronically. In the event that the Consultant's assessment or CLECs' testing identifies problems or errors in Frontier's systems, Frontier will have the opportunity to correct such problems and errors in a commercially reasonable period of time. Based on the results of its own assessment and CLECs' testing, the Consultant will provide a publicly available report to the WCB Chief regarding Frontier's readiness for cutover. After notice and comment by interested parties, the WCB Chief will not permit the cutover to take place unless the Consultant has notified the WCB Chief of the Consultant's determination that Frontier's wholesale OSS operate, at a minimum, at the same level of service quality as Verizon prior to the Transaction. For 45 days following the cutover to Frontier's wholesale OSS, Verizon will not turn down its wholesale OSS for West Virginia and if substantial systems problems arise, as determined by the Consultant, CLECs will be allowed to place orders via Verizon's wholesale OSS for West Virginia until the end of the 45-day period.

[Relevance Of State-Level Conditions: This proposed condition covers the same subject matter as West Virginia CLEC Settlement Condition 10 and Comcast West Virginia Settlement Condition 1, but it addresses the flaws in those conditions. Among other things, those conditions do not require independent third-party oversight of the cutover process or independent third-party testing of Frontier's systems, and they allow Frontier, rather than the FCC, to decide whether Frontier's systems are ready for cutover.]

16. At least 120 days prior to the Closing Date, Frontier will retain, at its sole expense, an independent third-party consultant ("Consultant") acceptable to the WCB Chief, to assess the readiness of Frontier's replicated systems ("Replicated Systems") for the 14 Affected States excluding West Virginia ("the 13 Affected States") for closing. The Consultant will review any documents describing Verizon and Frontier's OSS replication, transition and/or integration plans, including but not limited to the Merger Agreement and system maintenance agreement. CLECs will also be permitted to review these documents and to provide their feedback to the Consultant on Verizon and Frontier's OSS replication, transition and/or integration plans for the 13 Affected States. The Consultant will propose readiness criteria, permit interested parties to comment on the proposed readiness criteria, and finalize the readiness criteria based on the comments received. The Consultant will use the readiness criteria to conduct a pre-closing assessment, including testing, to determine, at a minimum: (1) whether Verizon has properly replicated its OSS and separated the Replicated Systems from its legacy OSS; (2) whether the Replicated Systems were properly transferred to Frontier; and (3) the extent to which the Replicated Systems will be fully operational at closing. At least 30 days before the Replicated Systems are operated by Verizon in full production mode, CLECs will be permitted to test the Replicated Systems and report the results of their testing to the Consultant. In the event that the Consultant's assessment or CLECs' testing identifies problems or errors in

the Replicated Systems, Verizon and/or Frontier will have the opportunity to correct such problems and errors in a commercially reasonable period of time. Based on the results of its own assessment and CLECs' testing, the Consultant will provide a publicly available report to the WCB Chief regarding Frontier's readiness for closing. After notice and comment by interested parties, the WCB Chief will not permit the closing to take place unless the Consultant has notified the WCB Chief of the Consultant's determination that the Replicated Systems operate, at a minimum, at the same level of service quality as Verizon prior to the Transaction.

[Relevance Of State-Level Conditions: This proposed condition covers the same subject matter as OR/WA CLEC Settlement Condition 15.a. and Comcast 4-State Settlement Condition 1, but it addresses the flaws in those conditions. OR/WA CLEC Settlement Condition 15.a. does not require independent third-party oversight of the replication process, independent third-party testing of the replicated systems, or CLEC testing of the replicated systems, and it allows Frontier, rather than the FCC, to determine whether the systems are ready for closing. While Comcast 4-State Settlement Condition 1 contains robust testing conditions, it does not require independent third-party oversight of the replication process or independent third-party testing of the replicated systems, and it also allows Frontier, rather than the FCC, to determine whether the systems are ready for closing.]

17. Frontier will use the Replicated Systems for the 13 Affected States for at least one year after the Closing Date and Frontier will not replace those systems during the first three years after close of the Transaction without providing 180 days' notice to the FCC and the CLECs. At least 180 days before transition of the Replicated Systems to any other wholesale operations support systems ("New Systems"), Frontier will retain, at its sole expense, an independent third-party consultant ("Consultant") acceptable to the WCB Chief, to assess Frontier's readiness for cutover to the New Systems. The Consultant will review Frontier's cutover plan. CLECs will also be permitted to review the cutover plan and to provide their feedback on the cutover plan to the Consultant. The Consultant will propose readiness criteria, permit interested parties to comment on the proposed readiness criteria, and finalize readiness criteria based on the comments received. The Consultant will use the readiness criteria to conduct a pre-cutover assessment, including testing and a mock cutover, of Frontier's New Systems. CLECs will also be permitted to submit test orders and test Frontier's systems and report their results to the Consultant. In the event that the Consultant's assessment or CLECs' testing identifies problems or errors in Frontier's New Systems, Frontier will have the opportunity to correct all such problems and errors in a commercially reasonable period of time. Based on the results of its own assessment and CLECs' testing, the Consultant will provide a publicly available report to the WCB Chief regarding Frontier's readiness for cutover. After notice and comment by interested parties, the WCB Chief will not permit the cutover to take place unless the Consultant has notified the WCB Chief of the Consultant's determination that Frontier's New Systems operate, at a minimum, at the same level of service quality as Verizon prior to the Transaction.

[Relevance Of State-Level Conditions: This proposed condition covers the same subject

matter as OR/WA CLEC Settlement Condition 15.b. and Comcast 4-State Settlement Condition 1, but it addresses the flaws in those conditions. Those conditions do not require independent third-party oversight and testing, CLEC testing, and FCC approval before cutover.]

18. Frontier will process simple port requests within four business days pursuant to Section 52.26 of the FCC's rules and within one business day pursuant to Section 52.35 of the FCC's rules, once Section 52.35 has taken effect.

[Relevance Of State-Level Conditions: This proposed condition is similar to Comcast 4-State Settlement Condition d, but it is not addressed in the OR/WA CLEC Settlement or the West Virginia CLEC Settlement, and it should be applied to all 14 Affected States.]

19. Frontier will complete provisioning of a requested physical collocation arrangement, including any collocations in remote terminals, within 90 days pursuant to Section 51.323(l)(2) of the FCC's rules. Frontier will also make readily available to requesting carriers a current list of remote terminals, including the physical address and CLLI Code of the remote terminal, and the addresses of all business lines served by each remote terminal.

[Relevance Of State-Level Conditions: This condition covers the same subject matter as West Virginia CLEC Settlement Condition 14, but it addresses the flaws in that condition. West Virginia CLEC Settlement Condition 14 does not require compliance with Section 51.323(l)(2) of the Commission's rules and it does not require the addresses of all business lines served by each remote terminal to be included in the lists provided to requesting carriers.]

20. Frontier will process pole attachment applications within 45 days pursuant to Section 1.1403(b) of the FCC's rules. Frontier must provide bi-monthly reports to the FCC's Wireline Competition Bureau on its compliance with Section 1.1403(b) of the FCC's rules, including the number of pole attachment applications it has received and the number of such applications it has processed within 45 days. Frontier will also process within 60 days of the Closing Date all pending pole attachment applications that have not been processed within 45 days pursuant to Section 1.1403(b) of the FCC's rules. If Frontier fails to meet either the 45-day interval for any pole attachment application submitted after the Closing Date or the 60-day interval for processing pole attachment applications that had not been processed within 45 days prior to the Closing Date, Frontier shall provide the party seeking the attachment with a credit on wholesale charges or a payment in an amount equal to \$1,000 per application for each 10-day delay past the applicable deadline (e.g., a delay of 20 days past the 45-day deadline for an application submitted after the Closing Date would result in a \$2,000 fine). Frontier shall provide attaching CLECs with at least four certified engineers to bid on and compete for the service contract for the make-ready work to be performed by the attaching CLEC. Frontier shall not charge a new attachers to remedy other attachers' preexisting violations of pole attachment requirements.

[Relevance Of State-Level Conditions: This proposed condition covers the same subject

matter as West Virginia CLEC Settlement Condition 13 but it addresses the flaws in that condition. West Virginia CLEC Settlement Condition 13 merely requires that the backlog of pending pole attachment applications be resolved within 180 days and that Frontier work with CLECs to “develop process [sic] within 90 days of Closing to meet the contracted intervals on new requests.”]

21. Frontier shall not be permitted to reject a DS1 UNE loop order on the basis that no facilities are available where any Frontier facilities assignment database shows that the loop in question is available to be provisioned by Frontier to a Frontier retail customer. For any DS1 UNE loop order rejected on the basis that no facilities are available, Frontier shall provide the requesting carrier with the status of the loop in question in any Frontier facilities assignment database.

[Relevance Of State-Level Conditions: This proposed condition is similar to West Virginia CLEC Settlement Condition 21 but it is not addressed in the OR/WA CLEC Settlement or the Comcast 4-State Settlement, and it should be applied in all 14 Affected States.]

22. Frontier will provision DS1 interstate special access loops within a maximum of 6 business days, 80 percent of the time.

[Relevance Of State-Level Conditions: This proposed condition is not addressed by the various state-level settlement agreements.]

23. Frontier’s OSS will have the capability to automatically provision and bill the transport element of each DS1 special access circuit ordered by a wholesale customer as a “MetroLAN” rate element where MetroLAN is the least expensive rate element available to the customer.

[Relevance Of State-Level Conditions: This proposed condition is not addressed by the various state-level settlement agreements.]

24. Frontier will hold regular customer summits similar to those Verizon holds in order to solicit feedback from large wholesale customers.

[Relevance Of State-Level Conditions: This proposed condition is not addressed by the various state-level settlement agreements.]

25. Every six months following the Closing Date, for each of the conditions proposed herein, Frontier will require an officer of the corporation with authority over compliance with that condition to sign and file in WC Dkt. No. 09-95 an affidavit stating, under penalty of perjury, that Frontier is in compliance with the condition. If a Frontier officer is unable to sign such an affidavit for each condition, Frontier will be subject to an automatic penalty, payable to the U.S. Treasury, in the amount of \$100,000 per condition per six-month period. If Frontier files an affidavit stating that it is in compliance with any of the conditions proposed herein and the FCC subsequently determines that Frontier was not in compliance with the condition at the time the affidavit was signed, Frontier will be

subject to a penalty, payable to the U.S. Treasury, in the amount of \$500,000 per condition per six-month period. These automatic penalties shall be in addition to any other remedies awarded by the FCC, including any monetary damages payable to parties harmed by Frontier's failure to comply with a condition proposed herein.

[Relevance Of State-Level Conditions: This proposed condition is not addressed by the various state-level settlement agreements.]