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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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

IN THE MATTER OF THE JOINT APPLICATION OF QWEST CORPORATION, QWEST COMMUNICATIONS COMPANY, LLC, QWEST LD CORP. dba QWEST LONG DISTANCE, EMBARQ PAYPHONE SERVICES, INC. AND CENTURYTEL SOLUTIONS, LLC FOR APPROVAL OF THE PROPOSED MERGER OF THEIR PARENT CORPORATIONS QWEST COMMUNICATIONS INTERNATIONAL INC. AND CENTURYTEL, INC.

DOCKET NO. T-01051B-10-0194
T-02811B-10-0194
T-04190A-10-0194
T-20443A-10-0194
T-03555A-10-0194
T-03902A-10-0194

STAFF'S NOTICE OF FILING INITIAL TESTIMONY

Staff of the Arizona Corporation Commission ("Staff") hereby files Initial Testimony of Armando F. Fimbres, Pamela J. Genung (Redacted version) and Pedro M. Chaves of the Utilities Division in the above docket.

A Highly Confidential version of Pamela J. Genung's Initial Testimony has been provided under seal to Administrative Law Judge Belinda Martin; the Commissioners' and their Aides; and to the Parties that have filed a signed Exhibit B to the August 25, 2010 Protective Order with Docket Control.

RESPECTFULLY SUBMITTED this ¹³12th day of October 2010.

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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
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GARY PIERCE
Commissioner
PAUL NEWMAN
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BOB STUMP
Commissioner

IN THE MATTER OF THE JOINT APPLICATION)
OF QWEST CORPORATION, QWEST)
COMMUNICATIONS COMPANY, LLC,)
QWEST LD CORP. DBA QWEST LONG)
DISTANCE, EMBARQ COMMUNICATIONS,)
INC., EMBARQ PAYPHONE SERVICES, INC.)
AND CENTURYTEL SOLUTIONS, LLC FOR)
APPROVAL OF THE PROPOSED MERGER OF)
THEIR PARENT CORPORATIONS QWEST)
COMMUNICATIONS INTERNATIONAL INC.)
AND CENTURYTEL, INC.)

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DIRECT
TESTIMONY
OF
ARMANDO FIMBRES
PUBLIC UTILITIES ANALYST V
ON BEHALF OF
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

OCTOBER 12, 2010

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	2
THE PROPOSED MERGER APPLICATION	3
ARIZONA'S COMPETITIVE TELECOMMUNICATIONS ENVIRONMENT	7
QWEST'S OPERATIONAL SUPPORT SYSTEMS AND WHOLESALE SERVICE QUALITY	11
AFFILIATED INTEREST.....	18
INTERVENOR TESTIMONY AND CONDITIONS.....	19
PUBLIC INTEREST	23
STAFF'S PROPOSED CONDITIONS AND RECOMMENDATIONS.....	26

EXECUTIVE SUMMARY

QWEST CORPORATION, QWEST COMMUNICATIONS COMPANY, LLC, QWEST LD CORP. DBA QWEST LONG DISTANCE, EMBARQ COMMUNICATIONS, INC., EMBARQ PAYPHONE SERVICES, INC. AND CENTURYTEL SOLUTIONS, LLC FOR APPROVAL OF THE PROPOSED MERGER OF THEIR PARENT CORPORATIONS QWEST COMMUNICATIONS INTERNATIONAL INC. AND CENTURYTEL, INC DOCKET NOS. T-01051B-10-0194, T-02811B-10-0194, T-04190A-10-0194, T-20443A-10-0194, T-03555A-10-0194, T-03902A-10-0194

Staff believes the public interest will be served by the proposed merger of Qwest Communications International and CenturyLink if the goals and objectives of the proposed merger are achieved. However, as CenturyLink has not developed detailed state-level plans at this point in many areas, Staff believes that conditions are necessary for the merger to be found to be in the public interest in Arizona. Staff, therefore, recommends denial unless Staff's proposed conditions in Attachment 1 are adopted.

Staff's conditions fall into the following broad categories: 1) merger costs, 2) regulatory, 3) retail operations, 4) wholesale operations, 5) financial, 6) reporting requirements and 7) conservation of Commission resources.

The conditions with respect to 'merger costs' are designed to prevent merger and one time transactional costs from being passed onto Arizona ratepayers or Qwest's wholesale customers. The regulatory conditions are designed to ensure that the Merged Company will continue to comply with Section 271 obligations in Arizona and also put in place additional regulatory requirements to ensure that the Commission's overall jurisdiction will not be impacted by the proposed merger.

There are eight conditions with respect to retail operations post-merger. These conditions put in place various safeguards designed to ensure that Qwest's current retail operations will not be adversely impacted by the proposed merger. Staff is also proposing a significant number of conditions relating to Qwest's wholesale operations. These conditions are designed in part to ensure that the merger will have no adverse impact upon competition in Arizona. The financial conditions are designed to ensure that a balanced capital structure is maintained by the Merged Company in the future and that any acquisition adjustment paid for Qwest will not be passed onto ratepayers.

The reporting requirements are designed to give the Commission useful information with respect to infrastructure improvements, broadband deployment, the impact of the merger upon Arizona Qwest employees and information relating to past integration efforts of CenturyLink. Finally, there is a final condition relating to conservation of Commission resources where Staff suggests that the Company evaluate certain proceedings and make a good faith effort to resolve them without further litigation.

Staff recommends that the application be denied unless all of Staff's conditions are adopted.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Armando Fimbres. I am a Public Utilities Analyst V employed by the
4 Arizona Corporation Commission (“ACC” or “Commission”) in the Utilities Division
5 (“Staff”). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.
6

7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst V.**

8 A. I provide information, analysis and support to Staff on telecommunications tariff filings,
9 applications for Certificates of Convenience and Necessity (“CC&N”), complaints
10 between service providers, transfer applications by local exchange and long distance
11 services, a variety of industry matters, such as Broadband, Voice over Internet Protocol
12 (“VoIP”) and Wireless, and mergers and acquisitions, such as the proposed transaction in
13 this application.
14

15 **Q. Please describe your educational background and professional experience.**

16 A. I received a Bachelor of Science degree from the University of Arizona in 1972 and have
17 taken business and management courses at Seattle University, Northwestern University
18 and the University of Southern California. I was employed for twenty-nine years in Bell
19 System or Bell System-derived companies, such as Western Electric, Pacific Northwest
20 Bell, U S WEST and Qwest. The last twenty years of my Bell System
21 telecommunications experience were in operations planning, corporate planning, or
22 strategic planning roles with a special emphasis from 1990 to 2000 on competitive and
23 strategic analysis for U S WEST, Inc. Strategic Planning, the Consumer Services
24 Marketing division of U S WEST Communications and for Qwest from 2000 to 2001. I
25 have been with the Commission’s Utilities Division since April 2004.

1 **Q. Please describe your experience with mergers and acquisitions?**

2 A. I reviewed mergers and acquisitions while working in the strategic planning organization
3 at U S WEST, Inc. and also conducted strategic analysis for a variety of industry mergers
4 and acquisitions while working at U S WEST Communications. Since joining the
5 Commission's Utilities Division, I have been the lead analyst in the SBC acquisition of
6 AT&T¹, Verizon acquisition of MCI², the AT&T (formerly SBC) acquisition of Bellsouth³
7 and the Frontier⁴ acquisition of Verizon California exchanges in Arizona.

8
9 **BACKGROUND**

10 **Q. What is the purpose of your testimony?**

11 A. My testimony will briefly discuss the state of competition today or pre-merger, the likely
12 impact of the merger upon competition in Arizona, and the impact of the proposed merger
13 upon Qwest's wholesale operations and its wholesale customers. I will also address
14 various points raised in the Direct Testimony⁵ filed by Qwest⁶ and CenturyLink⁷ witnesses
15 on May 24, 2010 as they relate to wholesale issues and competition in Arizona.

16
17 My testimony concludes with Staff's proposed recommendations and conditions.

¹ Decision No. 68269, November 8, 2005.

² Decision No. 68348, December 9, 2005.

³ Decision No. 68865, July 28, 2006.

⁴ Decision No. 71486, February 23, 2010.

⁵ Direct Testimony of James P. Campbell on Behalf of Qwest Corporation Qwest Communications Company, LLC, and Qwest LD Corp. May 24, 2010; 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, May 24, 2010; Direct Testimony of Kristen McMillan on Behalf of Embarq Communications, Inc. d/b/a/ CenturyLink Communications, Embarq Payphone Services, Inc. d/b/a/ Centurylink, and CenturyTel Solutions, LLC, May 24, 2010; 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, May 24, 2010

⁶ Qwest Communications International, Inc. ("QCII") Qwest Corporation ("QC"), Qwest Communications Company LLC ("QCC"), and Qwest LD Corp., ("QLDC"), (collectively "Qwest")

⁷ CenturyTel, Inc. ("CenturyLink"1), Embarq Communications, Inc. d/b/a CenturyLink Communications, Embarq Payphone Services, Inc. d/b/a CenturyLink, and CenturyTel Solutions, LLC, (collectively "CenturyLink")

1 **Q. Are other witnesses presenting testimony in this proceeding on behalf of Staff?**

2 A. Yes. My testimony compliments the Testimony of Pamela Genung regarding the impact
3 of the proposed merger on Qwest's retail operations and its end-user customers. Pedro
4 Chaves will present Staff testimony focused on the financial aspects of the proposed
5 merger.

6

7 **THE PROPOSED MERGER APPLICATION**

8 **Q. Please summarize your understanding of the proposed merger application filed by**
9 **the Applicants on May 13, 2010.**

10 A. Staff understands the proposed merger to be a stock-for-stock transaction that requires no
11 new financing or refinancing and adds no new debt. Shareholders of Qwest will receive
12 0.1664 shares of CenturyLink common stock for each share of Qwest common stock
13 owned at closing. Upon closing, the shareholders of pre-merger CenturyLink will own
14 approximately 50.5% of post-merger CenturyLink and the shareholders of pre-merger
15 Qwest will own approximately 49.5% of post-merger CenturyLink. CenturyLink will
16 issue new stock to acquire Qwest.

17

18 The 'merged' company will be formed by combining the parent companies, Qwest
19 Communications International, Inc. ("QCI") with CenturyTel, Inc. (now CenturyLink).
20 The future direction of Qwest's operations in Arizona will ultimately be driven by
21 CenturyLink's upper management with guidance from CenturyLink's Board of Directors⁸
22 which will be expanded with the addition of four Qwest Directors. Under the terms of the
23 Merger Agreement, Qwest will become a wholly-owned subsidiary of CenturyLink.

⁸ Following completion of the Transaction, four directors from the Qwest Board will be added to the CenturyLink Board of Directors, including Edward A. Mueller, Qwest's Chairman and Chief Executive Officer. This addition will increase the number of CenturyLink directors from 13 pre-Transaction to 17 post-Transaction.

1 The Applicants believe that the combined company will have greater financial resources
2 and access to capital enabling it to invest in networks, systems and employees that can
3 reach more customers with a broad range of innovative products and voice, data and
4 entertainment services over an advanced network.

5
6 **Q. Are the Applicants seeking expedited treatment for the proposed merger?**

7 A. Yes. The Applicants have requested that the review and approval of the proposed merger
8 be completed by December 31, 2010. However, in support of the request for expedited
9 treatment, the Applicants have made only general statements, such as the statement by Mr.
10 Campbell that such treatment will “allow the Joint Applicants to more quickly integrate
11 the companies in order to bring the benefits ... to consumer, business, wholesale
12 customers, and shareholders sooner.”⁹ CenturyLink specifically stated in response to Staff
13 Data Request 4.1 that “The Agreement of Merger between the parties identifies no
14 specific merger dependencies that would be at risk should the proposed transaction not
15 close by 12/31/10.” The merger agreement actually specifies April 11, 2011¹⁰ as the date
16 by which the merger must close. Staff believes in general, however, that mergers of this
17 magnitude merit reasonable urgency as employees, customers and shareholders are
18 waiting to make decisions based on the outcomes of reviews by state and federal agencies.
19 In its review, Staff has sought to balance the request for expedited approval with the
20 broader public service interests of Arizona residents, businesses and competitors.

⁹ Direct Testimony of James P. Campbell on Behalf of Qwest Corporation Qwest Communications Company, LLC, and Qwest LD Corp. May 24, 2010, page 7.

¹⁰ Page 80, Section 8.01(i), Article VIII, Termination, Amendment and Waiver, AGREEMENT AND PLAN OF MERGER, Exhibit 2.1, FORM 8-K, April 21, 2010.

1 **Q. Which Arizona companies will be directly impacted by the proposed merger?**

2 A. CenturyLink has ILEC operations in ten¹¹ of Qwest's traditional, fourteen state (14)
3 Regional Bell Operating Company ("RBOC"). Arizona is not one of the ten states. In
4 Arizona, three CenturyLink and three Qwest companies will be impacted by the proposed
5 merger; however, only Qwest has ILEC operations in Arizona.

6
7 CenturyLink has several subsidiary companies with authority to do business in Arizona.
8 CenturyTel Solutions, LLC¹² ("CenturyTel Solutions") is authorized to operate as a
9 Competitive Local Exchange Carrier ("CLEC") in Arizona; Embarq Communications,
10 Inc., ("Embarq") is authorized to provide resold long distance ("RLD") service in
11 Arizona¹³ and Embarq Payphone Services, Inc. ("Embarq Payphone") is authorized to
12 provide Customer Owned Payphone Telephone ("COPT") service in Arizona.¹⁴

13
14 QCI's subsidiary, Qwest Corporation, operates as an ILEC and Bell Operating Company
15 ("BOC") in Arizona. Qwest Communication Company ("QCC") provides both
16 competitive local exchange service and interexchange service in Arizona,¹⁵ and Qwest LD
17 Corp. ("QLDC") provides resold long distance service in Arizona.¹⁶

18
19 The Companies request approval of the transaction under the Commission's Affiliated
20 Interest Rules, A.A.C. R14-2-801 et seq., and for a finding that the proposed merger is in
21 the public interest.

¹¹ Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, Oregon, Washington and Wyoming.

¹² Decision No. 63638, May 4, 2001.

¹³ Decision No. 68828, June 29, 2006.

¹⁴ Decision No. 61049, August 6, 1998.

¹⁵ Decision No. 68447 (CLEC & RLD), February 2, 2006; Decision No. 66612 (IXC), December 9, 2003.

¹⁶ QLDC is the entity formed by Qwest as part of the approval processes under Section 271 and 272 of the Telecom Act to provide interLATA services originating in Arizona.

1 **Q. Does the proposed merger impact the operating authority granted by the**
2 **Commission to these six Arizona companies?**

3 A. No. But Staff is recommending that the CC&N of CenturyTel Solutions be cancelled.
4 As already discussed, CenturyTel Solutions is certificated to provide competitive local
5 exchange service in Arizona. This means that it will be providing CLEC service in the
6 exact same area that Qwest (now its affiliate) will be providing service as an ILEC.

7
8 Staff's concern in this type of situation is that the Merged Company could use its CLEC
9 operations to migrate customers from its ILEC affiliate, impacting rate base and evading
10 the more stringent requirements typically applied to ILEC operations. For instance, when
11 QCC was granted CLEC authority by the Commission in Decision No. 68447 on
12 February 2, 2006, several conditions were included to minimize the potential impact on
13 QC's ILEC operations and anti-competitive market distortions. Although CenturyTel
14 Solutions is not at present providing CLEC services in Arizona, its CC&N authority is in
15 conflict with the conditional CLEC authority granted to QCC.

16
17 QCC's CC&N only allows for the provision of local exchange service to business
18 accounts with four (4) access lines or above within the ILEC service territories of QC.
19 QCC is not allowed to provide local exchange residence service within QC's service
20 areas. Outside of QC's ILEC areas, QCC has no restrictions on its provision of residence
21 or business services. Therefore, Staff is recommending, as a retail condition (see
22 Attachment 1), that the CenturyTel Solutions CLEC CC&N be cancelled.

1 **ARIZONA'S COMPETITIVE TELECOMMUNICATIONS ENVIRONMENT**

2 **Q. Please describe pre-merger competitive conditions in Qwest's service territory in**
3 **Arizona?**

4 A. Many facts and details pertaining to the competitive environment have been discussed by
5 Staff in a number of proceedings, such the Qwest Price Cap Plan¹⁷ and Qwest's two
6 Forbearance applications¹⁸ before the Federal Communications Commission ("FCC").
7 The basic facts have not changed materially. Qwest continues to face significant
8 competition from one facilities-based CLEC, Cox Arizona Telcom, L.L.C. ("Cox"), in the
9 residential market. The impact of intermodal competition in the residential market from
10 Wireless and VoIP is difficult to measure but is undeniably present and increasing. The
11 business market, particularly the Enterprise Market¹⁹, is also very competitive but differs
12 from residence in the type and number of alternative providers, the robustness of the
13 competitive brands²⁰ and remains highly dependent on the Qwest network for transport
14 and last-mile access to customers.

15
16 **Q. Does Staff agree with the competitive information presented by Qwest witness James**
17 **Campbell in his May 24, 2010 testimony?**

18 A. The competitive environment described by Mr. Campbell in his Qwest testimony is
19 essentially correct. Staff does not take issue with the historical context of the facts and

¹⁷ T-01051B-03-0454, In the matter of Qwest Corporation's filing of Renewed Price Regulation Plan.

¹⁸ 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; 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; WC Docket No. 07-97.

¹⁹ Small Business is defined as less than 4 access line; Medium Business is defined as 4 access lines to 100 access lines; Large Business or Enterprise is defined as greater than 100 access lines; Staff definition accepted by the FCC in WC Docket No. 09-0135, 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, Memorandum Opinion and Order, Adopted June 15, 2010, Released June 22, 2010.

²⁰ E.g., AT&T, Electric Lightwave, Eschelon, McLeodUSA, Mountain Telecommunications, tw telecom, XO.

1 figures presented in Mr. Campbell's testimony. The real question is how the proposed
2 merger will impact competition in the future in Qwest's service territory and statewide.
3

4 **Q. In Staff's opinion, how will the merger affect the competitive environment in**
5 **Arizona?**

6 A. The future competitive environment should be considered in two categories - near-term
7 and long-term. Staff does not believe the near-term competitive environment (1-3 years)
8 will be altered by the proposed transaction as the proposed merger will not eliminate any
9 significant CLECs or IXC's, or result in the addition of any new providers, as discussed
10 earlier. The competitive options available to Arizona customers will remain the same for
11 the near-term. Since Qwest will continue as a separate operating company post-merger,
12 competitive conditions measured by issues such as Unimpaired Wire Centers²¹ and
13 Forbearance²² from dominant carrier requirements or § 251 of the Telecommunications
14 Act of 1996 ("1996 Act") should not be affected to any significant degree. Customers
15 will still have the same telecommunications competitive options over the near-term that
16 have been open to them in recent years. The impact of the merger upon the long-term
17 competitive environment (4 years and beyond) is more difficult to assess, however.

²¹ T-03632A-06-0091, et al., In the matter of the application of DIECA Communications dba Covad Communications Company, Eschelon Telecom of Arizona, Inc., McLeodUSA Telecommunications Services, Inc., Mountain Telecommunications, Inc., XO Communications Services, Inc. and Qwest Corporation request for Commission Process to Address Key UNE Issues Arising from Triennial Review Remand Order, including Approval of Qwest Wire Center Lists.

²² 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; 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; WC Docket No. 07-97.

1 **Q. What about the long-term competitive environment should most concern this**
2 **Commission?**

3 A. When Congress enacted the 1996 Act, intermodal competition was not as prevalent as it is
4 today. The Bell Operating Companies (“BOCs”) were not in the long distance market yet;
5 and were providing local exchange service largely as monopoly providers without any
6 significant competition. Today, while the Public Switched Telephone Network continues
7 to be critical to the provision of telecommunications services, many competitive options
8 now bypass the PSTN completely. The general public is also placing increased
9 importance on customer access to what is often referenced as “the bundle” –
10 telecommunications (circuit-switched telephone, wireless or VoIP), video (cable or
11 satellite) and data (broadband internet via cable or digital switched loop (“DSL)
12 technology). In Arizona, this is best evidenced by Cox adding wireless to its video,
13 broadband and telephone bundle and Qwest’s continued efforts to deliver bundles that
14 include telecommunications, wireless, video and broadband.

15
16 **Q. Could Arizona’s telecommunications competitive environment be negatively**
17 **impacted by the proposed merger?**

18 A. For wholesale service providers and resellers, the situation is significantly different than
19 for Qwest’s retail customers. Providers using wholesale services are highly dependent on
20 Qwest facilities for transport and last-mile loop facilities; resellers are fully dependent on
21 Qwest facilities. Considerable competitive harm could result if Qwest’s role in the
22 provision of transport and last-mile loop facilities were to change rapidly and radically.
23 The CLEC’s concern can be measured by their level of involvement in this proceeding.
24 Most of the CLECs’ concerns²³ are focused on the Operational Support Systems (“OSSs”)
25 utilized by Qwest to provide wholesale services to CLECs.

²³ Staff issued data requests to all CLECs who intervened.

1 **Q. Does Staff believe the Merged Company will be more competitive in Arizona?**

2 A. The proposed merger appears to have more potential competitive gains at the national
3 level rather than Arizona. The Merged Company should be better positioned to compete
4 against companies that have multi-state operations, such as Comcast, Cox, Frontier and
5 even RBOCs, such as Verizon. Within Arizona, the competitive gains would largely be
6 against key facilities-based local exchange providers, such as Cox, largely in Phoenix and
7 Tucson. Qwest has been investing significant sums of money to increase its broadband
8 capability through its fiber-to-the-node ("FTTN") initiative.²⁴ As a result, Arizona
9 customers could benefit from the increased financial strength of the combined company to
10 more aggressively pursue FTTN and fiber-to-the-cellular tower ("FTTCT").²⁵

11

12 The Applicants have also stated that the combined company will be better equipped to
13 offer innovative voice and broadband services in a more efficient and cost-effective
14 manner.

15

16 **Q. Does Staff have any concerns with the merger given the diverse nature of the two**
17 **companies?**

18 A. Yes. Until recently with the acquisition of Embarq, CenturyLink's operations have been
19 focused upon rural areas. Qwest is a large ILEC serving many large metropolitan areas in
20 its 14 state region. Qwest is also a BOC and subject to § 271 obligations. CenturyLink
21 has no experience with § 271 obligations. For this reason, conditions regarding Qwest's
22 obligations are critical to ensure that it continues to meet its obligations in this regard.
23 Many concerns were raised by the CLECs in their initial testimony regarding Qwest's §
24 271 obligations in particular with respect to Qwest's Operational Support Systems
25 ("OSS").

²⁴ Direct Testimony of James P. Campbell, May 24, 2010, Page 18, lines 11-18.

²⁵ Direct Testimony of James P. Campbell, May 24, 2010, Page 19, lines 1-2.

1 **QWEST'S OPERATIONAL SUPPORT SYSTEMS AND WHOLESALE SERVICE**
2 **QUALITY**

3 **Q. What are the OSSs and what are the major issues that concern CLECs dependent on**
4 **Qwest's wholesale services?**

5 A. The OSSs are the support systems which Qwest maintains for its retail organizations but
6 which Qwest must also make available to CLECs on a non-discriminatory basis in
7 compliance with the 1996 Act. The number one issue is the change in access to critical
8 wholesale services and the corresponding decline in competitiveness that would result
9 from changes to OSS services that could impact CLECs disproportionately compared to
10 Qwest's retail organizations. The OSSs are essential, for example, in the ordering,
11 installation and repair of unbundled network elements ("UNEs"), one of which is the last
12 mile loop essential to many CLECs using wholesale services.

13
14 Qwest's OSS were subject to in-depth review during the Arizona § 271 proceeding.²⁶
15 This was a lengthy proceeding which spanned several years and was designed to ensure
16 that Qwest met its obligations under §§ 271 and 272 of the 1996 Act. The Commission
17 issued a series of orders in this proceeding addressing all of Qwest's obligations. Under
18 FCC orders, the BOC was required to demonstrate that it provided nondiscriminatory
19 access to OSSs enabling the BOCs' competitors to place orders for local facilities or resale
20 services in order to provide service to the CLECs' end-user customers to maintain and
21 repair those facilities and to bill their customers.

²⁶ In the Matter of U S WEST Communications, Inc.'s compliance with Section 271 of the Telecommunications Act of 1996, Docket No. T-00000A-97-0238.

1 **Q. Are the Commission's § 271 orders still in effect and will they continue in effect after**
2 **the merger?**

3 A. Yes. The Commission's § 271 Orders remain in effect. The FCC was required to consult
4 with the Commission in order for Qwest to obtain authority to provide in-region
5 InterLATA long-distance service. It was this Commission's orders that provided the basis
6 for the FCC's finding that Qwest met the requirements of §§ 271 and 272 of the 1996 Act
7 and was authorized to provide in-region interLATA long-distance service. Qwest will
8 continue to be subject to these orders post-merger.

9
10 **Q. Do the CLECs have input into changes to Qwest's OSS and other CLEC operations**
11 **impacting decisions by Qwest?**

12 A. Yes, although some CLECs are dissatisfied with how that process has worked. That
13 process is called the "Change Management Process" or ("CMP"). The Commission also
14 reviewed and approved this process as part of its § 271 proceeding.

15
16 **Q. Is there a mechanism in place to prevent "backsliding" on Qwest's part with respect**
17 **to its obligations?**

18 A. Yes. As part of Qwest's Section 271 proceeding, the Commission approved a Qwest
19 Performance Assurance Plan ("QPAP") in Decision No. 64888 on June 5, 2002. The
20 QPAP incorporates Performance Indicator Definitions ("PIDs") which were also worked
21 out in a collaborative process between Qwest and the CLECs as part of the Arizona § 271
22 process. The QPAP is the means by which Staff, the CLECs and Qwest ensure that OSS
23 services are provided on a non-discriminatory basis to CLECs which utilize Qwest's
24 wholesale services to provide competitive services in Arizona. The QPAP is now the
25 subject of a separate proceeding which the parties have agreed to suspend pending the
26 outcome of this docket.

1 **Q. What other obligations are Qwest required to meet as an ILEC and BOC?**

2 A. Qwest is also obligated under the 1996 Act, as an ILEC and BOC, to enter into
3 Interconnection Agreements (“ICAs”) with CLECs which govern the terms and conditions
4 of interconnection with Qwest’s network. Qwest’s ICA obligations arise under §§ 251
5 and 252 of the 1996 Act.

6
7 As part of the § 271 proceeding, the CLECs and Qwest spent considerable time working
8 out the terms and conditions that were to be contained in Qwest’s Statement of Generally
9 Terms and Conditions (“SGAT”). The SGAT is a template interconnection agreement
10 which under the 1996 Act is to be submitted to the state commission for review and
11 approval. It is available for competitive carriers to opt-into should the negotiation and
12 arbitration process prove to be too costly for them. The importance of the SGAT is that it
13 was the result of a collaborative process the terms of which both Qwest and the CLECs
14 agreed to.

15
16 **Q. What has been Qwest’s performance pertaining to the OSSs?**

17 A. Qwest has paid approximately \$4.3 million dollars, \$2.3 million to the CLECs and \$2.0
18 million to the State of Arizona, in penalties related to the standards defined in Arizona’s
19 QPAP²⁷ for the period October 2004 through July 2010.

20
21 Eighty percent of the approximate \$4.3 million figure is prior to 2008 which suggests that
22 Qwest’s performance has improved. The performance improvement, however, is believed
23 to be attributed in large part to the decline in the number of CLECs seeking wholesale
24 services in Arizona. The decline in CLECs is driven by a variety of reasons, such as the

²⁷ Qwest provides the ACC with monthly reports regarding its performance in compliance with the Arizona QPAP.

1 elimination of the UNE-P²⁸ option by the FCC²⁹ in December 2004 and the technology
2 shift to VoIP which reduces the need for wholesale services.
3

4 **Q. What is the position of the Applicants regarding potential changes to OSS as a result**
5 **of the proposed merger?**

6 A. CenturyLink and Qwest have presented very little information explaining how the post-
7 merger company would change its operations without impacting its wholesale obligations
8 to CLECs, which is of concern to Staff. CenturyLink has stated the following with respect
9 to the timeline of any OSS changes:

10
11 “...CenturyLink anticipates separately operating the CenturyLink CLEC OSS
12 systems in areas served by CenturyLink and Qwest CLEC OSS systems in areas
13 served by Qwest (including Arizona) for a minimum of 12 months following
14 closing of the Transaction. This will allow ample time for CenturyLink to conduct a
15 proper evaluation of all systems in an orderly and disciplined manner. To the extent
16 any changes are made, CenturyLink will comply with all applicable state and
17 federal laws, rules and regulations as well as any applicable terms contained in
18 interconnection agreements or tariffs, in the same manner as they would apply
19 notwithstanding the merger.”

20
21 However, following the one year period, the Company has stated it has no specific plans
22 with respect to the integration of Qwest’s OSS with either CenturyLink’s or Embarq’s
23 systems. Staff believes that Qwest’s obligations with respect to OSS, ICA, CMP and
24 QPAP matters are of such importance that specific conditions should be developed to
25 ensure continued compliance, and no detrimental impact upon CLECs.

²⁸ Unbundled Network Element – Platform (“UNE-P”).

²⁹ FCC-04-0290, TRO Remand Order, December 15, 2004.

1 **Q. What is Staff's primary concern with respect to the merger and wholesale**
2 **operations?**

3 A. Staff's primary concern is the same as most of the intervenors in this proceeding.
4 CenturyLink is still integrating Embarq's support systems. CenturyLink should not
5 proceed to integrate Qwest's systems until the Embarq integration is completed.
6 CenturyLink's statement that it will not make any changes for 1 year appears to recognize
7 the potential perils involved in integrating three separate support systems. Moreover,
8 Qwest's OSS appear to be superior to both the Embarq and CenturyLink systems. It
9 would be unacceptable, given the substantial time invested by the Commission and others
10 in the Qwest 14 state region during the § 271 process, for CenturyLink to adopt changes to
11 Qwest's support systems that are inferior to what is now available. CWA witness Jasper
12 Gurganus in fact recommends that CenturyLink not be permitted to integrate Qwest's
13 computer systems into the CenturyLink systems.

14
15 **Q. What assurances has CenturyLink given thus far that there will be no changes that**
16 **would detrimentally impact wholesale operations?**

17 A. CenturyLink has stated that to the extent any OSS changes are made CenturyLink will
18 comply with all applicable state and federal laws and rules, including the provisions of any
19 applicable interconnection agreement or tariff.³⁰ CenturyLink has also stated that Qwest
20 Corporation, as a wholly-owned subsidiary of CenturyLink, will continue to meet all
21 ongoing 271 obligations in the legacy Qwest service areas that are required.³¹ Staff notes
22 that Qwest's QPAP, and the CMP should help prevent against any adverse impacts upon
23 wholesale service quality. But, history has shown that integration can oftentimes be a
24 difficult and costly process. The QPAP and CMP standing alone do not offer adequate

³⁰ Responses to Cox Arizona Telcom, LLC's Second Set of Data Requests to CenturyLink, August 16, 2010, Page 4, question 7.

³¹ Responses to Integra's Second Set of Data Requests to CenturyLink, July 21, 2010, Page 6, question 4.

1 safeguards in and of themselves. It is for this reason that Staff is proposing additional
2 conditions relating to integration.

3
4 **Q. What other conditions is Staff proposing that are designed to address the concerns**
5 **surrounding Qwest's wholesale obligations.**

6 A. Other than conditions relating to integration, Staff has proposed a host of regulatory and
7 operational conditions given the risks involved. Staff sees these wholesale and regulatory
8 conditions (see Attachment 1) as precautions to limit the harm that could result to the
9 competitive environment which, once damaged, would be impossible to repair given the
10 pace at which telecommunications technology is evolving and the industry is moving.

11
12 **Q. To the extent that any OSS changes are made, what has been CenturyLink's**
13 **notification process to the affected CLECs?**

14 A. CenturyLink has followed a standard 90-day notification process for changes impacting
15 CLEC back office systems. The changes are communicated via email by the account team
16 and are posted on CenturyLink's website. In the past, CenturyLink has typically sent
17 several notifications to CLECs well in advance of system changes and hosted customer
18 calls to provide overviews of changes in advance.³²

19
20 Staff has included several critical conditions designed to ensure that CLECs continue to
21 get timely notice of any CLEC business impacting changes that Qwest and CenturyLink
22 intend to make in the future.

³² Responses to Cox Arizona Telcom, LLC's Second Set of Data Requests to CenturyLink, August 16, 2010, Page 4, question 7.

1 **Q. Has Staff proposed a condition relating to Wholesale and CLEC support centers?**

2 A. Yes. Cost saving synergies should not be achieved at the expense of the continued
3 maintenance of current levels of service. Staff believes that it is appropriate to include a
4 condition that the Merged Company shall ensure that Wholesale and CLEC support
5 centers are sufficiently staffed with adequately trained personnel dedicated exclusively to
6 wholesale operations and will provide a level of service comparable to that provided to the
7 Qwest service areas prior to the merger.³³

8
9 **Q. Is the FCC reviewing the merger as well?**

10 A. Yes. Interested parties have filed comments with the FCC regarding the proposed merger.
11 It is unknown when the FCC will issue its decision in this matter. But FCC oversight and
12 approval provides an additional level of review with likely safeguards that will be
13 designed to ensure that the Merged Company continues to meet its obligations under
14 Federal law. To the best of my knowledge, this is the first time that a merger has been
15 proposed in which a BOC is being acquired by a non-BOC with largely rural operations.

16
17 **Q. In what way do the Applicants claim that wholesale wireless customers will benefit
18 from the proposed merger?**

19 A. The Applicants claim that the increased demand for wireless broadband services is driving
20 the need for additional fiber capacity to serve cellular tower sites. While Qwest claims to
21 already be committing significant resources to serve the increased demand from wireless
22 carriers, the Applicants allege that the additional financial resources, network capacity,
23 and geographic reach of the combined company should allow for continued service to
24 valued customers in the wholesale market.³⁴ While this may not be a clear incremental

³³ See Attachment 1, Wholesale Operations Conditions.

³⁴ Direct Testimony of James P. Campbell on Behalf of Qwest Corporation Qwest Communications Company, LLC, and Qwest LD Corp. May 24, 2010, Page 23, lines 4-11.

1 benefit, continuation of a service that Qwest has already initiated would seem to be in the
2 public interest.

3
4 **Q. What other conditions are you sponsoring with respect to wholesale operations?**

5 **A.** In addition to operating and wholesale conditions, I am sponsoring several reporting
6 obligations relating to Qwest's wholesale operations as well as a condition which is
7 designed to conserve Commission resources. Staff has recommended several wholesale
8 conditions designed to end ongoing disputes between Qwest and the CLECs. It is
9 important to eliminate time-consuming litigation where this can be done. This is
10 particularly true where CenturyLink or Embarq's position on the issue may be an
11 acceptable resolution or where resolution has been reached in other Qwest states but
12 litigation continues in Arizona. Condition 47 requires that the Qwest and CenturyLink
13 evaluate their position in three proceedings and make a good faith effort to resolve these
14 cases without continued litigation.

15
16 **AFFILIATED INTERESTS**

17 **Q. Did Qwest provide the information required by A.A.C. R14-2-803(A)?**

18 **A.** Yes. Qwest submitted its application on May 13, 2010. A.A.C. R14-2-803(A) requires
19 that the Commission be notified 120 days in advance prior to the impact of the proposed
20 transaction. The 120 day period has already been exceeded.

21
22 Also, A.A.C. R14-2-803(A).1 to A.A.C. R14-2-803(A).11, states the information that
23 must be provided to the Commission in support of an application to reorganize, such as
24 the proposed merger. Mr. Campbell provided the appropriate information in his
25 testimony³⁵. Additionally, the testimony of all Applicant witnesses and responses by the

³⁵ Direct Testimony of James P. Campbell on Behalf of Qwest Corporation Qwest Communications Company, LLC, and Qwest LD Corp. May 24, 2010, pages 4 – 7.

1 Applicants to Staff's twelve sets of data requests have supplemented the information
2 required for Staff's analysis.

3
4 **Q. What are Staff's findings with respect to the Affiliated Interests Rules?**

5 A. Qwest and CenturyLink have provided the information required to be filed with the
6 Commission to satisfy Affiliated Interest review.

7
8 **INTERVENOR TESTIMONY AND CONDITIONS**

9 **Q. Has Staff reviewed the initial testimony and conditions filed by intervenors in this**
10 **matter?**

11 A. Yes.

12
13 **Q. What specific initial testimony and conditions did Staff review?**

14 A. Staff reviewed the testimony and conditions filed by Cox, Communications Workers of
15 America ("CWA"), The United States Department of Defense and All Other Federal
16 Executive Agencies ("DoD/FEA"), Integra Telecom, Inc. ("Integra"), Level 3
17 Communications, LLC ("Level 3"), Pac-West Telecomm, Inc. ("Pac-West"), The
18 Residential Utility Consumer Office ("RUCO"), and the Joint CLECs³⁶.

19
20 **Q. Do the intervenors support approval of the proposed merger?**

21 A. All intervenors expressed reservations with the proposed merger but no intervenor
22 supported outright denial or delayed approval. All intervenors support approval based on
23 conditions and in several cases numerous conditions.

³⁶ 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 Service

1 More specifically, CWA and the Joint CLECs support denial of the application as
2 proposed but support approval with conditions. DoD/FEA, Level 3, Pac-West and RUCO
3 support approval with conditions. Cox states that it “cannot say whether the Commission
4 should approve the merger or not” but supports “binding conditions” with any
5 Commission approval.
6

7 **Q. What are Staff’s observations regarding the initial testimony of intervenors in**
8 **Arizona?**

9 A. As anticipated, based on Staff’s understanding of testimony in other states, such as
10 Colorado, Minnesota, Oregon, Utah, and Washington, the intervenor testimony filed in
11 Arizona on September 27, 2010 was extensive. Staff’s recommended conditions in
12 Attachment 1 are consistent with those provided in intervenor testimony. Given the
13 limited time and voluminous testimony, more detailed comments regarding intervenor
14 testimony and conditions will be included in Staff’s surrebuttal.
15

16 **Q. Does Staff believe that important issues have been raised by the intervenors which**
17 **need to be addressed?**

18 A. Yes. Again, Staff will comment more on these Intervenor issues in its surrebuttal
19 testimony. My limited comments at this point are that attention should be given to the
20 testimony of Cox Witness Howell since Cox now provides service in competition with
21 CenturyLink in seven states: Arkansas, Florida, Kansas, Louisiana, Nevada, Oklahoma
22 and Nebraska. Cox offers first-hand experience as a CLEC interfacing with
23 CenturyLink and the problems it encountered. The CWA’s and DOD’s testimony also
24 raise concerns with respect to the integration of support systems. There is also an overall
25 concern with the lack of information or detailed plans available at this time.

1 CWA witness Jasper Gurganus listed the range of systems that may be integrated
2 including, billing, management information, purchasing, accounting, finance, sales,
3 payroll and benefits, fixed asset, least administration and regulatory compliance. The
4 financial risk was discussed by CenturyLink in its Prospectus at p. 16.

5
6 “While CenturyLink has assumed that a certain level of transaction and integration
7 expenses would be incurred, there are a number of factors beyond its control that could
8 affect the total amount or timing of its integration expenses. Many of the expenses that
9 will be incurred, by their nature, are difficult to estimate accurately at the present time.”
10

11 Other important points were raised by the Joint CLECs, Eschelon, Pac-West and Level 3.
12 Staff will address the Intervenor testimony in more detail in its surrebuttal testimony.
13

14 **Q. Has Staff reviewed the testimony and conditions filed by Staffs in other states where**
15 **Qwest provides ILEC service?**

16 A. Yes. Staff reviewed the testimony of Minnesota, Oregon, Utah, Washington and
17 Colorado.
18

19 **Q. Do Minnesota, Oregon, Utah and Washington have similar Qwest and CenturyLink**
20 **operations to those in Arizona?**

21 A. No. Minnesota, Oregon and Washington have Qwest and CenturyLink ILEC operations.
22 Utah is similar to Arizona in only having Qwest ILEC operations.
23

24 **Q. Have Colorado, Minnesota, Oregon, Utah and Washington Staff's supported**
25 **approval in their filings?**

26 A. Not entirely. Colorado Staff concluded that granting approval should be conditioned on
27 the ordering of recommended terms and conditions. The Minnesota Department of
28 Commerce (“DOC”) withheld its direct testimony recommendation pending review of

1 intervenor testimony. In rebuttal testimony, Minnesota DOC supported approval based on
2 numerous recommendations offered by intervenors, such as CWA and the Joint CLECs.
3 Oregon Staff recommended denial and subsequently outlined 57 conditions under which
4 approval could be recommended. Utah Staff recommended approval based on 30
5 conditions. Washington Staff did not recommend approval because of its belief that
6 Qwest and CenturyLink had not adequately addressed the risks to Washington customers.
7 Similar to Oregon, Washington staff defined 45 conditions by which approval could be
8 recommended.

9
10 **Q. Are the concerns of other states in the Qwest region the same as Staff's concerns that**
11 **have been identified thus far?**

12 A. Yes. In fact, there are many conditions which parallel those adopted in other jurisdictions
13 in the Qwest ILEC region.

14
15 **Q. Has the Commission considered the concerns of interested parties other than**
16 **Intervenors?**

17 A. Yes. On October 6, 2010, the Arizona Consumers Council ("the Council") submitted ex
18 parte communications to the FCC and at the same time submitted information for the
19 Commission to consider. The Council stated that it "...is concerned that the proposed
20 merger now before the FCC and the Commission is not in the public interest as required
21 under the Constitution and laws of the state of Arizona." The Council also expressed a
22 number of concerns and urged the Commission "...to conscientiously carry out its
23 constitutional obligation to protect Arizona consumers, businesses and government in
24 corporate transactions of this nature. The Commission needs to slow down the process and
25 thoroughly vet the issues which are myriad and very complex." The Council concludes
26 by stating that "... the Council is not necessarily opposed to the CenturyLink-Qwest

1 transaction. The Council just wants to ensure that the Commission is asking the right
2 questions - and taking extraordinary steps to protect Arizona consumers and business.”
3

4 **Q. Has the Commission considered the Arizona Consumers Council’s concerns?**

5 A. Yes. Staff agrees that the issues raised by the Council need to be fully vetted. My
6 testimony and that of Staff’s witnesses, Pam Genung and Pedro Chaves, is intended to
7 address the very issues and questions raised by the Council, such as:

- 8
- 9 – What is Century Link's plan to manage Qwest's systems and technology?
 - 10 – Who will be in charge?
 - 11 – Will additional outside expertise be retained?
 - 12 – What assurances can CenturyLink provide that *all* Arizonans, not just residents
13 of Phoenix and Tempe, will have access to their network at affordable rates?
 - 14 – Does the company have a financial plan in place to service the unprecedented
15 debt that they want to acquire?
 - 16 – Will CenturyLink have the resources to expand and incorporate the new and
17 expanded internet operations now being built with Federal Stimulus Funds?
 - 18 – Are they prepared to expand and build their operations in rural Arizona that are
19 unserved or under served at reasonable rates?

20 Staff will continue to seek answers to the issues and questions raised by the Council as
21 this proceeding continues.
22

23 **PUBLIC INTEREST**

24 **Q. What standard was used by Staff to determine if the proposed merger is in the Public
25 Interest?**

26 A. The Public Interest can be explained simply as “the benefits or merits which will flow to
27 the public” from any transaction filed for consideration by the Commission. Logically
28 this test or standard means that the transaction, the acquisition of Qwest by CenturyLink in
29 this matter, should first cause no harm to customers of the entities involved in the
30 transaction. If a transaction can be evaluated to first cause no harm, the more important

1 determination of considering the benefits or merits can be undertaken. As discussed
2 earlier, there are six entities involved in this transaction but because of its role and scope
3 most of the attention is naturally focused on the Qwest ILEC.
4

5 **Q. Does Staff believe that this proposed merger satisfies the first step in causing no**
6 **harm?**

7 A. If conditioned with the recommendations discussed in this testimony and summarized in
8 Attachment 1, Staff believes this proposed merger can satisfy the no harm step for the
9 reasons discussed earlier in this testimony and is therefore in the Public Interest.
10

11 **Q. Please summarize the reasons that Staff believes that the proposed merger satisfies**
12 **the no harm step.**

13 A. Staff believes that the potential harms indentified by parties to this Docket can be
14 eliminated by appropriate conditions. Staff has proposed a set of conditions designed in
15 large part to address and control any potential harms before they occur.
16

17 **Q. Does Staff believe that the proposed merger offer benefits that satisfy the Public**
18 **Interest standard?**

19 A. Yes. If conditioned with appropriate recommendations, Staff believes that the proposed
20 merger's potential benefits in (1) Financial Strength, (2) Customer Services and (3)
21 Competition satisfy the Public Interest standard.
22

23 Pertaining to the first category, analysis by Staff Witness Pedro Chaves, led Staff to
24 conclude that the proposed transaction does offer financial benefits and is, therefore, in the
25 Public interest from a purely financial prospective. Categories two and three are more
26 subjective. Staff recognizes that certainty cannot be assured in this or any transaction as

1 all success or failure is in the future execution of plans associated with this or any
2 transaction. For that reason, Staff recommended conditions are intended to ensure that
3 Qwest's retail and wholesale operations are not adversely impacted by the merger. With
4 the conditions, Staff concludes that the proposed transaction offers potential customer and
5 competitive benefits that are in the Public Interest.

6
7 **Q. Why should the Commission not wait until many plans related to the proposed**
8 **benefits are available before granting approval?**

9 A. First, the technology intensive nature of the telecommunications industry does not favor
10 extended timelines, as would be required for key plans to be developed by the Applicants
11 and then reviewed by parties in this matter. Second, the Commission's knowledge of the
12 Applicants plans will not increase the certainty that the potential benefits associated with
13 the proposed merger will be realized. Realization of the potential benefits by Arizona
14 customers will be highly dependent on the ability of CenturyLink and Qwest to execute
15 their merger plans in a timely and cost-effective manner; and to realize the projected
16 synergies set forth in their application. Insistence on reviewing key plans before granting
17 approval in this matter may actually serve to undermine potential benefits by shifting the
18 planning resources allocated by the Applicants.

19
20 Denial or delayed approval of the proposed merger is likely to have consequences for
21 Qwest and the Arizona telecommunications environment. The customer and capital
22 market perceptions from a failure to close the proposed merger on reasonable terms will
23 surely not be favorable to Qwest or the Arizona telecommunications environment,
24 resulting in operating and environmental conditions less in the public interest than
25 proceeding cautiously with proposed merger based on recommended conditions. Staff

1 believes its recommended conditions balance the need for information with the applicant's
2 desire for expeditious approval of the transaction.

3
4 **STAFF'S PROPOSED CONDITIONS AND RECOMMENDATIONS**

5 **Q. Does Staff recommend approval of the proposed transaction?**

6 A. Staff recommends that the Application be denied unless all of Staff's conditions are
7 adopted.

8
9 **Q. Can you give an overview of Staff's proposed conditions?**

10 A. Staff's conditions fall into the following broad categories: 1) merger costs, 2) regulatory,
11 3) retail operations, 4) wholesale operations, 5) financial, 6) reporting requirements and 7)
12 conservation of Commission resources.

13
14 The conditions with respect to 'merger costs' are designed to prevent merger and one time
15 transactional costs from being passed onto Arizona ratepayers or Qwest's wholesale
16 customers. The regulatory conditions are designed to ensure that the Merged Company
17 will continue to comply with Section 271 obligations in Arizona and also put in place
18 additional regulatory requirements to ensure that the Commission's overall jurisdiction
19 will not be impacted by the proposed merger.

20
21 There are eight conditions with respect to retail operations post-merger. These conditions
22 put in place various safeguards designed to ensure that Qwest's current retail operations
23 will not be adversely impacted by the proposed merger. Staff is also proposing a
24 significant number of conditions relating to Qwest's wholesale operations. These
25 conditions are designed in part to ensure that the merger will have no adverse impact upon
26 competition in Arizona. The financial conditions are designed to ensure that a balanced

1 capital structure is maintained by the Merged Company in the future and that any
2 acquisition adjustment paid for Qwest will not be passed onto ratepayers.

3 The reporting requirements are designed to give the Commission useful information with
4 respect to infrastructure improvements, broadband deployment, the impact of the merger
5 upon Arizona Qwest employees and information relating to past integration efforts of
6 CenturyLink. Finally, there is a final condition relating to conservation of Commission
7 resources where Staff suggests that the Company evaluate certain proceedings and make a
8 good faith effort to resolve them without further litigation.

9
10 Staff recommends that the Application be denied unless all of Staff's conditions are
11 adopted.

12
13 This testimony sponsors conditions 4 to 11, 19 to 33 and 47.

14
15 **Q. Does this conclude your direct testimony?**

16 **A. Yes, it does.**

1 Attachment 1
2

3 STAFF'S RECOMMENDED CONDITIONS FOR APPROVAL
4

5 **MERGER COSTS**

- 6 1. That CenturyLink and Qwest Corporation ("the Merged Company") shall not recover, or
7 seek to recover, through wholesale service rates or other fees paid by Competitive Local
8 Exchange Carriers ("CLECs") or through Arizona end-user retail rates, and will hold both
9 wholesale and retail customers harmless for, one-time transfer, branding, or any merger or
10 transaction-related costs.
- 11 2. That the Merged Company shall provide the Arizona Corporation Commission
12 ("Commission") with access to all books of account, all documents, data, and records that
13 pertain to the proposed merger.
- 14 3. That the Commission reserves the right to review, for reasonableness, all financial aspects
15 of this transaction at any time and in any rate proceeding or earnings review, regardless of
16 the form of regulation.

17 **REGULATORY**

- 18 4. That even after merger approval by the Commission, any party may bring conditions
19 adopted in other states and the Federal Communications Commission ("FCC") back to the
20 Commission for review and possible adoption in Arizona. The Commission will consider
21 such requests, allowing for a hearing if requested.
- 22 5. After merger close, the legacy Qwest Incumbent Local Exchange Company ("ILEC")
23 territory shall continue to be classified as a Bell Operating Company ("BOC"), pursuant to
24 47 U.S.C. § 153(4)(A)-(B) and shall be subject to all requirements applicable to BOCs,
25 including but not limited to the "competitive checklist" set forth in Section 271(c)(2)(B) of
26 the Act.
- 27 6. That the Merged Company shall continue to comply with all Section 271 obligations
28 adopted by this Commission and the FCC, including all Qwest Performance Assurance Plan
29 ("QPAP") and Performance Indicator Definition ("PID") obligations, until it is released of
30 those obligations by the FCC and this Commission, as appropriate.
- 31 7. That the Merged Company shall continue to comply with all relevant prior Commission
32 orders and decisions, unless the Commission specifically finds in an order that they are no
33 longer applicable.
- 34 8. That the Merged Company shall agree to maintain its books and records in accordance with
35 the Uniform System of Accounts ("USOC") and to provide the Commission with financial
36 data on a separated intrastate basis for as long as required by the Commission.

1 9. That CenturyLink shall notify the Commission of any plans to merge the ILEC operating
2 companies of CenturyTel, Embarq and/or Qwest at least one year before any proposed
3 internal reorganization. CenturyLink agrees to file an application pursuant to applicable
4 statutes and A.A.C. R14-2-801 et seq. for Commission approval before any such merger
5 occurs.

6 10. That the Merged Company (including any affiliates and subsidiaries) shall provide to the
7 Commission access to its books and records and those of its subsidiaries and affiliates, in a
8 form acceptable to the Commission, to the extent deemed necessary by the Commission to
9 ensure the provision of service at just and reasonable rates in the future.

10 **RETAIL OPERATIONS**

11 11. That within 90 days following merger close, CenturyTel Solutions file for cancellation of its
12 CLEC Certificate of Convenience & Necessity ("CC&N") granted by Decision No. 63638.

13 12. That the Merged Company for a period of three years following merger close shall not file
14 to make changes to its Service Quality Tariff; unless requested by the Commission or
15 Commission Staff.

16 13. That the Merged Company for a period of three years following merger close shall not file
17 to obtain funds from the Arizona Universal Service Fund ("AUSF").

18 14. That the Merged Company shall maintain or improve its pre-merger complaint status in the
19 Qwest Arizona service areas.

20 15. That the Merged Company shall ensure that Retail support centers are sufficiently staffed
21 with adequately trained personnel who will provide a level of service comparable to that
22 provided in the Qwest service areas prior to the merger. If the Merged Company (within
23 three years following the date the transaction closes) plans to make any rearrangements of
24 major network components (such as business office and trouble reporting call centers,
25 Network Operations Control Centers, E911 systems, access and local tandems), 90 days
26 before such changes, the Merged Company will provide Staff with a rearrangement plan
27 discussing the changes to be made and their timeframes.

28 16. That no Commission-regulated intrastate retail service currently offered by Qwest will be
29 discontinued for a period of at least one year following the Closing Date, except as approved
30 by the Commission.

31 17. That the Merged Company shall give at least 6 months notice of any plans to integrate
32 portions of Qwest's retail support systems with portions of the CenturyLink and/or Embarq
33 systems. If the integration is to be accomplished in phases, 6-month notice shall be given
34 before each separate phase. The Merged Company shall make a filing with the Commission
35 in this Docket detailing the proposed integration, the schedule in which it is to be
36 accomplished and a detailed plan of integration. The Merged Company shall indicate what
37 support system is being replaced and what support system will survive. It shall also discuss
38 any anticipated problems and any problems that occurred with similar integrations in other

1 jurisdictions and how such problems will be mitigated in Arizona. The Merged Company
2 shall be required to demonstrate that the proposed integration, where it affects retail
3 operations, will not result in a degradation of current Qwest retail support systems.

4 18. That the Merged Company shall provide the Commission with an Internet Protocol
5 Television ("IPTV") and Broadband deployment plan within six months of a decision in this
6 matter for Commission consideration.

7 **WHOLESALE OPERATIONS**

8 19. That the Merged Company shall for a period of three years following merger close keep
9 intact pre-merger Operational Support Systems ("OSSs") that support wholesale services in
10 Arizona, unless the Merged Company obtains Commission approval to make changes prior
11 to that time.

12 20. That the Merged Company shall give at least 6 months notice to the Commission and
13 CLECs of any plans to integrate portions of Qwest's wholesale Operational Support
14 Systems OSSs with portions of the CenturyLink and/or Embarq OSS. If the integration is to
15 be accomplished in phases, 6-month notice should be given before each separate phase. The
16 Merged Company shall make a filing with the Commission in this Docket explaining the
17 proposed integration, a schedule for its implementation and a detailed plan of integration.
18 The Merged Company shall indicate what support system is being replaced and what
19 support system will survive. It shall also discuss any anticipated problems and any
20 problems that occurred with similar integrations in other jurisdictions and how such
21 problems will be mitigated in Arizona. The Merged Company shall be required to
22 demonstrate that the proposed integration, where it affects wholesale operations, will not
23 result in a degradation of current Qwest wholesale support systems. The Merged Company
24 shall coordinate any transition with the CLECs. The Merged Company shall notify the
25 Commission and CLECs when the integration is complete.

26 21. That following merger close, CenturyLink shall continue to comply with the provisions of
27 the QPAP (including the existing PIDs and penalty provisions) that are in effect as of the
28 merger filing date until such time as the integration of the Merged Company's wholesale
29 systems affecting Arizona has been completed and until there is at least one year of
30 performance data under the integrated systems and such performance data demonstrates that
31 there has been no increase in penalties under the QPAP due to the integration of the Merged
32 Company's wholesale systems. Qwest shall continue to comply with all current reporting
33 obligations.

34 22. That Docket No. T-01051B-03-0859, which is currently examining the Liberty Report and
35 Qwest's proposed changes to the QPAP shall be suspended pending the completion of the
36 obligations discussed in Item 21 above. Notwithstanding, given the changeover from EDI
37 to XML, the Merged Company shall incorporate XML in place of EDI in any relevant
38 metrics as it has already done in Colorado, Utah and Montana. Any changes to the PIDs or
39 QPAP must be approved by the Commission.

- 1 23. That the Merged Company must maintain Qwest's post-merger wholesale OSS performance
2 at levels that are at least equal to those provided by Qwest before the merger's closing date.
3 The Merged Company should be on notice that any decrease in performance levels may be
4 subject to higher penalty levels.
- 5 24. That the Merged Company shall continue with the Qwest Change Management Process
6 ("CMP"), utilizing the terms and conditions set forth in the Qwest CMP Document,
7 including those terms and conditions governing changes to the CMP Document. The
8 Merged Company shall be required to meet with the CLECs and adopt changes to the CMP
9 process which will allow for meaningful input by the CLECs on any proposed changes. The
10 Merged Company shall agree to complete all CLEC change requests in a commercially
11 reasonable timeframe.
- 12 25. That the Merged Company shall continue to honor all obligations under Qwest's current
13 interconnection agreements, tariffs, and other existing contractual arrangements with
14 CLECs. That for three years following merger close, the Merged Company shall allow
15 requesting carriers to extend existing interconnection agreements, pending the completion of
16 newly negotiated agreements.
- 17 26. That no Qwest wholesale intrastate service offered to competitive carriers as of the merger
18 filing date will be discontinued for two years after closing of the merger, unless approved by
19 the Commission.
- 20 27. That the Merged Company shall ensure that Wholesale and CLEC support centers are
21 sufficiently staffed with adequately trained personnel dedicated exclusively to wholesale
22 operations and will provide a level of service comparable to that provided to the Qwest
23 service areas prior to the merger.
- 24 28. After the Closing Date of the transaction, the Merged Company shall provide and maintain
25 updated escalation information, contact lists and account manager information that are in
26 place at least 30 days prior to the transaction close date. For changes to support center
27 location, organizational structure, or contact information, the Merged Company will provide
28 at least 30 days advance written notice to all CLECs and Commission.
- 29 29. The Merged Company shall continue to make available to each wholesale carrier in Arizona
30 the types of information that Qwest made available as of the Merger Filing Date concerning
31 wholesale OSS functions and wholesale business practices and procedures, including
32 information provided via the wholesale web site, notices, industry letters, the change
33 management process, and databases/tools.
- 34 30. That the Merged Company shall allow a requesting competitive provider to use any
35 approved Interconnection Agreement ("ICA") in Arizona, as the basis for negotiating a
36 replacement ICA.
- 37 31. That the Merged Company shall offer an amendment to ICAs which provides for
38 compensation for all ISP-bound traffic (including VNXX traffic) at the rate of \$.0004 per
39 minute. This is consistent with a provision contained in Embarq's (a subsidiary of

1 CenturyLink) ICA with Level 3. The amendment shall only be available to carriers to the
2 extent they agree to resolve any pending disputes before the Commission based upon the
3 same terms and conditions.

4 32. That the Merged Company shall be required to update Qwest's Statement of Generally
5 Available Terms and Conditions ("SGAT") on file with the Commission to include the
6 jointly negotiated Triennial Review language included in the most recent Eschelon-Qwest
7 ICA. The Merged Company shall file the revised SGAT within 60 days of the
8 Commission's Order approving the merger, and it shall remain in effect for a period of at
9 least 3 years from the Commission's Order approving the merger in this docket.
10 CenturyLink shall be required to obtain Commission approval prior to its withdrawal of the
11 SGAT.

12 33. That the Merged Company shall not impose any new or additional charges upon CLECs for
13 functions already undertaken by Qwest without the prior approval of the Commission.

14 **FINANCIAL**

15 34. That in the event that equity-to-total capital ratio falls below 40.0 percent for the post-
16 merger CenturyLink, Inc. and/or for any of its Arizona subsidiaries, CenturyLink, Inc.
17 and/or the Arizona subsidiary/subsidiaries affected, should be required to file notice in this
18 Docket providing the reasons why the equity-to-total capital ratio decreased and a plan on
19 how to reach an equity-to-total capital ratio above 40.0 percent.

20 35. That the Merged Company be required to report any of the following events: 1) default on
21 any loan by CenturyLink, Inc. or any of its Arizona subsidiaries; 2) a delisting of
22 CenturyLink from trading in a major trading exchange; and 3) CenturyLink, Inc. or any of
23 its Arizona subsidiaries is rated with a non-investment rate grading by Fitch Ratings,
24 Standard and Poor's or Moody's Investor Services or their successors. That CenturyLink,
25 Inc.'s Arizona subsidiaries effectively utilize their access to the capital markets provided
26 through their parent company as necessary and appropriate to maintain an adequate capital
27 structure and to provide funds for capital and operational needs. CenturyLink shall make its
28 filing with the Commission no later than 30 days subsequent to filing its quarterly report on
29 Form 10-Q or its annual report on Form 10-K with the Securities and Exchange
30 Commission following the event.

31 36. CenturyLink will not seek to recover any acquisition adjustment paid for Qwest.

32 **REPORTING**

33 37. That following merger close the Merged Company shall annually submit a Consumer
34 Benefits Report to Docket Control. The first report shall be submitted no later than April 15,
35 2012, and annually for a period of three years. The Consumer Benefits Report shall include
36 in detail any cost savings that have resulted from the Merger and have been passed on to
37 consumers. In addition, this report should include improvement in the Merged Company's
38 complaint level in Arizona; new services, including bundles available to customer;

- 1 improvement in service quality measures, infrastructure improvements; and expanded
2 broadband coverage.
- 3 38. The Merged Company shall report to the Commission synergy savings resulting from the
4 proposed transaction on an annual basis from the date of merger closing. At a minimum, the
5 report shall provide the following information: a) costs and projected savings associated
6 with each respective activity on a Merged Company basis; b) consolidation and
7 organizational changes to network operations and staffing levels in Arizona; c) impacts on
8 Arizona operations and customers.
- 9 39. That if following merger close the Merged Company chooses to conduct layoffs or facility
10 closings in Arizona that are attributable to the Merger, it shall file a report two months prior
11 to the effective date of the layoffs or closings with Docket Control stating why it is
12 necessary to do so and what efforts the Company is making to re-deploy those individuals
13 elsewhere in the Company. This report shall also state whether any savings associated with
14 facility closings have been re-invested in the Company's Arizona operations, and if not,
15 why. The report shall also state whether any of the efficiencies estimated to result from the
16 Merger ultimately were derived from reductions in or changes to the Company's operations
17 in Arizona. This report shall be filed for one year following merger close or until
18 CenturyLink informs the Commission by filing an affidavit with Docket Control that merger
19 related activities are completed, whichever comes last.
- 20 40. That one year after the merger close, and annually thereafter, the Merged Company shall
21 provide the following; a multi-year strategic plan that identifies the expected remaining life
22 of all host and remote central office switches currently deployed in the Qwest franchise area
23 in Arizona and a proposed replacement plan for the switches, if any, so that the Merged
24 Company will be able to meet Arizona quality of service standards. The plan should contain
25 information regarding the Merged Company's intent to deploy new technology (soft switch,
26 VoIP, etc).
- 27 41. That for three years following merger close, the Merged Company shall include in its annual
28 report filed on April 15th the following additional information on a wire center-specific
29 basis: (a) the number of local exchange subscribers (business and residence) utilizing fixed
30 VoIP technology if offered by the Merged Company; (b) the number of broadband-capable
31 subscriber lines shown by technology (DSL, FTTP and other) and the number of working
32 lines; and (c) total capital expenditures associated with new broadband deployment in the
33 previous calendar year by technology.
- 34 42. That for two years following merger close, the Merged Company shall report on a 6 month
35 basis, its integration progress with Embarq, and any problems encountered.
- 36 43. That the Merged Company shall notify the Commission within ten (10) business days of any
37 substantive material changes to the transaction terms and conditions from those set forth in
38 their Application that occur either while the transaction is pending before the Commission
39 or after it has been approved by the Commission.

- 1 44. That the Merged Company shall provide notice of merger closure to the Commission within
2 45 days following the completion of the proposed merger in this transaction.
- 3 45. That for three years following merger close an Executive Vice President or Chief Financial
4 Officer of the Merged Company shall certify to the Commission every six months that all
5 Arizona CenturyLink entities are in compliance with all conditions in contained in the
6 Commission's decision in this matter.
- 7 46. That for each of the first three years following merger close, the Merged Company shall
8 maintain or improve on the Qwest Operating Expense per 1,000 Working Access Lines,
9 Annual Investment per 1,000 Working Access Lines, and Full-Time Equivalent Employees
10 per 1,000 Working Access Lines ratios by Wire Center, calculated on the same basis as the
11 ratios provided by Qwest but averaged for years 2008, 2009 and 2010. Qwest shall provide
12 within 60 days of a Commission decision approving the proposed merger Operating
13 Expense per 1,000 Working Access Lines, Annual Investment per 1,000 Working Access
14 Lines, and Full-Time Equivalent Employees per 1,000 Working Access Lines ratios by Wire
15 Center for the years 2008, 2009 and 2010.

16 **CONSERVATION OF COMMISSION RESOURCES**

- 17
- 18 47. That the Merged Company shall evaluate existing litigation involving the Commission and
19 make a good faith effort to resolve the issues without further litigation. Following are cases
20 which have entailed significant Commission resources which the Merged Company should
21 include in its evaluation: (a) McLeodUSA v. ACC, Arizona District Court Case No.
22 CV07-2145-PHX-HRH; (b) Qwest v. ACC, Arizona District Court Case No. CV08-2374-
23 PHX-JAT; (c) Pac-West/Level 3 VNXX Remand Proceeding ACC (Docket Nos. T-
24 01051B-05-0495, T-03693A-05-0495, T-01051B-05-0415, T-036564A-05-0415).

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE JOINT APPLICATION)
OF QWEST CORPORATION, QWEST)
COMMUNICATIONS COMPANY, LLC,)
QWEST LD CORP. DBA QWEST LONG)
DISTANCE, EMBARQ COMMUNICATIONS,)
INC., EMBARQ PAYPHONE SERVICES, INC.)
AND CENTURYTEL SOLUTIONS, LLC FOR)
APPROVAL OF THE PROPOSED MERGER OF)
THEIR PARENT CORPORATIONS QWEST)
COMMUNICATIONS INTERNATIONAL INC.)
AND CENTURYTEL, INC.)

DOCKET NOS: T-01051B-10-0194
T-02811B-10-0194
T-04190A-10-0194
T-20443A-10-0194
T-03555A-10-0194
T-03902A-10-0194

DIRECT
TESTIMONY
OF
PAMELA J. GENUNG
PUBLIC UTILITIES ANALYST V
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

OCTOBER 12, 2010

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	2
THE PROPOSED MERGER APPLICATION	2
DESCRIPTION OF CENTURYLINK	3
PAST MERGER EXPERIENCE.....	6
CENTURYLINK'S CUSTOMER SERVICE MODEL.....	7
CENTURYLINK SERVICE QUALITY AND COMPLAINT STATUS	9
QWEST'S RETAIL SERVICE PERFORMANCE.....	12
IMPACTS OF THE PROPOSED MERGER	14
PROPOSED SYNERGIES	21
STAFF'S PROPOSED RECOMMENDATIONS.....	27
ATTACHMENT 1	29

EXECUTIVE SUMMARY

**QWEST CORPORATION, QWEST COMMUNICATIONS COMPANY, LLC, QWEST LD CORP. DBA QWEST LONG DISTANCE, EMBARQ COMMUNICATIONS, INC., EMBARQ PAYPHONE SERVICES, INC. AND CENTURYTEL SOLUTIONS, LLC FOR APPROVAL OF THE PROPOSED MERGER OF THEIR PARENT CORPORATIONS QWEST COMMUNICATIONS INTERNATIONAL INC. AND CENTURYTEL, INC
DOCKET NOS. T-01051B-10-0194, T-02811B-10-0194, T-04190A-10-0194,
T-20443A-10-0194, T-03555A-10-0194, T-03902A-10-0194**

Staff's review of the Qwest and CenturyTel, d/b/a CenturyLink, Application and corresponding material raises several concerns and risks associated with the future performance and obligations of the combined company. Staff believes it is in the public interest to protect the customers and assets of the Qwest Arizona ILEC.

Staff's concerns revolve around maintaining high standards of service quality, allocation of merger costs, potential layoffs and facility closings, anticipated merger benefits, maintaining sufficient staffing levels, and protecting ratepayers. Staff is also concerned with CenturyLink taking on additional responsibilities as an ILEC in Arizona.

While CenturyLink continues to be busy integrating Embarq's systems, it should have a highly talented and experienced pool of employees available between the combined Qwest and CenturyLink companies to fulfill its obligations of the merger between the two companies.

Since all mergers and acquisitions carry a certain level of risk and speculation that the new company will perform properly and as expected, it can be difficult to eliminate all risks. To help minimize those risks, Staff believes that conditions are necessary.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Pamela Genung. I am a Public Utilities Analyst V employed by the Arizona
4 Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff").
5 My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst V.**

8 A. In my capacity as a Public Utilities Analyst, I provide information and analysis to Staff on
9 telecommunications tariff filings, applications for Certificates of Convenience and
10 Necessity ("CC&N"), complaints between service providers, transfer applications, major
11 industry issues, and mergers and acquisitions, such as the proposed transaction in this
12 application.

13
14 **Q. Please describe your educational background and professional experience.**

15 A. I earned an International Master of Business Administration from Gardner-Webb
16 University in 2004 and a Bachelor of Science degree from Gardner-Webb University in
17 2002. I have been employed in the telecommunications industry for thirty-one years with
18 companies such as Contel of New York, GTE, Citizens Communications, and CT
19 Communications. I have also performed outsourced engineering work for BellSouth. My
20 professional experience includes operator services, customer services, facility
21 provisioning and engineering, outside plant, access services, network operations, and
22 legal/regulatory. The last five years of my telecommunications experience, at the private
23 industry level, were in legal/regulatory for the External Affairs division of CT
24 Communications, Inc. I have been with the Commission's Utilities Division since April
25 2006.

1 **BACKGROUND**

2 **Q. What is the purpose of your testimony?**

3 A. My testimony presents Staff's analysis of the impact of the merger upon Qwest's retail
4 operations and its end-user customers.

5
6 **Q. Are other witnesses offering testimony in this proceeding on behalf of Staff?**

7 A. Yes. Staff's testimony specific to the impact on competition in Qwest's service area and
8 on Qwest's wholesale operations will be presented by Staff witness Armando Fimbres.
9 Pedro Chaves will present Staff testimony focused on the financial aspects of the proposed
10 merger.

11
12 **THE PROPOSED MERGER APPLICATION**

13 **Q. Please summarize your understanding of the Qwest – CenturyLink proposed merger**
14 **application.**

15 A. In the joint application filed on May 13, 2010, the Applicants are requesting approval by
16 this Commission of a proposed merger between Qwest and CenturyLink, whereby indirect
17 control of Qwest and its operating subsidiaries will be transferred to CenturyLink. Under
18 the terms of the Merger Agreement¹, Qwest will become a wholly-owned subsidiary of
19 CenturyLink. CenturyLink's existing ILEC responsibilities will be expanded with the
20 addition of four states, Arizona, Utah, North Dakota, and South Dakota, where
21 CenturyLink does not currently have ILEC operations. Upon closing of the merger,
22 CenturyLink shareholders are expected to own approximately 50.5 percent of the
23 combined company, and Qwest shareholders approximately 49.5 percent. Following the

¹ AGREEMENT AND PLAN OF MERGER, April 21, 2010.

1 merger, four directors from the Qwest Board of Directors will be added to the
2 CenturyLink Board of Directors, increasing the total number of directors to seventeen.²
3

4 **DESCRIPTION OF CENTURYLINK**

5 **Q. How would Staff describe CenturyLink?**

6 A. Headquartered in Monroe, Louisiana, CenturyLink is a publicly-traded holding company
7 that conducts business primarily through its wholly-owned subsidiaries. Currently,
8 CenturyLink offers communications products and services to consumers and businesses in
9 thirty-three states.³ The closest CenturyLink ILEC operations are in Nevada and
10 Colorado. As of December 31, 2009, CenturyLink provided services to approximately 7
11 million ILEC access lines⁴, 2.2 million broadband subscribers, and over 553,000 video
12 subscribers nationwide.⁵ CenturyLink also operates a fiber transport network providing
13 wholesale and retail fiber-based transport services to other carriers and retail customers.⁶
14 CenturyLink currently employs approximately 20,000 employees.⁷

² Direct Testimony of Kristen McMillan on Behalf of Embarq Communications, Inc. d/b/a/ CenturyLink Communications, Embarq Payphone Services, Inc. d/b/a/ Centurylink, and CenturyTel Solutions, LLC, May 24, 2010, Page 5, line 14.

³ Direct Testimony of Todd Shafer on Behalf of Embarq Communications, Inc. d/b/a/ CenturyLink Communications, Embarq Payphone Services, Inc. d/b/a/ Centurylink, and CenturyTel Solutions, LLC, May 24, 2010, Page 3, line 12.

⁴ See Direct Testimony of Todd Shafer, May 24, 2010, Page 3, line 15.

⁵ Joint Notice and Application of Qwest Corporation, Qwest Communications Company LLC, Qwest LD Corp, Embarq Communications, Inc. d/b/a CenturyLink Communications, Embarq 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., May 13, 2010, Page 5, lines 17-18.

⁶ 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, May 24, 2010, Page 9, lines 11-13.

⁷ See Direct Testimony of Todd Shafer, May 24, 2010, Page 3, line 20.

1 Additionally, CenturyLink (f.k.a. CenturyTel) began its telecommunications services in
2 areas considered rural or small and through the course of its acquisitions has moved into
3 medium-sized communities and some large metropolitan areas, such as Las Vegas.⁸
4

5 **Q. In which states does CenturyLink currently provide ILEC services?**

6 A. CenturyLink currently provides ILEC services in thirty three states.⁹ Twenty-three states
7 are outside of the Qwest Regional Bell Operating Company (“RBOC”) region including,
8 Alabama, Arkansas, California, Florida, Georgia, Illinois, Indiana, Kansas, Louisiana,
9 Michigan, Mississippi, Missouri, New Jersey, Nevada, North Carolina, Ohio, Oklahoma,
10 Pennsylvania, South Carolina, Tennessee, Texas, Virginia, and Wisconsin. Ten states are
11 inside the Qwest RBOC region which includes Colorado, Idaho, Iowa, Minnesota,
12 Montana, Nebraska, New Mexico, Oregon, Washington, and Wyoming.
13

14 **Q. What type(s) of operating authority does CenturyLink currently have in Arizona?**

15 A. Through its three subsidiaries, CenturyTel Solutions, LLC (“CenturyTel Solutions”),
16 Embarq Communications, Inc. (“Embarq”) and Embarq Payphone Services, Inc.,
17 CenturyLink currently has Competitive Local Exchange Carrier (“CLEC”), Reseller Long
18 Distance (“RLD”), and Customer-Owned Pay Telephone (“COPT”) authorities in
19 Arizona.
20

21 **Q. How many employees does CenturyLink have in Arizona?**

22 A. CenturyLink’s certificated entities have zero employees in Arizona.¹⁰

⁸ See Direct Testimony of Todd Shafer, May 24, 2010, Page 9.

⁹ Responses to Staff’s Second Set of Data Requests to CenturyLink, June 11, 2010, Page 44.

¹⁰ Responses to Staff’s Second Set of Data Requests to CenturyLink, June 11, 2010, Page 36.

1 **Q. How has CenturyLink grown its operations over the past several years?**

2 A. CenturyLink has steadily grown its operations by acquiring and integrating various
3 companies and assets. CenturyLink's history¹¹ began in 1930 with a 75 subscriber
4 operation in Louisiana and eventually took modern form with its Century Telephone
5 Enterprises, Inc., including being renamed in 1971. Though a modest expansion occurred
6 from the late 1930s into the 1990s, major expansion by CenturyLink began in 1997 with
7 the acquisition of 600,000 access lines in 12 states¹² from Pacific Telecom, Inc. The
8 Pacific Telecom acquisition doubled the size of CenturyLink at that time. In 1998,
9 CenturyLink acquired 89,000 access lines in Wisconsin from Ameritech. In 2000,
10 CenturyLink acquired 490,000 access lines from GTE¹³ in Arkansas, Missouri, and
11 Wisconsin. In 2002, CenturyLink acquired 650,000 access lines from Verizon in Alabama
12 and Missouri. In 2003 and 2005, CenturyLink acquired fiber assets to enhance
13 LightCore.¹⁴ In 2007, CenturyLink acquired 165,000 access lines in four states¹⁵ from
14 Madison River Communications. In 2009, CenturyLink acquired 5.4 million access lines
15 from Embarq Corporation.¹⁶ During acquisition growth since 2000, CenturyLink also
16 expanded from local and long distance services into broadband and video services.

¹¹ [http://www.centurylink.com/Pages/AboutUs/CompanyInformation/TimeLine/;](http://www.centurylink.com/Pages/AboutUs/CompanyInformation/TimeLine/)
http://www.northeasttel.com/index.php?option=com_content&task=view&id=31&Itemid=77

¹² Alaska, Colorado, Idaho, Iowa, Michigan, Minnesota, Montana, Nevada, Oregon, Washington, Wisconsin, and Wyoming.

¹³ GTE Corporation, f.k.a. General Telephone & Electronics Corporation, was the largest independent company during the Bell System period, previous to 1982.

¹⁴ A subsidiary of CenturyLink, LightCore provides wholesale bandwidth and transport services to carriers and service providers.

¹⁵ Alabama, Georgia, Illinois, and North Carolina.

¹⁶ See Direct Testimony of Todd Shafer, May 24, 2010, Exhibit TS-1, Page 1.

1 **PAST MERGER EXPERIENCE**

2 **Q. What kind of integration process has occurred since the Embarq acquisition closed**
3 **on July 1, 2009?**

4 A. Approximately 25 percent of the access lines formerly served by Embarq systems have
5 reportedly been converted to CenturyLink's single integrated retail customer service and
6 billing system. CenturyLink states that another 25 percent of the former Embarq access
7 lines are expected to convert by year end 2010 and the remaining 50 percent by the third
8 Quarter of 2011.¹⁷ Legacy CenturyTel wholesale customers are being converted to the
9 Embarq automated Operational Support Systems ("OSSs") by mid-2010, as the companies
10 had planned. Embarq's financial systems were converted to legacy CenturyTel's systems
11 as planned.¹⁸

12
13 **Q. Has the integration of Embarq proceeded in accordance with CenturyLink's plans?**

14 A. As stated in CenturyLink's Responses to Staff's Fourth Set of Data Requests, "the
15 integration of the Embarq acquisition is proceeding as planned and according to
16 CenturyLink it has thus far been a relatively smooth transition".¹⁹ However, it was
17 brought to Staff's attention that CenturyLink was having some issues²⁰ with the
18 integration and Staff will discuss this in its Surrebuttal Testimony.

19
20 **Q. Which OSSs has CenturyLink adopted in the Embarq acquisition?**

21 A. CenturyLink has adopted the ordering system developed by Embarq for Wholesale CLEC
22 and Access customers for all CenturyLink states. The system has been modified to

¹⁷ See Direct Testimony of Todd Shafer, May 24, 2010, Page 7, lines 13-18.

¹⁸ Responses to Integra's Second Set of Data Requests to CenturyLink, July 21, 2010, Page 33, question 41.

¹⁹ Responses to Staff's Fourth Set of Data Requests to CenturyLink, June 21, 2010, STF 4.5.

²⁰ Direct Testimony of Jasper Gurganus on Behalf of The Communications Workers of America ("CWA"),
September 27, 2010, Pages 4-11.

1 interface with CenturyLink's retail billing and customer service platform for the
2 transmission of service orders.²¹

3
4 **Q. Does CenturyLink intend to make changes to the OSS of Qwest and CenturyLink as**
5 **a result of the proposed merger?**

6 A. Yes. CenturyLink has stated that it will make changes to the merged companies' OSSs.
7 Based on information provided by CenturyLink, Staff understands that integration
8 planning is in the early stages and final decisions have not been made at this time.

9
10 **Q. Does CenturyLink intend to make changes to the Qwest billing platform post**
11 **merger?**

12 A. CenturyLink stated that upon merger closing, it does not anticipate any immediate changes
13 to the Qwest billing platform. While CenturyLink has not conducted a detailed analysis of
14 Billing Support System options at this time, the merger is intended to bring about
15 improved efficiencies and practices in all parts of the combined company, so changes
16 could be expected over time.²²

17
18 **CENTURYLINK'S CUSTOMER SERVICE MODEL**

19 **Q. What is Staff's understanding of CenturyLink's service delivery model?**

20 A. CenturyLink witness Todd Schafer goes into considerable detail explaining the company's
21 "go-to-market" model. Staff understands CenturyLink's "go-to-market" service delivery
22 model as an organizational model with a customer-focused philosophy. CenturyLink
23 explained that the purpose of the model is to bring decision making closer to the customer
24 regardless of the size of the market.²³ The model has been described as having a local

²¹ Responses to Staff's Fourth Set of Data Requests to CenturyLink, June 21, 2010, STF 4.6.

²² Responses to Integra's Second Set of Data Requests to CenturyLink, July 21, 2010, Page 24, question 34c.

²³ Responses to Staff's Third Set of Data Requests to CenturyLink, June 18, 2010, STF 3.3.

1 leadership structure focused on the local needs of the communities and customers and
2 maintaining a local market presence.²⁴
3

4 **Q. How is CenturyLink's service delivery model regionally structured?**

5 A. Nationally, CenturyLink has five regions²⁵ with 22 market clusters in 33 states. Each
6 region has a regional vice president, a general manager, and various operations managers
7 assigned to each of the market clusters. CenturyLink has stated that placing a significant
8 percentage of company leadership in the field drives operations and service decision-
9 making closer to the customer. As a result, CenturyLink believes it is able to respond to
10 customers and competition more quickly on a market-by-market basis.²⁶
11

12 **Q. Has the localized service approach been implemented in the former Embarq service**
13 **properties? If so, has the model been successful?**

14 A. CenturyLink has stated that the local operating model was implemented immediately upon
15 close of the transaction, in July 2009, in both metro and non-metro former Embarq
16 properties. Staff cannot factually state that the local operating model has been successful
17 but CenturyLink is convinced the model has reduced access line losses and has
18 experienced high speed internet customer growth in the five largest former Embarq
19 markets.²⁷

²⁴ See Direct Testimony of Todd Shafer, May 24, 2010, Page 8, lines 11-13.

²⁵ North-East Region, Mid-Atlantic Region, Southern Region, South-Central Region, and Western Region, See Direct Testimony of Todd Shafer, May 24, 2010, Exhibit TS-4, Page 1.

²⁶ See Direct Testimony of Todd Shafer, May 24, 2010, Page 9, lines 2-4 and 7-8.

²⁷ Responses to Staff's Third Set of Data Requests to CenturyLink, June 18, 2010, STF 3.3.

1 **Q. Does the immediate implementation of the localized service model forecast a similar**
2 **approach for Arizona?**

3 A. CenturyLink has indicated that it will likely incorporate its service model into the areas of
4 Qwest's operational structure since CenturyLink's structure has proven to be a successful
5 service delivery model. CenturyLink stated that it first needs to evaluate Qwest's current
6 structure and consider adjustments to the configurations necessary to fit the newly merged
7 operations and to ensure that any modifications continue to meet customer expectations.²⁸
8 Since CenturyLink did implement its service model in the legacy Embarq service areas,
9 Staff believes that it is reasonable to assume that such an approach will also be taken in
10 the legacy Qwest service areas of Arizona.

11
12 **Q. How does CenturyLink provide a localized service approach through its customer**
13 **service call centers?**

14 A. CenturyLink describes its method as employing a "neighborhood" approach in its
15 customer service call centers that enables customer calls to be matched with associates
16 that are trained to understand the nuances of the state. The customer service associates
17 understand the service offerings in that region and are also aware of current happenings in
18 the area by way of call screens that provide real time information about the local area.²⁹

19
20 **CENTURYLINK SERVICE QUALITY AND COMPLAINT STATUS**

21 **Q. What is the result of Staff's research regarding CenturyLink's customer complaints**
22 **status?**

23 A. Staff contacted many of the regulatory organizations in states where CenturyLink provides
24 ILEC services. Staff compared the number of complaints per 10,000 access lines for

²⁸ See Direct Testimony of Todd Shafer, May 24, 2010, Page 9, lines 14-18.

²⁹ See Direct Testimony of Todd Shafer, May 24, 2010, Page 10, lines 9-11 and 15-17.

1 Qwest³⁰ in Arizona and to the number of complaints per 10,000 access lines in eleven
2 states³¹ served by CenturyLink ILECs. Based on the available data, the complaint analysis
3 produced more favorable results for CenturyLink when compared to Qwest in Arizona on
4 an annualized basis. In Arizona, CenturyLink and its affiliates have zero complaints.
5 Staff's research suggests that CenturyLink and Qwest have very similar complaint levels
6 in their respective ILEC operational areas.
7

8 **Q. How did CenturyLink represent its customer complaint status to Staff?**

9 A. CenturyLink indicated that total complaints at the Federal Communications Commission
10 ("FCC") and states have historically declined, in particular an 18 percent decrease from
11 2008 to 2009.³²
12

13 CenturyLink also provided summary complaint information in response to Staff's Data
14 Request³³ that allowed for a high-level comparison of CenturyLink overall ILEC
15 operations versus Qwest in Arizona. CenturyLink's complaints per 10,000 access lines
16 for all of its ILEC operations were higher than that of Qwest in Arizona for years 2008,
17 2009 & 2010 year-to-date. The results cannot be compared explicitly, however, since
18 CenturyLink's rural and medium-size markets may differ considerably in customer
19 expectations than those of Qwest's largely urban, Arizona markets.
20

21 **Q. How would Staff explain the difference in complaint results?**

22 A. The data used in Staff's analysis was based on the information obtained from the Public
23 Utility Commissions ("PUCs") who responded to Staff's inquiry. The information from

³⁰ Qwest access lines totaling 1,422,795.

³¹ CenturyLink ILEC states included: North Carolina, Missouri, Ohio, Texas, Arkansas, Minnesota, Oregon, South Carolina, Montana, Nebraska, Iowa, with access lines totaling 2,769,500.

³² Responses to Staff's Second Set of Data Requests to CenturyLink, June 11, 2010, STF 2.26.

³³ Response's to Staff's Eighth Set of Data Requests to CenturyLink, September 2, 2010, STF 8.3.

1 those eleven states included three states containing CenturyLink's highest number of
2 access lines representing over 40 percent of its total access lines³⁴ in thirty-three states.
3 The PUC information does not raise immediate concerns; however, the information
4 received directly from CenturyLink includes more extensive information. The more
5 extensive information highlights concerns that warrant caution regarding customer
6 service. Given the lack of comparative CenturyLink's complaint information, Staff
7 believes it is in the public interest to recommend a condition that the Merged Company
8 shall maintain or improve its pre-merger complaint status in the Qwest Arizona service
9 areas.³⁵

10
11 **Q. Has CenturyLink developed specific service quality plans in Arizona for the next five**
12 **years?**

13 A. No, CenturyLink has not yet established specific plans regarding Arizona service quality
14 but CenturyLink has stated that it will fulfill any existing service quality obligations
15 between Qwest and the Commission.³⁶

16
17 **Q. Does CenturyLink foresee any major service quality issues in other states it currently**
18 **serves as a result of the proposed merger?**

19 A. No. CenturyLink does not anticipate any major service quality issues in states related to
20 the proposed transaction. CenturyLink has stated that it remains focused on the
21 continuation of providing high quality service and customer service in all states in which it
22 operates.³⁷

³⁴ <http://www.centurylink.com/Pages/AboutUs/CompanyInformation/CompanyStats/>

³⁵ See Attachment 1, Retail Operations Conditions.

³⁶ Responses to Staff's Second Set of Data Requests to CenturyLink, June 11, 2010, STF 2.28.

³⁷ Responses to Staff's Second Set of Data Requests to CenturyLink, June 11, 2010, STF 2.29.

1 **QWEST'S RETAIL SERVICE PERFORMANCE**

2 **Q. What service quality standards are applicable to the post-merger company?**

3 A. Qwest's local exchange service quality standards are defined in its Service Quality Tariff
4 that was initially placed into practice more than ten years ago but has continued to be
5 overseen by Price Cap Plans first authorized in March 2001, modified twice since 2001.

6
7 Section 2.5 of the Service Quality Tariff outlines the general requirements and criteria for
8 the most basic elements of telecommunications service. Four specific standards are
9 addressed in sections 2.5.2 through 2.5.6 for Basic Telephone Service, Customer Access
10 Lines, Interoffice Trunking, Network Call Completion and Trouble Report Response.
11 Unless modified by the Commission, CenturyLink would be expected to comply with
12 these requirements and criteria. Additionally, CenturyLink would be expected to comply
13 with the Service Quality Tariff Penalties and Offsets, Section 2.6, designed to link
14 financial consequences with service performance outside of specific ranges in five key
15 categories – held orders, out-of-service repair times, access to residence business office,
16 access to business office and access to repair office.

17
18 **Q. Does Staff have any concerns about CenturyLink management's ability to meet**
19 **Qwest's service quality obligations?**

20 A. No. Staff has no significant concerns about CenturyLink's ability to meet the standards in
21 the Qwest Service Quality Tariff. Ms. McMillan presents evidence in her testimony³⁸ to
22 support the telecommunications experience of CenturyLink's leadership team and, as
23 noted earlier, CenturyLink acknowledges its regulatory obligations. Although the ability
24 of CenturyLink to meet its service quality obligation is not in question, Staff believes it is
25 appropriate to establish a condition that the Merged Company for a period of three years

³⁸ See Direct Testimony of Kristen McMillan, May 24, 2010, Pages 12-13.

1 following merger close shall not file to make changes to its Service Quality tariff; unless
2 requested by the Commission or its Staff.³⁹
3

4 **Q. Does Staff have any concerns that CenturyLink may change post-merger ILEC**
5 **operations in a manner that may impact service quality?**

6 A. Perhaps, given all the challenges the Merged Company will be facing. It may be prudent,
7 for example, for the Commission to monitor key expense, investment and employee ratios
8 by the post-merger ILEC to ensure that ratios remain within reasonable ranges. Such
9 conditions would provide Commission oversight to ensure that benefits for Arizona's
10 ratepayers and customers proposed in this merger are appropriately balanced with the
11 management urgency to meet shareholder expectations.
12

13 **Q. Could the rate of IPTV deployment in Arizona have an impact on Qwest's ILEC**
14 **operations?**

15 A. CenturyLink's Arizona IPTV deployment plans⁴⁰ are still being developed. Mr. Glover
16 states at page 23 of his testimony that CenturyLink announced plans to deploy IPTV in
17 five new markets by early 2011. CenturyLink states in its Data Request response that
18 "...it is unknown at this time whether IPTV deployment in Arizona will occur before
19 2012. If IPTV plans were to be based on a significant shift of ILEC employees, expenses
20 and investment, Qwest's ILEC operations could be adversely impacted.
21

22 Staff recommends a condition that the Merged Company shall provide the Commission
23 with an IPTV deployment plan within six months of a decision in this matter for

³⁹ See Attachment 1, Retail Operations Conditions.

⁴⁰ Responses to Staff's Fourth Set of Data Requests to CenturyLink, June 9, 2010, STF 4.13.

1 Commission consideration.⁴¹ This condition would provide the Commission with
2 sufficient notice to allow for action on its part should concerns be identified.
3

4 **IMPACTS OF THE PROPOSED MERGER**

5 **Q. What does CenturyLink allege are the financial benefits of the proposed merger?**

6 A. CenturyLink believes its acquisition of Qwest should create a company with greater
7 financial resources and access to capital to invest in networks, systems, and employees.⁴²
8 At the holding company level this has the potential to be correct as the combined company
9 will be approximately twice the size of the Qwest holding company however; it is
10 uncertain how those benefits will flow to Qwest in Arizona. The financial aspects of the
11 proposed merger that apply to Arizona will be addressed in the Testimony of Staff
12 Witness Pedro Chaves.
13

14 **Q. Does CenturyLink have any specific plans regarding Arizona capital expenditures?**

15 A. CenturyLink has not yet established any specific plans. Once the merger is complete,
16 individuals from the Qwest and CenturyLink companies will assess the network
17 infrastructure in Arizona and make any recommendations to better serve Arizona
18 customers. CenturyLink has stated that it is focused on continued capital investment for
19 the support of high quality service, customer experience, and deployment of products that
20 attract and retain customers.⁴³ Staff recommends that the Commission monitor key ratios
21 such as investment per 1,000 working access lines, to ensure that reasonable ranges are
22 maintained. Staff also has included several reporting requirements specific to switch
23 replacement and broadband deployment plans.

⁴¹ See Attachment 1, Retail Operations Conditions.

⁴² See Direct Testimony of Kristen McMillan, May 24, 2010, Page 4, lines 13-14.

⁴³ Responses to Staff's Second Set of Data Requests to CenturyLink, June 11, 2010, STF 2.10.

1 **Q. What are the customer impacts expected by CenturyLink as a result of the merger?**

2 A. CenturyLink claims that the Merged Company anticipates having a greater potential to
3 reach more types of customers with a broader range of competitive products and
4 connectivity solutions than either company could standing alone.⁴⁴ The testimony of Ms.
5 McMillan addresses at page 9 the “balanced urban and rural footprint” resulting from the
6 proposed merger. CenturyLink supplemented Ms. McMillan’s testimony with its response
7 to Staff Data Request⁴⁵ – “CenturyLink has demonstrated a commitment to serve and
8 invest in both urban and rural areas, and possesses significant expertise and experience to
9 do so. The merger will result in a relatively balanced urban vs. rural footprint (especially
10 when compared to other carriers). The balance of urban vs. rural provides a natural
11 diversification, which will position the combined company to better withstand the impacts
12 of competitive, economic, and other factors that may impact urban and rural areas
13 differently.”

14
15 **Q. What does CenturyLink see as the revenue opportunities linked to the proposed
16 merger?**

17 A. CenturyLink has stated that the merged company will have increased revenue
18 opportunities with its approximately 180,000 mile national fiber network and the ability to
19 offer a broader range of products and services to more customers. The revenue
20 opportunities will be realized from offering expanded and enhanced products and services,
21 including high speed internet, video entertainment, data hosting and managed services,
22 fiber to cell tower connectivity and other high bandwidth services.⁴⁶ Ms. McMillian
23 discusses the interconnection of Qwest and CenturyLink networks in her testimony at
24 page 10, however, the related benefits would appear to Staff to be interstate in nature as

⁴⁴ See Direct Testimony of Kristen McMillan, May 24, 2010, Page 9, lines 7-11.

⁴⁵ Responses to Staff’s Fourth Set of Data Requests to CenturyLink, June 9, 2010, STF 4.10.

⁴⁶ Responses to Integra’s Second Set of Data Requests to CenturyLink, July 21, 2010, Page 40, question 52.

1 the CenturyLink fiber networks are all outside of Arizona. Arizona customers may indeed
2 benefit from the suggested interstate network synergies. How well the financial benefits
3 flow to Arizona's intrastate ratepayers is uncertain.
4

5 **Q. Does CenturyLink propose offering any new services in Qwest's Arizona service**
6 **areas?**

7 A. CenturyLink has indicated that "plans for the introduction of specific new services in
8 Arizona have not been fully developed at this point". Once the transaction closes, a
9 review of the market will be done to determine the needs of the Arizona market, including
10 an assessment of the capabilities of existing Qwest infrastructure necessary to support
11 advanced communications, data, and entertainment services.⁴⁷
12

13 **Q. How will the proposed merger impact the availability of more "bundle" offerings to**
14 **Arizona customers?**

15 A. It seems likely that the proposed merger will increase the availability of bundle offerings
16 to Arizona customers. In its application, CenturyLink states that it currently serves 7
17 million ILEC access lines nationwide, 2.3 million broadband subscribers and over 553,000
18 video subscribers. CenturyLink's emphasis on broadband and video services for its
19 current customers would logically seem to point to a similar emphasis for Arizona
20 customers and is further supported by the testimony filed by CenturyLink witnesses and
21 information provided by CenturyLink in response to Staff Data Requests. Mr. Schafer, for
22 example, includes in his testimony several areas of discussion regarding the importance of
23 the IPTV and Broadband offerings for CenturyLink. In highly confidential information
24 provided to Staff, IPTV and Broadband revenues have a prominent place in future
25 CenturyLink goals. CenturyLink does not explicitly promise to deliver robust bundles to

⁴⁷ Responses to Staff's Second Set of Data Requests to CenturyLink, June 11, 2010, STF 2.30.

1 Arizona customers in the testimony of its witnesses but Staff has reason to believe that
2 CenturyLink does plan to offer bundles to Arizona customers based on the inclusion of
3 IPTV, as described in part by Mr. Glover in his testimony – "... It is also becoming clear
4 that other data-intensive services are an important part of the consumer bundle ..."

5
6 **Q. Why would the potential bundle offerings involving the IPTV and Broadband plans
7 of the proposed merger be in the public interest?**

8 A. Qwest has 130 wire centers in Arizona. In***BEGIN HIGHLY CONFIDENTIAL [REDACTED]
9 END HIGHLY CONFIDENTIAL*** wire centers, Qwest broadband is available to
10 ***BEGIN HIGHLY CONFIDENTIAL [REDACTED] END HIGHLY
11 CONFIDENTIAL*** of qualified living units. Qwest's DirectTV and Verizon Wireless
12 offerings are estimated to be available to *** BEGIN HIGHLY CONFIDENTIAL [REDACTED]
13 [REDACTED] END HIGHLY CONFIDENTIAL*** of Qwest total wire centers. This suggests
14 that bundles comprised of phone, video, wireless and broadband could be offered to the
15 majority of living units in ***BEGIN HIGHLY CONFIDENTIAL [REDACTED] END HIGHLY
16 CONFIDENTIAL*** wire centers. Only *** BEGIN HIGHLY CONFIDENTIAL [REDACTED]
17 END HIGHLY CONFIDENTIAL*** wire centers do not have any Qwest broadband
18 availability and therefore cannot be offered complete bundles. Increased availability of
19 competitive broadband in these Qwest wire centers would be in the public interest as
20 many of those wire centers are rural and have fewer competitive options than metropolitan
21 areas. CenturyLink's experience with non-metropolitan areas could lead to more options
22 for rural wire centers; however, it is not known if CenturyLink's plans would first target
23 rural wire centers or urban wire centers.

1 Additionally, since Qwest has only ***BEGIN HIGHLY CONFIDENTIAL [REDACTED]
2 END HIGHLY CONFIDENTIAL*** broadband availability to qualified living units in
3 ***BEGIN HIGHLY CONFIDENTIAL [REDACTED] END HIGHLY CONFIDENTIAL*** of its
4 130 wire centers, even the vast majority of Qwest wire centers could benefit from
5 increased broadband deployment by CenturyLink. However, Staff cannot be sure where
6 Arizona fits into the overall deployment plans of CenturyLink.

7
8 **Q. Does the Merged Company intend to modify its switched access rates should the**
9 **merger be approved?**

10 A. Qwest and CenturyLink have indicated that they have no immediate plans to change
11 intrastate switched access rates following the merger.⁴⁸ Additional confirmation was
12 provided by Qwest stating that its interstate access rates will not change after the merger
13 and that any changes to those rates would be tied to intercarrier compensation reform at
14 the FCC.⁴⁹

15
16 **Q. Does CenturyLink intend to apply for Arizona Universal Service Fund (“AUSF”)**
17 **support in the Qwest wire centers?**

18 A. CenturyLink has indicated in its Responses to Staff’s Tenth Set of Data Requests that
19 CenturyLink has not evaluated the AUSF and its potential applicability to Qwest wire
20 centers and currently has no plans to apply for support.⁵⁰ For the years 2008 and 2009,
21 CenturyLink received state Universal Service Fund (“USF”) support in twelve states.⁵¹
22 While Qwest has never applied for AUSF support, the response by CenturyLink leaves
23 open the possibly for a reversal in the AUSF position which would potentially increase

⁴⁸ Responses to Staff’s Fifth Set of Data Requests to Qwest, August 16, 2010, STF 5-001 and supplemented via email on October 4, 2010.

⁴⁹ Email response from Qwest on October 4, 2010,

⁵⁰ Responses to Staff’s Tenth Set of Data Requests to Qwest, September 3, 2010, STF 10.2.

⁵¹ Alabama, Arkansas, Indiana, Kansas, Louisiana, Nebraska, New Mexico, Oregon, Pennsylvania, South Carolina, Texas, and Wyoming.

1 fees to Arizona end-users. Therefore, Staff believes a condition that the Merged Company
2 for a period of three years following merger close shall not file to obtain funds from the
3 Arizona Universal Service Fund is appropriate.⁵²
4

5 **Q. Does the Merged Company intend to change the rates, terms or conditions of service**
6 **to its customers?**

7 A. As indicated by witness, Kristen McMillan, immediately after the Transaction, customers
8 will continue to receive the same full range of high quality products and services at the
9 same rates, terms and under the same conditions as they did immediately before the close
10 of the Transaction. In their application, the Company's also state that their Arizona
11 operating companies will continue to provide service subject to the same rules, regulations
12 and applicable tariffs or price lists as they do now. Any subsequent service, term or price
13 changes will be made, just as they are now, in accordance with applicable rules and laws.
14

15 **Q. How many employees did CenturyLink have at the end of 2008 and 2009?**

16 A. CenturyLink had 22,573 employees corporate-wide at the end of 2008. At the end of
17 2009, CenturyLink had 20,147 employees corporate-wide.⁵³ The reduction in employees
18 is attributable to the integration of Embarq into CenturyLink that commenced in mid-
19 2009.

⁵² See Attachment 1, Retail Operations Conditions.

⁵³ Responses to Integra's Second Set of Data Requests to CenturyLink, July 21, 2010, Page 5, question 4.

1 **Q. How many employees did the three Qwest companies have in Arizona at the end of**
2 **1Q2010?**

3 A. In Arizona, Qwest Communications Company, LLC had 22 employees, Qwest
4 Corporation had 3,103 employees, and Qwest Long Distance Company had zero
5 employees at the end of the 1Q2010.⁵⁴

6
7 **Q. How do CenturyLink's and Qwest's technical expertise and customer service focus**
8 **compare?**

9 A. While both CenturyLink and Qwest holding companies have diverse operations, their
10 primary focus has been the operations of subsidiary ILECs on a multi-state basis.⁵⁵ Both
11 companies have stated their shared view of providing high quality communications
12 services to its customers by investing heavily in quality, reliable voice and data networks.
13 Given the years that CenturyLink and Qwest have operated in the telecommunications
14 industry, Staff has little doubt that both have highly skilled and experienced workforces,
15 including engineers, IT personnel, and technicians, in addition to strong management
16 teams. Post merger, CenturyLink will have a combined pool of technical expertise from
17 both companies⁵⁶ from which to draw support to quickly respond to rapid changes in
18 markets, technology, and customer demands.

19
20 **Q. Does CenturyLink have any plans in place to retain key employees following the**
21 **merger?**

22 A. CenturyLink has indicated plans to establish and grant awards under a retention program
23 for the benefit of key CenturyLink employees who do not otherwise have adequate
24 retention incentives. The retention plan currently in the process of implementation is to

⁵⁴ Responses to Staff's Second Set of Data Requests to Qwest, June 14, 2010, STF 2-036.

⁵⁵ See Direct Testimony of Kristen McMillan, May 24, 2010, Page 14, lines 14-16.

⁵⁶ See Direct Testimony of Kristen McMillan, May 24, 2010, Page 9, lines 6-8.

1 retain certain key employees in all areas of the company. Identification of those specific
2 employees eligible for the plan has not yet been finalized. CenturyLink has agreed that
3 the aggregate amount of all awards granted pursuant to the retention program will not
4 exceed \$50 million.⁵⁷

5
6 In CenturyLink's Responses to Staff's Eleventh Set of Data Request, CenturyLink has
7 stated that Qwest has a similar retention program that was offered to a select group of
8 high-performing individuals in roles that are vital to Qwest's ongoing operations and
9 success.⁵⁸

10
11 **PROPOSED SYNERGIES**

12 **Q. What synergies do CenturyLink propose as a result of the merger with Qwest?**

13 **A.** CenturyLink has indicated in its Responses to Staff's Second Set of Data Requests that the
14 synergy assessment was prepared on a company-wide basis only, not on a state by state
15 basis.⁵⁹ CenturyLink continues to explain that Arizona consumers will benefit from
16 network and operational efficiencies, leveraging combined purchasing power,
17 consolidating administrative activities, sharing support infrastructure, and implementation
18 of best practices which are expected to produce synergies within three to five years from
19 closing of the transaction.⁶⁰

⁵⁷ Responses to Integra's Second Set of Data Requests to CenturyLink, July 21, 2010, Page 52, question 74.

⁵⁸ Responses to Staff's Eleventh Set of Data Requests to CenturyLink, September 9, 2010, Page 3, STF 11.2.

⁵⁹ Responses to Staff's Second Set of Data Requests to CenturyLink, June 1, 2010, Pages 16 and 19, STF 2.16 and STF 2.19, respectively.

⁶⁰ Responses to Staff's Second Set of Data Requests to CenturyLink, June 1, 2010, Page 16, STF 2.16.

1 **Q. Do CenturyLink and Qwest have affiliates that provide the same services or perform**
2 **the same functions?**

3 A. CenturyLink has indicated that the two companies have affiliates that provide substantially
4 the same services and perform substantially the same functions. Some of the services and
5 functions include marketing, billing, and collecting for the services provided in the
6 company's respective service areas. As CenturyLink currently has limited operations in
7 Arizona, it has not developed a specific plan to eliminate or combine affiliates.
8 CenturyLink does hope to achieve synergies as a result of the merger by consolidating
9 administrative functions, among other things.⁶¹

10
11 **Q. Does CenturyLink plan to consolidate any call centers, business offices, or other**
12 **facilities of CenturyLink or its affiliates with those of Qwest or its affiliates?**

13 A. CenturyLink has stated in its Responses to Staff's Second Set of Data Requests that it
14 needs more time and data to assess the call volumes, performance, activity levels, growth
15 trends and needs of customers being served under the existing infrastructure before it can
16 make a determination on any changes to call centers, business offices, or other facilities.⁶²

17
18 This is one area that has been of concern to the Commission in previous mergers and has
19 been addressed by way of a condition. Therefore, Staff believes that it is appropriate to
20 include the condition that if following merger close the Merged Company chooses to
21 conduct layoffs or facility closings in Arizona that are attributable to the Merger, it shall
22 file a report two months prior to the effective date of the layoffs or closings with Docket
23 Control stating why it is necessary to do so and what efforts the Company is making to re-
24 deploy those individuals elsewhere in the Company. This report shall also state whether
25 any savings associated with facility closings have been re-invested in the Company's

⁶¹ Responses to Staff's Second Set of Data Requests to CenturyLink, June 1, 2010, Page 17, STF 2.17.

⁶² Responses to Staff's Second Set of Data Requests to CenturyLink, June 1, 2010, Page 20, STF 2.20.

1 Arizona operations, and if not, why. The report shall also state whether any of the
2 efficiencies estimated to result from the Merger ultimately were derived from reductions
3 in or changes to the Company's operations in Arizona. This report shall be filed for one
4 year following merger close or until CenturyLink informs the Commission by filing an
5 affidavit with Docket Control that merger related activities are completed, whichever
6 comes last.⁶³

7
8 **Q. What is the expected transaction costs associated with the proposed merger?**

9 A. CenturyLink has stated that the anticipated integration costs of the combined company
10 related to system and customer conversions, including hardware and software costs, and
11 certain employee-related severance costs to be approximately \$650-800 million of non-
12 recurring operating expenses and \$150-200 million of non-recurring capital costs.⁶⁴ The
13 transaction costs are expected as a result of integrating the business, operations, networks,
14 systems, technologies, policies and procedures of Qwest with those of CenturyLink.
15 These systems include billing, management information, purchasing, accounting and
16 finance, sales, payroll and benefits, fixed asset, lease administration, and regulatory
17 compliance.⁶⁵

18
19 **Q. Will the expected transaction costs be allocated to the Arizona Qwest ILEC?**

20 A. CenturyLink has stated that it does not anticipate attributing such one-time transaction
21 costs to Arizona regulated operations.⁶⁶ Staff believes that a more definite statement
22 regarding the disallowance of transaction costs associated with the merger and name or
23 branding changes of Qwest Corporation at any time following merger close is necessary.
24 Therefore, a condition, setting forth that the Merged Company shall not recover, or seek to

⁶³ See Attachment 1, Reporting Conditions.

⁶⁴ Responses to Integra's Second Set of Data Requests to CenturyLink, July 21, 2010, Pages 36 - 37, question 47.

⁶⁵ CenturyTel Inc. Form S-4, June 4, 2010, Page 16.

⁶⁶ Responses to Staff's Second Set of Data Requests to CenturyLink, June 1, 2010, Page 8, STF 2.8.

1 recover, through wholesale rates or other fees paid by CLECs or through Arizona end-user
2 retail rates, and will hold both wholesale and retail customers harmless for, one-time
3 transfer, branding, or any merger or transaction-related costs is appropriate.⁶⁷
4

5 **Q. What is the expected synergy cost savings associated with the proposed merger?**

6 A. CenturyLink has not estimated the synergy cost savings on a state by state basis but
7 overall expects approximately \$625 million total synergies consisting of approximately
8 \$575 million annually in operating cost synergies and approximately \$50 million annually
9 in capital expenditure synergy savings. The operating cost synergies are expected to be
10 obtained by way of corporate overhead, network and operational efficiencies, IT support,
11 increased purchasing power, and advertising/marketing.⁶⁸ The operating cost synergies
12 are expected to be realized in three to five years following completion of the proposed
13 merger. The capital expenditure savings are expected to be realized within the first two
14 years after completion of the proposed merger.⁶⁹ Staff has recommended that the Merger
15 Company submit a report annually with the Commission merger-related synergy cost
16 savings.⁷⁰
17

⁶⁷ See Attachment 1, Merger Costs Conditions.

⁶⁸ Direct Testimony of Jeff Glover, May 24, 2010, Exhibit JG-1, Page 13.

⁶⁹ Responses to Integra's Second Set of Data Requests to CenturyLink, July 21, 2010, Page 40, question 52.

⁷⁰ See Attachment 1, Reporting Conditions.

1 Q. Has CenturyLink provided any specifics regarding areas of savings related to the
2 approximate \$575 million annual operating cost synergies?

3 A. In highly confidential information provided to Staff, CenturyLink has indicated that
4 ***BEGIN HIGHLY CONFIDENTIAL [REDACTED]
5 [REDACTED] END

6 HIGHLY CONFIDENTIAL***. Based on the details provided to Staff under the highly
7 confidential response from CenturyLink, Staff believes the *** BEGIN HIGHLY
8 CONFIDENTIAL [REDACTED]

9 END HIGHLY CONFIDENTIAL***.⁷¹ CenturyLink provided additional highly
10 confidential information in its Responses to Staff's Seventh Set of Data Requests stating
11 that ***BEGIN HIGHLY CONFIDENTIAL [REDACTED]

12 [REDACTED]
13 [REDACTED]
14 [REDACTED] END HIGHLY CONFIDENTIAL***.⁷² In addition, CenturyLink

15 stated that ***BEGIN HIGHLY CONFIDENTIAL [REDACTED]
16 [REDACTED]
17 [REDACTED] END HIGHLY CONFIDENTIAL***.⁷³

18
19 In light of the operating cost synergies identified by the Company, Staff believes it is
20 appropriate to include a condition that the Merged Company shall ensure that Retail
21 support centers are sufficiently staffed with adequately trained personnel who will provide

⁷¹ HIGHLY CONFIDENTIAL, [REDACTED]

⁷² HIGHLY CONFIDENTIAL, [REDACTED]

⁷³ HIGHLY CONFIDENTIAL, [REDACTED]

1 a level of service comparable to that provided in the Qwest service areas prior to the
2 merger.⁷⁴
3

4 **Q. Has CenturyLink indicated what effect the proposed merger will have on the**
5 **management, operation, and investment policies of the pension fund for current and**
6 **future retirees of Qwest and its affiliates?**

7 A. While CenturyLink reserves its right, under the Merger Agreement, to amend, modify, or
8 terminate any employee benefit plans, programs, policies, arrangements, agreements or
9 understandings of CenturyLink or Qwest, CenturyLink has stated that no decision has
10 been made at this time regarding any changes to the management, operation, and
11 investment policies of the pension fund for current and future retirees of Qwest and its
12 affiliates. Additionally, the accrued pension benefits of active employees and current
13 retirees cannot be reduced at any time.⁷⁵
14

15 **Q. How will the Commission track the consumer benefits resulting from the merger?**

16 A. Staff recommends that following merger close the Merged Company shall annually submit
17 a Consumer Benefits Report to Docket Control.⁷⁶ The first report shall be submitted no
18 later than April 15, 2012, and annually for a period of three years. The Consumer Benefits
19 Report shall include, in detail, any cost savings that have resulted from the Merger and
20 have been passed on to consumers. In addition, this report should include improvement in
21 the Merged Company's complaint level in Arizona; new services, including bundles
22 available to customer; improvement in service quality measures, infrastructure
23 improvements; and expanded broadband coverage.
24

⁷⁴ See Attachment 1, Retail Operations Conditions.

⁷⁵ Responses to Staff's Second Set of Data Requests to CenturyLink, June 1, 2010, Page 22, STF 2.22.

⁷⁶ See Attachment 1, Reporting Conditions.

1 **Q. Were issues raised regarding integration of retail support systems, or any other**
2 **issues, by other intervenors in this case?**

3 A. Yes. But given the volume of testimony that was filed, Staff is still reviewing it. Staff
4 plans to address any issues of importance in its Surrebuttal Testimony.

5
6 **STAFF'S PROPOSED RECOMMENDATIONS**

7 **Q. Please summarize Staff's recommendations pertaining to retail operations of the**
8 **Merged Company.**

9 A. Staff's review of the Qwest and CenturyTel, d/b/a CenturyLink, Application and
10 corresponding material raises several concerns and risks associated with the future
11 performance and obligations of the combined company. Staff believes it is in the public
12 interest to protect the customers and assets of the legacy Qwest Arizona ILEC.

13
14 Staff's concerns revolve around maintaining high standards of service quality, allocation
15 of merger costs, potential layoffs and facility closings, anticipated merger benefits,
16 maintaining sufficient staffing levels, and protecting ratepayers. Staff is also concerned
17 with CenturyLink taking on additional responsibilities as an ILEC in Arizona.

18
19 While CenturyLink continues to be busy integrating Embarq's systems, it should have a
20 highly talented and experienced pool of employees available between the combined Qwest
21 and CenturyLink companies to fulfill its obligations of the merger between the two
22 companies.

23
24 Since all mergers and acquisitions carry a certain level of risk and speculation that the new
25 company will perform properly and as expected, it can be difficult to eliminate all risks.
26 To help minimize those risks, Staff believes that conditions are necessary.

1 This testimony sponsors conditions 1 – 3 relative to the exclusion of merger costs;
2 conditions 12 – 18 relating to retail operations; and conditions 37 – 46 relative to
3 reporting.

4
5
6 **Q. Does this conclude your direct testimony?**

7 **A. Yes, it does.**

8

1 **ATTACHMENT 1**

2
3 **STAFF'S RECOMMENDED CONDITIONS FOR APPROVAL**
4

5 **MERGER COSTS**

- 6 1. That CenturyLink and Qwest Corporation ("the Merged Company") shall not recover, or
7 seek to recover, through wholesale service rates or other fees paid by Competitive Local
8 Exchange Carriers ("CLECs") or through Arizona end-user retail rates, and will hold both
9 wholesale and retail customers harmless for, one-time transfer, branding, or any merger or
10 transaction-related costs.
- 11 2. That the Merged Company shall provide the Arizona Corporation Commission
12 ("Commission") with access to all books of account, all documents, data, and records that
13 pertain to the proposed merger.
- 14 3. That the Commission reserves the right to review, for reasonableness, all financial aspects
15 of this transaction at any time and in any rate proceeding or earnings review, regardless of
16 the form of regulation.

17 **REGULATORY**

- 18 4. That even after merger approval by the Commission, any party may bring conditions
19 adopted in other states and the Federal Communications Commission ("FCC") back to the
20 Commission for review and possible adoption in Arizona. The Commission will consider
21 such requests, allowing for a hearing if requested.
- 22 5. After merger close, the legacy Qwest Incumbent Local Exchange Company ("ILEC")
23 territory shall continue to be classified as a Bell Operating Company ("BOC"), pursuant to
24 47 U.S.C. § 153(4)(A)-(B) and shall be subject to all requirements applicable to BOCs,
25 including but not limited to the "competitive checklist" set forth in Section 271(c)(2)(B) of
26 the Act.
- 27 6. That the Merged Company shall continue to comply with all Section 271 obligations
28 adopted by this Commission and the FCC, including all Qwest Performance Assurance Plan
29 ("QPAP") and Performance Indicator Definition ("PID") obligations, until it is released of
30 those obligations by the FCC and this Commission, as appropriate.
- 31 7. That the Merged Company shall continue to comply with all relevant prior Commission
32 orders and decisions, unless the Commission specifically finds in an order that they are no
33 longer applicable.
- 34 8. That the Merged Company shall agree to maintain its books and records in accordance with
35 the Uniform System of Accounts ("USOC") and to provide the Commission with financial
36 data on a separated intrastate basis for as long as required by the Commission.

- 1 9. That CenturyLink shall notify the Commission of any plans to merge the ILEC operating
2 companies of CenturyTel, Embarq and/or Qwest at least one year before any proposed
3 internal reorganization. CenturyLink agrees to file an application pursuant to applicable
4 statutes and A.A.C. R14-2-801 et seq. for Commission approval before any such merger
5 occurs.
- 6 10. That the Merged Company (including any affiliates and subsidiaries) shall provide to the
7 Commission access to its books and records and those of its subsidiaries and affiliates, in a
8 form acceptable to the Commission, to the extent deemed necessary by the Commission to
9 ensure the provision of service at just and reasonable rates in the future.

10 **RETAIL OPERATIONS**

- 11 11. That within 90 days following merger close, CenturyTel Solutions file for cancellation of its
12 CLEC Certificate of Convenience & Necessity ("CC&N") granted by Decision No. 63638.
- 13 12. That the Merged Company for a period of three years following merger close shall not file
14 to make changes to its Service Quality Tariff; unless requested by the Commission or
15 Commission Staff.
- 16 13. That the Merged Company for a period of three years following merger close shall not file
17 to obtain funds from the Arizona Universal Service Fund ("AUSF").
- 18 14. That the Merged Company shall maintain or improve its pre-merger complaint status in the
19 Qwest Arizona service areas.
- 20 15. That the Merged Company shall ensure that Retail support centers are sufficiently staffed
21 with adequately trained personnel who will provide a level of service comparable to that
22 provided in the Qwest service areas prior to the merger. If the Merged Company (within
23 three years following the date the transaction closes) plans to make any rearrangements of
24 major network components (such as business office and trouble reporting call centers,
25 Network Operations Control Centers, E911 systems, access and local tandems), 90 days
26 before such changes, the Merged Company will provide Staff with a rearrangement plan
27 discussing the changes to be made and their timeframes.
- 28 16. That no Commission-regulated intrastate retail service currently offered by Qwest will be
29 discontinued for a period of at least one year following the Closing Date, except as approved
30 by the Commission.
- 31 17. That the Merged Company shall give at least 6 months notice of any plans to integrate
32 portions of Qwest's retail support systems with portions of the CenturyLink and/or Embarq
33 systems. If the integration is to be accomplished in phases, 6-month notice shall be given
34 before each separate phase. The Merged Company shall make a filing with the Commission
35 in this Docket detailing the proposed integration, the schedule in which it is to be
36 accomplished and a detailed plan of integration. The Merged Company shall indicate what
37 support system is being replaced and what support system will survive. It shall also discuss
38 any anticipated problems and any problems that occurred with similar integrations in other

1 jurisdictions and how such problems will be mitigated in Arizona. The Merged Company
2 shall be required to demonstrate that the proposed integration, where it affects retail
3 operations, will not result in a degradation of current Qwest retail support systems.

- 4 18. That the Merged Company shall provide the Commission with an Internet Protocol
5 Television ("IPTV") and Broadband deployment plan within six months of a decision in this
6 matter for Commission consideration.

7 **WHOLESALE OPERATIONS**

- 8 19. That the Merged Company shall for a period of three years following merger close keep
9 intact pre-merger Operational Support Systems ("OSSs") that support wholesale services in
10 Arizona, unless the Merged Company obtains Commission approval to make changes prior
11 to that time.

- 12 20. That the Merged Company shall give at least 6 months notice to the Commission and
13 CLECs of any plans to integrate portions of Qwest's wholesale Operational Support
14 Systems OSSs with portions of the CenturyLink and/or Embarq OSS. If the integration is to
15 be accomplished in phases, 6-month notice should be given before each separate phase. The
16 Merged Company shall make a filing with the Commission in this Docket explaining the
17 proposed integration, a schedule for its implementation and a detailed plan of integration.
18 The Merged Company shall indicate what support system is being replaced and what
19 support system will survive. It shall also discuss any anticipated problems and any
20 problems that occurred with similar integrations in other jurisdictions and how such
21 problems will be mitigated in Arizona. The Merged Company shall be required to
22 demonstrate that the proposed integration, where it affects wholesale operations, will not
23 result in a degradation of current Qwest wholesale support systems. The Merged Company
24 shall coordinate any transition with the CLECs. The Merged Company shall notify the
25 Commission and CLECs when the integration is complete.

- 26 21. That following merger close, CenturyLink shall continue to comply with the provisions of
27 the QPAP (including the existing PIDs and penalty provisions) that are in effect as of the
28 merger filing date until such time as the integration of the Merged Company's wholesale
29 systems affecting Arizona has been completed and until there is at least one year of
30 performance data under the integrated systems and such performance data demonstrates that
31 there has been no increase in penalties under the QPAP due to the integration of the Merged
32 Company's wholesale systems. Qwest shall continue to comply with all current reporting
33 obligations.

- 34 22. That Docket No. T-01051B-03-0859, which is currently examining the Liberty Report and
35 Qwest's proposed changes to the QPAP shall be suspended pending the completion of the
36 obligations discussed in Item 21 above. Notwithstanding, given the changeover from EDI
37 to XML, the Merged Company shall incorporate XML in place of EDI in any relevant
38 metrics as it has already done in Colorado, Utah and Montana. Any changes to the PIDs or
39 QPAP must be approved by the Commission.

- 1 23. That the Merged Company must maintain Qwest's post-merger wholesale OSS performance
2 at levels that are at least equal to those provided by Qwest before the merger's closing date.
3 The Merged Company should be on notice that any decrease in performance levels may be
4 subject to higher penalty levels.
- 5 24. That the Merged Company shall continue with the Qwest Change Management Process
6 ("CMP"), utilizing the terms and conditions set forth in the Qwest CMP Document,
7 including those terms and conditions governing changes to the CMP Document. The
8 Merged Company shall be required to meet with the CLECs and adopt changes to the CMP
9 process which will allow for meaningful input by the CLECs on any proposed changes. The
10 Merged Company shall agree to complete all CLEC change requests in a commercially
11 reasonable timeframe.
- 12 25. That the Merged Company shall continue to honor all obligations under Qwest's current
13 interconnection agreements, tariffs, and other existing contractual arrangements with
14 CLECs. That for three years following merger close, the Merged Company shall allow
15 requesting carriers to extend existing interconnection agreements, pending the completion of
16 newly negotiated agreements.
- 17 26. That no Qwest wholesale intrastate service offered to competitive carriers as of the merger
18 filing date will be discontinued for two years after closing of the merger, unless approved by
19 the Commission.
- 20 27. That the Merged Company shall ensure that Wholesale and CLEC support centers are
21 sufficiently staffed with adequately trained personnel dedicated exclusively to wholesale
22 operations and will provide a level of service comparable to that provided to the Qwest
23 service areas prior to the merger.
- 24 28. After the Closing Date of the transaction, the Merged Company shall provide and maintain
25 updated escalation information, contact lists and account manager information that are in
26 place at least 30 days prior to the transaction close date. For changes to support center
27 location, organizational structure, or contact information, the Merged Company will provide
28 at least 30 days advance written notice to all CLECs and Commission.
- 29 29. The Merged Company shall continue to make available to each wholesale carrier in Arizona
30 the types of information that Qwest made available as of the Merger Filing Date concerning
31 wholesale OSS functions and wholesale business practices and procedures, including
32 information provided via the wholesale web site, notices, industry letters, the change
33 management process, and databases/tools.
- 34 30. That the Merged Company shall allow a requesting competitive provider to use any
35 approved Interconnection Agreement ("ICA") in Arizona, as the basis for negotiating a
36 replacement ICA.
- 37 31. That the Merged Company shall offer an amendment to ICAs which provides for
38 compensation for all ISP-bound traffic (including VNXX traffic) at the rate of \$.0004 per
39 minute. This is consistent with a provision contained in Embarq's (a subsidiary of

1 CenturyLink) ICA with Level 3. The amendment shall only be available to carriers to the
2 extent they agree to resolve any pending disputes before the Commission based upon the
3 same terms and conditions.

4 32. That the Merged Company shall be required to update Qwest's Statement of Generally
5 Available Terms and Conditions ("SGAT") on file with the Commission to include the
6 jointly negotiated Triennial Review language included in the most recent Eschelon-Qwest
7 ICA. The Merged Company shall file the revised SGAT within 60 days of the
8 Commission's Order approving the merger, and it shall remain in effect for a period of at
9 least 3 years from the Commission's Order approving the merger in this docket.
10 CenturyLink shall be required to obtain Commission approval prior to its withdrawal of the
11 SGAT.

12 33. That the Merged Company shall not impose any new or additional charges upon CLECs for
13 functions already undertaken by Qwest without the prior approval of the Commission.

14 **FINANCIAL**

15 34. That in the event that equity-to-total capital ratio falls below 40.0 percent for the post-
16 merger CenturyLink, Inc. and/or for any of its Arizona subsidiaries, CenturyLink, Inc.
17 and/or the Arizona subsidiary/subsidiaries affected, should be required to file notice in this
18 Docket providing the reasons why the equity-to-total capital ratio decreased and a plan on
19 how to reach an equity-to-total capital ratio above 40.0 percent.

20 35. That the Merged Company be required to report any of the following events: 1) default on
21 any loan by CenturyLink, Inc. or any of its Arizona subsidiaries; 2) a delisting of
22 CenturyLink from trading in a major trading exchange; and 3) CenturyLink, Inc. or any of
23 its Arizona subsidiaries is rated with a non-investment rate grading by Fitch Ratings,
24 Standard and Poor's or Moody's Investor Services or their successors. That CenturyLink,
25 Inc.'s Arizona subsidiaries effectively utilize their access to the capital markets provided
26 through their parent company as necessary and appropriate to maintain an adequate capital
27 structure and to provide funds for capital and operational needs. CenturyLink shall make its
28 filing with the Commission no later than 30 days subsequent to filing its quarterly report on
29 Form 10-Q or its annual report on Form 10-K with the Securities and Exchange
30 Commission following the event.

31 36. CenturyLink will not seek to recover any acquisition adjustment paid for Qwest.

32 **REPORTING**

33 37. That following merger close the Merged Company shall annually submit a Consumer
34 Benefits Report to Docket Control. The first report shall be submitted no later than April 15,
35 2012, and annually for a period of three years. The Consumer Benefits Report shall include
36 in detail any cost savings that have resulted from the Merger and have been passed on to
37 consumers. In addition, this report should include improvement in the Merged Company's
38 complaint level in Arizona; new services, including bundles available to customer;

- 1 improvement in service quality measures, infrastructure improvements; and expanded
2 broadband coverage.
- 3 38. The Merged Company shall report to the Commission synergy savings resulting from the
4 proposed transaction on an annual basis from the date of merger closing. At a minimum, the
5 report shall provide the following information: a) costs and projected savings associated
6 with each respective activity on a Merged Company basis; b) consolidation and
7 organizational changes to network operations and staffing levels in Arizona; c) impacts on
8 Arizona operations and customers.
- 9 39. That if following merger close the Merged Company chooses to conduct layoffs or facility
10 closings in Arizona that are attributable to the Merger, it shall file a report two months prior
11 to the effective date of the layoffs or closings with Docket Control stating why it is
12 necessary to do so and what efforts the Company is making to re-deploy those individuals
13 elsewhere in the Company. This report shall also state whether any savings associated with
14 facility closings have been re-invested in the Company's Arizona operations, and if not,
15 why. The report shall also state whether any of the efficiencies estimated to result from the
16 Merger ultimately were derived from reductions in or changes to the Company's operations
17 in Arizona. This report shall be filed for one year following merger close or until
18 CenturyLink informs the Commission by filing an affidavit with Docket Control that merger
19 related activities are completed, whichever comes last.
- 20 40. That one year after the merger close, and annually thereafter, the Merged Company shall
21 provide the following; a multi-year strategic plan that identifies the expected remaining life
22 of all host and remote central office switches currently deployed in the Qwest franchise area
23 in Arizona and a proposed replacement plan for the switches, if any, so that the Merged
24 Company will be able to meet Arizona quality of service standards. The plan should contain
25 information regarding the Merged Company's intent to deploy new technology (soft switch,
26 VoIP, etc).
- 27 41. That for three years following merger close, the Merged Company shall include in its annual
28 report filed on April 15th the following additional information on a wire center-specific
29 basis: (a) the number of local exchange subscribers (business and residence) utilizing fixed
30 VoIP technology if offered by the Merged Company; (b) the number of broadband-capable
31 subscriber lines shown by technology (DSL, FTTP and other) and the number of working
32 lines; and (c) total capital expenditures associated with new broadband deployment in the
33 previous calendar year by technology.
- 34 42. That for two years following merger close, the Merged Company shall report on a 6 month
35 basis, its integration progress with Embarq, and any problems encountered.
- 36 43. That the Merged Company shall notify the Commission within ten (10) business days of any
37 substantive material changes to the transaction terms and conditions from those set forth in
38 their Application that occur either while the transaction is pending before the Commission
39 or after it has been approved by the Commission.

- 1 44. That the Merged Company shall provide notice of merger closure to the Commission within
2 45 days following the completion of the proposed merger in this transaction.
- 3 45. That for three years following merger close an Executive Vice President or Chief Financial
4 Officer of the Merged Company shall certify to the Commission every six months that all
5 Arizona CenturyLink entities are in compliance with all conditions in contained in the
6 Commission's decision in this matter.
- 7 46. That for each of the first three years following merger close, the Merged Company shall
8 maintain or improve on the Qwest Operating Expense per 1,000 Working Access Lines,
9 Annual Investment per 1,000 Working Access Lines, and Full-Time Equivalent Employees
10 per 1,000 Working Access Lines ratios by Wire Center, calculated on the same basis as the
11 ratios provided by Qwest but averaged for years 2008, 2009 and 2010. Qwest shall provide
12 within 60 days of a Commission decision approving the proposed merger Operating
13 Expense per 1,000 Working Access Lines, Annual Investment per 1,000 Working Access
14 Lines, and Full-Time Equivalent Employees per 1,000 Working Access Lines ratios by Wire
15 Center for the years 2008, 2009 and 2010.

16 **CONSERVATION OF COMMISSION RESOURCES**

- 17
- 18 47. That the Merged Company shall evaluate existing litigation involving the Commission and
19 make a good faith effort to resolve the issues without further litigation. Following are cases
20 which have entailed significant Commission resources which the Merged Company should
21 include in its evaluation: (a) McLeodUSA v. ACC, Arizona District Case Court Case No.
22 CV07-2145-PHX-HRH; (b) Qwest v. ACC, Arizona District Court Case No. CV08-2374-
23 PHX-JAT; (c) Pac-West/Level 3 VNXX Remand Proceeding ACC (Docket Nos. T-
24 01051B-05-0495, T-03693A-05-0495, T-01051B-05-0415, T-036564A-05-0415).

25
26

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

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

DIRECT

TESTIMONY

OF

PEDRO M. CHAVES

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

OCTOBER 12, 2010

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
PROPOSED MERGER TRANSACTION	2
CAPITAL STRUCTURE	2
CONCLUSIONS AND RECOMMENDATIONS	6

EXECUTIVE SUMMARY

**QWEST CORPORATION, QWEST COMMUNICATIONS COMPANY, LLC, QWEST LD CORP. DBA QWEST LONG DISTANCE, EMBARQ COMMUNICATIONS, INC., EMBARQ PAYPHONE SERVICES, INC. DBA CENTURYLINK AND CENTURYTEL SOLUTIONS, LLC FOR APPROVAL OF THE PROPOSED MERGER OF THEIR PARENT CORPORATIONS QWEST COMMUNICATIONS INTERNATIONAL INC. AND CENTURYTEL, INC
DOCKET NOS. T-01051B-10-0194, T-02811B-10-0194, T-04190A-10-0194, T-20443A-10-0194, T-03555A-10-0194, T-03902A-10-0194**

The direct testimony of Staff witness Pedro M. Chaves addresses the following issues:

Staff reviewed the capitalization to Qwest Corporation ("QC"), Qwest LD Corp. ("QLD"), and Qwest Communications Company, LLC ("QCC") from the proposed merger between their parent Qwest Communications International Inc. ("QCII") and to be newly created subsidiary of CenturyLink, Inc. the parent of Embarq Communications, Inc. d/b/a CenturyLink Communications, Embarq Payphone Services, Inc. d/b/a CenturyLink, and CenturyTel Solutions, LLC.

Based on Staff's analysis, Staff concludes that the proposed transaction will benefit QC by providing improved access to the capital markets because the post-merger ultimate parent, CenturyLink Inc, (formerly CenturyTel Inc.), will have a financially prudent capital structure as opposed to QCII's negative equity position.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Pedro M. Chaves. I am a Public Utilities Analyst employed by the Arizona
4 Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst.**

8 A. In my position as a Public Utilities Analyst, I perform studies to estimate the cost of
9 capital component of the overall revenue requirement calculation in rate filings. I also
10 analyze requests for financing authorization, analyze and examine accounting, financial,
11 statistical and other information and prepare reports based on my analyses that present
12 Staff's recommendations to the Commission on utility revenue requirements, rate base,
13 rate design and other financial regulatory matters.

14
15 **Q. Please describe your educational background and professional experience.**

16 A. I am a graduate of Arizona State University and received a Bachelor of Science degree in
17 Global Business with a specialization in finance. My course of studies included classes in
18 corporate and international finance, investments, accounting, statistics, and economics. I
19 began employment as a Staff Public Utilities Analyst in December 2005.

20
21 **Q. What is the scope of your testimony in this case?**

22 A. I will provide testimony related to the capitalization to Qwest Corporation ("QC"), Qwest
23 LD Corp. ("QLDC"), and Qwest Communications Company, LLC ("QCC") from the
24 proposed merger between their parent Qwest Communications International Inc. ("QCII")
25 and a yet to be newly created subsidiary of CenturyLink, Inc. ("CenturyLink")¹ the parent

¹ Formerly known as CenturyTel Inc.

1 of Embarq Communications, Inc. d/b/a CenturyLink Communications, Embarq Payphone
2 Services, Inc. d/b/a CenturyLink, and CenturyTel Solutions, LLC (collectively
3 “CenturyLink”).
4

5 **PROPOSED MERGER TRANSACTION**

6 **Q. Please provide a brief description of the proposed merger transaction.**

7 A. The proposed merger is a business combination at the parent level where a yet to be
8 created subsidiary of CenturyLink will merge with and into QCII. The separate existence
9 of the newly created subsidiary will then cease and Qwest will continue as a direct, wholly
10 owned subsidiary of CenturyLink. Upon closing of the Transaction, QCII shareholders
11 will receive 0.1664 CenturyLink shares for each share of Qwest common stock they own
12 at closing. At that time, CenturyLink shareholders are expected to own approximately
13 50.5 percent of the combined company, and QCII shareholders approximately 49.5
14 percent. As a result of the Transaction, CenturyLink will have local exchange footprints in
15 37 states, including in Arizona, Utah, North Dakota and South Dakota where CenturyLink
16 currently does not have ILEC operations.
17

18 **CAPITAL STRUCTURE**

19 **Q. Please explain the capital structure concept.**

20 A. The capital structure of a firm is the relative proportions of short-term debt, long-term debt
21 (including capital leases), preferred stock and common stock that are used to finance the
22 firm’s assets.

1 **Q. How is the capital structure expressed?**

2 A. The capital structure of a company is expressed as the percentage of each component of
3 the capital structure (capital leases,² short-term debt, long-term debt, preferred stock and
4 common stock) relative to the total capital (the total sum of all the components of the
5 capital structure).

6
7 For instance, the capital structure for an entity that is financed by \$5,000 of short-term
8 debt, \$15,000 of capital leases, \$30,000 of long-term debt, \$10,000 of preferred stock and
9 \$40,000 of common stock is shown in Table 1, below.

10 **Table 1**

Component			%
Short-Term Debt	\$5,000	(\$5,000/\$100,000)	5.0%
Capital Leases	\$15,000	(\$15,000/\$100,000)	15.0%
Long-Term Debt	\$30,000	(\$30,000/\$100,000)	30.0%
Preferred Stock	\$10,000	(\$10,000/\$100,000)	10.0%
Common Stock	\$40,000	(\$40,000/\$100,000)	40.0%
Total	\$100,000		100%

11
12 The capital structure in this example is composed of 5.0 percent short-term debt, 15.0
13 percent capital leases, 30.0 percent long-term debt, 10.0 percent preferred stock and 40.0
14 percent common stock.

² Capital leases are a specific form of long-term debt.

1 **Q. What is CenturyLink's capital structure?**

2 A. At March 31, 2010, CenturyLink's capital structure was composed of 44.8 percent debt
3 and 55.2 percent equity.³

4
5 **Q. How does CenturyLink's capital structure compare to capital structures of publicly-
6 traded telephone companies?**

7 A. As shown on Table 2, below, the average capital structure of publicly traded telephone
8 companies is composed of 68.7 percent debt and 31.3 percent equity. Hence, CenturyLink
9 is less leveraged when compared to the average of telephone companies. Staff usually
10 considers equity at 40 percent of total capital as the minimum financially prudent capital
11 structure for an investor-owned utility with access to the capital markets.

³ CenturyLink, Inc. Form S-4 before the Securities and Exchange Commission. Page 110.

1

Table 2

Telephone Companies Equity Levels ⁴

Company	Ticker	Common Equity Ratio ⁵
Alaska Comm. Systems Group	ALSK	6.0%
AT&T Inc.	T	59.0%
BCE, Inc.	BCE	48.0%
CenturyTel, Inc. ⁶	CTL	55.0%
Cincinnati Bell Inc.	CBB	NM
Frontier Communications Corp	FTR	7.0%
General Communication, Inc.	GNCMA	23.0%
Qwest Communications International	Q	NM
Telephone & Data Systems, Inc.	TDS	64.0%
PAETEC Holdings Corp.	PAET	18.0%
Verizon Communications	VZ	29.0%
Windstream Corporation	WIN	4.0%
Average		31.3%
Average excluding companies with a percentage of regulated local ILEC or CLEC revenues of less than 60 percent		18.0%

2

3

Q. What is QCII's capital structure?

4

A. At March 31, 2010, QCII's capital structure consisted of \$13,546 million debt and negative \$1,120 million equity.⁷ QCII's negative equity position restricts its access to the capital markets.

6

⁴ Telephone companies with annual revenue greater than \$300 million. Source: AUS Monthly Utility Report, April 2010.

⁵ Common equity capital for the latest quarter divided by total capital as reported, multiplied by 100. Total capital is equal to the sum of long-term debt, current maturities, short-term debt, preferred stock and common equity for the latest quarter end figures available.

⁶ CenturyTel, Inc. changed its name to CenturyLink, Inc. with shareholder approval on May 20, 2010.

⁷ CenturyLink, Inc. Form S-4 before the Securities and Exchange Commission. Page 110.

1 **Q. What capital structure do CenturyLink and QCII anticipate for CenturyLink**
2 **subsequent to the proposed merger?**

3 A. CenturyLink and Qwest expect a post-merger consolidated capital structure for
4 CenturyLink consisting of 52.5 percent debt and 47.5 percent equity.⁸ Thus, equity as a
5 percentage of total equity is anticipated to fall from 55.2 percent to 47.5 percent as a result
6 of the transaction.

7
8 **Q. Would the anticipated post-merger capital structure of CenturyLink have a**
9 **beneficial impact for QCII's Arizona subsidiaries?**

10 A. Yes. Arizona subsidiaries of QCII would benefit from having a parent company that has a
11 financially prudent capital structure as opposed to QCII's existing capital structure with
12 negative equity.

13
14 **CONCLUSIONS AND RECOMMENDATIONS**

15 **Q. Please summarize Staff's conclusions.**

16 A. Staff concludes that the proposed transaction will benefit QCII's Arizona subsidiaries by
17 providing improved access to the capital markets because the post-merger ultimate parent,
18 CenturyTel, Inc., will have a financially prudent capital structure as opposed to QCII's
19 negative equity position. Staff further concludes that in the event that equity-to-total
20 capital ratio falls below 40.0 percent for the post-merger CenturyLink, Inc. and/or for any
21 of its Arizona subsidiaries, CenturyLink, Inc. and/or the Arizona subsidiary/subsidiaries
22 affected, should be required to file notice in this Docket providing the reasons why the
23 equity-to-total capital decreased and a plan on how to reach an equity-to-total capital
24 above 40.0 percent.⁹

⁸ *Ibid.*

⁹ See Attachment 1, Financial Conditions, testimonies of Armando Fimbres and Pamela Genung.

1 **Q. Does Staff recommend any additional reporting requirements?**

2 A. Yes. CenturyLink should be required to report any of the following events¹⁰: 1) default on
3 any loan by CenturyLink, Inc. or any of its Arizona subsidiaries; 2) a delisting of
4 CenturyLink from trading in a major trading exchange; and 3) CenturyLink, Inc. or any of
5 its Arizona subsidiaries is rated with a non-investment rate grading by Fitch Ratings,
6 Standard and Poor's or Moody's Investor Services or their successors.¹¹

7

8 **Q. Does Staff recommend any action from CenturyLink, Inc.'s Arizona subsidiaries?**

9 A. Yes. Staff recommends that CenturyLink, Inc.'s Arizona subsidiaries effectively utilize
10 their access to the capital markets provided through their parent company as necessary and
11 appropriate to maintain an adequate capital structure and to provide funds for capital and
12 operational needs.¹²

13

14 **Q. Does this conclude your direct testimony?**

15 A. Yes, it does.

¹⁰ CenturyLink should make its filing with the Commission no later than 30 days subsequent to filing its quarterly report on Form 10-Q or its annual report on Form 10-K with the Securities and Exchange Commission following the event.

¹¹ See Attachment 1, Financial Conditions, testimonies of Armando Fimbres and Pamela Genung.

¹² See Attachment 1, Financial Conditions, testimonies of Armando Fimbres and Pamela Genung.