



WILLIAM E. HENDRICKS

February 28, 2014

Oregon Public Utility Commission
Attn: Filing Center
3930 Fairview Industrial Dr., SE
Salem, OR 97302

RE: Petition for Price Plan

Dear Filing Center:

Enclosed for filing please find an original and five copies of the Petition for Price Plan of CenturyTel of Oregon, Inc. d/b/a CenturyLink, CenturyTel of Eastern Oregon, Inc. d/b/a CenturyLink, United Telephone Company of the Northwest d/b/a CenturyLink, along with the Direct Testimony of John M. Felz.

Exhibits CTL/102 through CTL/104 are Confidential, are printed on yellow paper and are sealed in a separate envelope.

If you have any questions, please contact me at your earliest convenience.

Sincerely,

A handwritten signature in blue ink, appearing to read "W. Hendricks", written in a cursive style.

William E. Hendricks
Senior Corporate Counsel

Enclosures

902 Wasco St.
Hood River, OR 97031
Tel. 541.387.9439
Fax. 541.400.8421
tre.hendricks@centurylink.com

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON
UM _____

In the Matter of the Petition of
CenturyTel of Oregon, CenturyTel of
Eastern Oregon, and United Telephone
Company of the Northwest for Approval
of Price Plan Pursuant to ORS 759.255

PETITION FOR PRICE PLAN

Pursuant to ORS 759.255, CenturyTel of Oregon, d/b/a CenturyLink, CenturyTel of Eastern Oregon, d/b/a CenturyLink, and United Telephone Company of the Northwest, d/b/a CenturyLink (collectively "CenturyTel/United" or the "Companies"), respectfully petitions the Commission for approval of a Price Plan in the form attached to this Petition as Exhibit A (CTL-UTNW/101). CenturyTel/United seeks to adopt the terms of the amended Price Plan for Qwest Corporation d/b/a CenturyLink QC ("CenturyLink QC") submitted for Commission consideration as Exhibit A of CenturyLink QC's January 23, 2014 filing in Docket UM 1354. CenturyTel/United seeks approval of the Price Plan to provide additional regulatory flexibility to meet the intense and increasing competition they are facing in their retail markets. The Companies also attach the Direct Testimony of John M. Felz (CTL-UTNW/100), which outlines the current and increasing competitive pressures that CenturyTel/United faces in its markets.

1 I. PETITIONER INFORMATION

2 A. Name and Address

3 Petitioner's name and address are:

4 CenturyLink
5 310 SW Park, 11th Floor
6 Portland, OR 97205

7 B. Communications and Notices

8 All communications and notices with respect to this Petition should be addressed
9 to:

10 William E. Hendricks
11 Senior Corporate Counsel
12 CenturyLink
13 902 Wasco Street
14 Hood River, OR 97031
15 Tel.: 541-387-9430
16 Fax: 541-387-9753
17 Tre.Hendricks@CenturyLink.com

18 Lawrence Reichman
19 Perkins Coie LLP
20 1120 N.W. Couch St., 10th Floor
21 Portland, OR 97209
22 Tel.: 503-727-2019
23 Fax: 503-346-2019
24 LReichman@perkinscoie.com

25 Ron Trullinger
26 310 SW Park Ave., 11th Floor
Portland, OR 97205
Tel: 503.242.5089
Fax. 503.242.8589
ron.trullinger@centurylink.com

27 II. BACKGROUND

28 ORS 759.255 authorizes the Commission to approve a plan under which a
29 telecommunications utility that provides local exchange service may charge prices that
30 are established "without regard to the return on investment of the utility." ORS
31 759.255(1). This statute was expressly intended to give the Commission additional

1 flexibility to approve price plans beyond the alternative form of regulation authorized
2 in ORS 759.195. *Id.* Prices charged under an approved price plan are not subject to the
3 provisions of ORS 759.180 to 759.190. *Id.*

4 The Commission may approve a price plan under ORS 759.255 if it finds that the
5 plan is in the public interest. ORS 759.255(2). In making this determination, the
6 Commission is to consider whether the plan:

- 7 (a) Ensures prices for telecommunications services that are
8 just and reasonable;
- 9 (b) Ensures high quality of existing telecommunications
10 services and makes new services available;
- 11 (c) Maintains the appropriate balance between the need for
12 regulation and competition; and
- 13 (d) Simplifies regulation.

14 ORS 759.255(2). In approving a plan, the Commission shall establish objectives of the
15 plan and conditions for review of the plan during its operation, which may not consider
16 return on investment. ORS 759.255(3). In addition, prices charged under the plan are
17 subject to a price floor equal to “the total service long run incremental cost, for
18 nonessential functions, of providing the service and the charges of essential functions
19 used in providing the service.” ORS 759.255(4). The rates for residential local exchange
20 service are not subject to a price floor. *Id.*

21 **III. COMPETITION NECESSITATES THE PRICE PLAN**

22 CenturyTel/United faces robust competition throughout its service territory in
23 Oregon. As described in the Testimony of John M. Felz, CenturyTel/United faces
24 substantial wireline competition from companies such as Comcast, Charter, Wave
25 Broadband, and various CLECs. *See* CTL-UTNW/100. In addition, intermodal
26 competitors are providing comparable services ubiquitously throughout

1 CenturyTel/United service territory, including AT&T, Verizon, Sprint, T-Mobile, and
2 VoIP providers such as Vonage and Google. *Id.* Moreover, consumers more and more
3 are relying on email, texting, and social networking to meet their communications
4 needs.

5 Further convincing evidence of the exceptionally competitive market in
6 CenturyTel/United's territory is the steady decline in access lines it has experienced.
7 Between December 2001 and December 2012, CenturyTel/United retail access lines in
8 Oregon declined 43%, from 157,452 to 89,486.¹ *Id.*, at p. 6. While population, the
9 number of households, and telecommunications expenditures in Oregon have
10 increased, CenturyTel/United's revenues have decreased. *Id.*, at p. 11. And possibly the
11 most telling statistic is that while telephone subscribership has remained steady in
12 Oregon, CenturyTel/United access lines have declined, which shows that customers are
13 exercising their wide array of choices in CenturyTel/United's markets. *Id.*, at p. 8. Even
14 in the most remote areas of CenturyTel/United's service area, there are numerous
15 wireless and wireline options from which customers can choose. *Id.*, at p. 24. The data
16 shows that in most cases, CenturyTel/United's customers have more than one wireless
17 carrier to choose from. *Id.*, at pp. 5, 8, 11, and 23-31.

18 In addition, the data shows that VoIP is a viable option of which customers with
19 broadband connections in CenturyTel/United's territory are taking advantage. *Id.*, at
20 pp. 32-36. Any customer in Oregon with a broadband connection can purchase VoIP
21 telephone service and there has been a stunning increase in access to broadband since
22 2001. ADSL connections have increased from just under 60,000 in 2001 to 373,000 in
23 2012. *Id.*, at p. 34. Cable modem broadband connections have increased from 100,000 to
24

25 ¹ Residential retail access lines have dropped 44% and business retail access lines have
26 dropped 40% over this time frame.

1 711,000 over the same time period. *Id.* So it is clear that customers have numerous
2 choices and are indeed taking advantage of them.

3 To meet this robust and ubiquitous competition it is imperative that
4 CenturyTel/United be granted the additional pricing and regulatory flexibility as
5 reflected in its Price Plan in Exhibit A.
6

7 **IV. CONCLUSION**

8 For the foregoing reasons, CenturyTel/United respectfully requests that the
9 Commission approve the Price Plan set forth in Exhibit A without changes or
10 conditions.
11

12 DATED: February 28 , 2014

13 **CenturyTel of Oregon, d/b/a**
14 **CenturyLink, CenturyTel of Eastern**
15 **Oregon, d/b/a CenturyLink, and United**
16 **Telephone Company of the Northwest,**
17 **d/b/a CenturyLink**

18 By: 
19 _____
20 Lawrence H. Reichman, OSB No.
21 86083
22 Perkins Coie LLP
23 1120 N.W. Couch Street, Tenth Floor
24 Portland, OR 97209-4128

25 and

26 William E. Hendricks
OSB No. 116944 (House Counsel)
902 Wasco Street
Hood River, OR 97031

Attorneys for Petitioner

CENTURYTEL/UNITED'S PRICE PLAN UNDER ORS 759.255

I. Definitions

- A.** "Alternative provider" means a provider, other than CenturyTel of Oregon, Inc. d/b/a CenturyLink, CenturyTel of Eastern Oregon, Inc., d/b/a CenturyLink, and United Telephone Company of the Northwest, d/b/a CenturyLink hereafter collectively referred to as "CenturyTel/United") or any affiliate of CenturyTel/United, of any service that is a functionally equivalent or substitutable service, without regard to the technology used to provide the service and without regard to whether the provider is subject to regulation by the Commission or any other agency. "Alternative provider" includes but is not limited to telecommunications carriers, radio common carriers, cable telephony providers, and providers of voice over internet protocol ("VoIP") service.
- B.** "Essential functions" means those unbundled network elements (UNEs) that ILECs are required to provide pursuant to 47 U.S.C. § 251(c)(3) according to the most current requirements of the FCC. "Nonessential functions" are all other functions used in providing a telecommunications service that are not essential functions.
- C.** "Functionally equivalent or substitutable" means that a service is reasonably interchangeable with the service to which it is being compared, even if the services are not identical, without regard to the technology used to provide the service or whether the service or provider are subject to regulation by the Commission.
- D.** "New service" means a retail telecommunications service that is offered in Oregon for the first time following the effective date of this price plan. A service is not a new service if it merely renames, repackages, or is a variation of an existing service, or if it is reintroduced in substantially the same form after having being withdrawn or abandoned.
- E.** "Pre-plan rates" means the rates charged by CenturyTel/United in Oregon pursuant to its tariffs or price lists on the effective date of this price plan.
- F.** "Primary line residential basic service" means the first line only of residential basic local exchange service for an individual residential customer account at a single location that is not sold as part of a package. For purposes of this definition, "residential basic local exchange service" means residential single party flat rate local exchange service and residential single party measured local exchange service, including local exchange usage.

II. Objectives of Price Plan

- A. General objectives.** CenturyTel/United's price plan will achieve the following objectives:
1. Ensure the plan is operating in a way that is in the public interest.
 2. Produce prices for CenturyTel/United's retail telecommunications services that are just and reasonable.
 3. Ensure that the quality of existing telecommunications services will stay at or above current high levels.
 4. Maintain the availability of primary line residential basic service at affordable rates.
 5. Allow CenturyTel/United to price other services competitively with services offered by alternative providers, including those using landline, wireless, cable, and VoIP technologies.
 6. Increase CenturyTel/United's pricing flexibility to meet changing market conditions.
 7. Make new telecommunications services available.
 8. Simplify and reduce the burden of regulation for both CenturyTel/United and the Commission.

III. Pricing and Availability of Services Under Price Plan

- A. Initial Rates.** The rates that CenturyTel/United charges upon commencing operation under the price plan will be its pre-plan rates. These rates are subject to adjustment as provided below.
- B. Primary line residential basic service.**
1. **Price caps.**
 - a. There will be no price caps for non-recurring and recurring charges for primary line basic services as of the effective date of the plan.
 - b. CenturyTel/United is permitted to adjust recurring and non-recurring charges for primary line residential basic service upward or downward with decreases subject to the applicable price floors for primary line basic service.

2. **Availability.** CenturyTel/United will continue to offer primary line residential basic service on a stand-alone basis (*i.e.*, CenturyTel/United will not require customers to purchase a package to obtain this service).
 3. CenturyTel/United agrees that it will not geographically deaverage the rates for primary line basic services under the plan any further than they were as of the effective date of this plan.
- C. Telephone Assistance Plans.** CenturyTel/United will continue to offer current Telephone Assistance Plans (OTAP, Tribal Lifeline, and Tribal Link-Up) pursuant to state and federal requirements.
- D. Switched Access.** Rates for intrastate switched access services are capped at pre-plan rates. The Commission may adjust the price caps if required by FCC action.
- E. EAS.** Rates for extended area service (EAS) are capped at pre-plan rates. However, CenturyTel/United is permitted to combine rates for primary line residential basic service and EAS additives into a single rate. CenturyTel/United will not be required to establish any new or expanded EAS routes as long as it operates under the price plan.
- F. New Services.** Any new service introduced after the effective date of the price plan will be price listed and will not be subject to price caps.
- G. Other Retail Services.** All remaining residential and business services not previously listed in this section ("Other Services") will not be subject to price caps.
- H. Packages and Bundles.** CenturyTel/United may combine any regulated telecommunications service with any other service(s) to offer packages and bundles of services, which may include primary line residential basic service and EAS, at any price subject to the following conditions:
1. Customers can purchase separately from the company's tariff or price list any regulated telecommunications service included in the package or bundle.
 2. The package or bundle price is not less than the sum of the price floors (determined pursuant to ORS 759.255(4)) of the regulated telecommunications services included the package or bundle.
 3. The package or bundle price is not more than the sum of the retail prices of all services available in the package or bundle.
 4. Terms applicable to new packages or bundles, including those that include primary line residential basic service, will be established in the company's price list at least one day prior to their effective date.

- I. Notice of price changes.** CenturyTel/United will provide the Commission notice of price increases for services within Sections III.B. to III.E. by making tariff filings at least 15 days prior to the effective date of such price changes. CenturyTel/United will provide the Commission notice of price decreases for services within Sections III.B. to III.E. by making tariff filings at least one day prior to the effective date of such price decreases.

CenturyTel/United will make price list changes for new services, Other Retail Services and packages and bundles within Sections III.F. to III.H, at least one day prior to the effective date of any price change. CenturyTel/United will also provide customers with at least 30 days' prior notice of price increases for services they are purchasing at the time of the price increase. For services purchased on a per-call basis, CenturyTel/United will give reasonable notice to the customer of the price prior to the customer's use of the service.

- J. Services exempt from regulation.** Services that the Commission has already ordered to be exempt from regulation will remain exempt from regulation subject to the conditions of the order that exempted the service from regulation. CenturyTel/United retains the ability to petition the Commission to exempt additional services from regulation under ORS 759.052.

- K. Promotions.** CenturyTel/United may offer promotions for primary line residential basic service and other regulated services pursuant to ORS 759.182.

IV. Tariffs and Price Lists

- A.** Tariffs for the services within Sections III.B to III.E will be filed with the Commission pursuant to the provisions of OAR 860-022-0015 and 860-022-0025(1). For price increases to primary line residential basic service allowed under provisions III.B.1 of the price plan, CenturyTel/United is not required to comply with the provisions of OAR 860-022-0025(2) or 860-022-0030.

V. Service Quality

- A.** CenturyTel/United will continue to be subject the Retail Telecommunications Service Standards for Large Telecommunications Utilities identified in OAR 860-023-055 with the following exceptions:
1. CenturyTel/United will provide reports on a quarterly basis instead of monthly.
 2. CenturyTel/United will provide only exception information for those measures that did not meet the established standard during the quarter.

VI. Waiver of statutes and rules

- A. **Statutes.** CenturyTel/United's compliance with the following statutes, and all Commission rules implementing these statutes, is waived in full, unless a partial waiver is noted:
- ORS 759.120 Form and manner of accounts prescribed by commission.
 - ORS 759.125 Records and accounts prescribed by commission; prohibition on other records or accounts; exception; blanks for reports.
 - ORS 759.130 Closing date of accounts; filing balance sheet; audit.
 - Waiver of condition 11 in Commission Order No. 11-095 (Appendix A) in Docket UM 1484 (In the Matter of the Application for Approval of Merger between CenturyTel, Inc. and Qwest Communications International, Inc.). Condition 11 imposed as a condition of approval of the merger a requirement that CenturyTel/United continue submission of the Commission standard *Annual Report* Form O and *Oregon Separated Results of Operations Report* Form I.
 - ORS 759.135 Depreciation accounts; undepreciated investment allowed in rates; conditions.
 - ORS 759.180 to ORS 759.200 (with the exception of ORS 759.182).
 - 759.180 Hearing on reasonableness of rates; procedures; exceptions
 - 759.185 Suspension of rates pending hearing; time limitation; refund of revenue collected; interim rates.
 - 759.190 Notice of schedule change.
 - 759.195 Price listing of services; conditions; maximum rates; essential services; justification by utility of rates for price-listed services.
 - 759.200 Inclusion of amortizations in rates; deferral of certain expenses or revenues; limitation on amounts; prohibited uses.
 - ORS 759.215(2) Public access to schedules.
 - ORS 759.220 Joint rates and classifications; procedure; considerations - with regard to joint rates and establishment of new through services, but not with regard to canceling any existing through service.
 - ORS 759.285 Charging rates based on cost of property not presently providing service.
 - ORS 759.300 to ORS 759.393

- Issuance of Securities
 - 759.300 “Stocks” defined.
 - 759.305 Power to regulate issuance of telecommunications stocks.
 - 759.310 When issuance of securities void.
 - 759.315 Purposes for which securities may be issued; order required; exceptions.
 - 759.320 Application of ORS 759.315.
 - 759.325 Application of ORS 759.375.
 - 759.330 Hearings and supplemental orders for securities issuance; joint approval for issuance by utility operating in another state.
 - 759.335 Obligation of state as consequence of approval of issuance
 - 759.340 Conditional approval of issuance.
 - 759.345 Use of proceeds from issuance; accounting.
 - 759.350 Limitation on authority of utility to guarantee debt of another.
 - 759.355 Issuance or use of proceeds contrary to commission order.
 - 759.360 Prohibited acts regarding issuance of securities.

- Transactions of Utilities
 - 759.375 Approval prior to sale, mortgage or disposal of operative utility property.
 - 759.380 Purchase of stock or property of another utility.
 - 759.385 Contracts regarding use of utility property; filing with commission; investigation.
 - 759.390 Contracts with affiliated interests; procedure; use in rate proceedings.
 - 759.393 Applicability of ORS 759.385 and 759.390.
 - Waiver of condition 18 in Commission Order No. 11-095 (Appendix A) in Docket UM 1484 (In the Matter of the Application for Approval of Merger between CenturyTel, Inc. and Qwest Communications International, Inc.). Condition 18 imposed as a condition of approval of the merger the removal of the CenturyLink QC price plan exemption from the requirements of ORS 759.380 and ORS 759.375. Condition 18 did allow an exemption from ORS 759.375(1)(a) for property sales where the sales price is less than \$10 million, except that the sale of any CenturyTel/United exchange will be subject to Commission approval under ORS 759.375. CenturyTel/United seeks exemption from ORS 759.380 and ORS 759.375 consistent with the exemption originally granted to CenturyLink QC in Docket UM 1354.

B. Rules. CenturyTel/United's compliance with the following Commission rules is waived in full, unless a partial waiver is noted:

- OAR 860-022-0025(2) Requirements for Filing Tariffs or Schedules Changing Rates.
- OAR 860-022-0030 Requirements for Filing Tariffs or Schedules Naming Increased Rates.
- OAR 860-022-0042 Relating to City Privilege Taxes, Fees, and Other Assessments Imposed Upon a Large Telecommunications Utility. Partial waiver of paragraph (4) limiting the pass through of privilege taxes to only amounts in excess of 4 percent.
- OAR 860-023-0055 Retail Telecommunications Service Standards for Large Telecommunications Utilities (partial as outlined in Section V.A).
- OAR 860-027-0100 Reporting of Affiliated Transactions.
- OAR 860-027-0015 New Construction Budget.
- OAR 860-027-0025 Applications for Authority to Sell, Lease, Assign, Mortgage, Merge, Consolidate or Otherwise Dispose of or Encumber its Property, or to Acquire Stock, Bonds, or Property of Another Utility.
- OAR 860-027-0050 Uniform System of Accounts for Large Telecommunications Utilities.
- OAR 860-027-0052 Allocation of Costs by a Large Telecommunications Utility.
- OAR 860-027-0070 Annual Report Requirements for Electric, Large Telecommunications, Gas, and Steam Heat Utilities.
- Waiver of condition 11 in Commission Order No. 11-095 (Appendix A) in Docket UM 1484 (In the Matter of the Application for Approval of Merger between CenturyTel, Inc. and Qwest Communications International, Inc.) Condition 11 imposed as a condition of approval of the merger a requirement that CenturyTel/United continue submission of the Commission standard *Annual Report* Form O and *Oregon Separated Results of Operations Report* Form I.
- OAR 860-032-0190 Definition of Basic Telephone Service (partial). This rule defines "basic telephone service" for purposes of administering ORS 759.425, among other statutes. For all other purposes involving application of the rule, including administration and distribution of the universal service fund, CenturyTel/United would still be subject to the definition of "basic telephone service" found in OAR 860-032-0190.

VII. Conditions for Review of CenturyTel/United's Performance Under Plan

- A. Five-year reviews.** CenturyTel/United's performance under the price plan will be comprehensively reviewed by the Commission every five years. To commence that review, CenturyTel/United will file a detailed report regarding its performance as compared to the objectives of the plan by the 90th day of the fifth year of operation under the plan, and every five years thereafter unless and until ordered otherwise by the Commission. CenturyTel/United will promptly respond to data requests submitted by Staff and other parties related to information contained in CenturyTel/United's report.
- 1. Contents of Report.** The report will review how the objectives of the plan are being met and will include the following information:
 - a. A summary of CenturyTel/United's performance for the review period with respect to the Commission's retail service quality standards and any other relevant information.
 - b. An analysis of current market conditions for the various categories of CenturyTel/United's regulated retail telecommunications services and functionally equivalent or substitutable services, to the extent such information is publicly available.
 - c. Data regarding the gain or loss of access lines, organized by CenturyTel/United Oregon wire center.
 - d. A discussion of how the pricing flexibility allows CenturyTel/United to meet the plan's objectives.
 - e. Identification of any new services CenturyTel/United has introduced.
 - f. Identification of any ways in which the burden of regulation for both CenturyTel/United and the Commission has been simplified or reduced.
 - 2. Performance of objectives.** The Commission will evaluate CenturyTel/United's performance as compared to the objectives of the plan. If the Commission determines that CenturyTel/United has not substantially satisfied its objectives, as set forth in Section II of this plan, the Commission may enter discussions with CenturyTel/United to establish an agreement, including a timeline and a process, under which CenturyTel/United will achieve compliance with the objectives. If the Commission and CenturyTel/United cannot reach such an agreement within a reasonable time of commencing such discussions the Commission may order modifications to the plan, following notice and an opportunity for hearing, or open an investigation under Section VII.B.2. of this plan.

3. **Evaluation of market, modifications to plan.** The Commission will review the data submitted by CenturyTel/United and other relevant evidence regarding the competitiveness of the market for services that are functionally equivalent or substitutable for services offered by CenturyTel/United and determine whether other modifications to the plan are appropriate to provide CenturyTel/United with additional regulatory flexibility beyond that included in the original price plan or better ensure the plan is in the public interest according to the factors set forth in ORS 759.255(2).

B. Ongoing conditions for review

1. **Review of service quality.** The Commission may review CenturyTel/United's retail customer service quality at any time during operation of the price plan. If CenturyTel/United does not meet the objective service levels for one or more individual standards in OAR 860-023-0055 for three months out of a twelve month sliding window,¹ then the Commission may require CenturyTel/United to submit a performance plan pursuant to ORS 759.450(5) and may suspend CenturyTel/United's authority under the price plan to increase retail prices until such time as CenturyTel/United has met all the goals of the performance plan. If the Commission determines after a notice and an opportunity for hearing that CenturyTel/United has not met the goals of a performance plan within six months, or if the plan is disapproved by the Commission, then, in addition to the remedies set forth in ORS 759.450(5) – (7), the Commission may open an investigation under Section VII.B.2. of this plan.
2. **Public interest.**
 - a. The Commission may open an investigation at any time pursuant to ORS 756.515 to determine whether further adjustments to the price plan or termination of the price plan is required by the public interest, according to the factors set forth in ORS 759.255(2). The Commission may order further adjustments to the price plan or termination of the price plan only after providing CenturyTel/United notice and an opportunity for hearing. If the Commission determines to hold such a hearing, it may suspend CenturyTel/United's authority to increase prices pending the conclusion of the proceeding. In any such investigation and proceeding, the Parties agree that the Commission should first attempt to identify and require adjustments to the price plan such that continuation of the price plan is in the

¹ Sliding 12-month window: The 12-month window consists of the current reporting month and data from the previous eleven months. For example, using "commitments for service" with an objective service level of 90 percent (OAR 860-023-0055(4)(b)(A)), a performance plan may be required if three or more months during the 12-month window were reported with less than 90 percent commitments met. Each new month would look at the adjusted 12-month window and the data would be compared to the objective service level.

public interest before it orders termination of the price plan (unless this proceeding was opened pursuant to Section VII.A.2. of the plan).

- b. If the Commission orders termination of the price plan, CenturyTel/United would no longer be able increase its rates as it was permitted to do under the price plan, but CenturyTel/United would be allowed to decrease its rates subject to any applicable price floor.
- c. If the Commission orders termination of the price plan, CenturyTel/United may thereafter pursue any form of price regulation or relief therefrom then permitted under Oregon law, including but not limited to: exemptions from regulation pursuant to ORS 759.052; price listing pursuant to ORS 759.054, 759.056, and/or 759.195; rate regulation pursuant to ORS 759.175 – 759.190; another price plan pursuant to ORS 759.255; or price cap regulation pursuant to ORS 759.405 – 759.410.

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. _____

In the Matter of the Petition of CenturyTel of Oregon, Inc. d/b/a CenturyLink, CenturyTel of Eastern Oregon, Inc. d/b/a CenturyLink, United Telephone Company of the Northwest d/b/a CenturyLink for Approval of Price Plan Pursuant to ORS 759.255

DIRECT TESTIMONY

OF

JOHN M. FELZ

ON BEHALF OF

CENTURYTEL OF OREGON, INC.

CENTURYTEL OF EASTERN OREGON, INC.

UNITED TELEPHONE COMPANY OF THE NORTHWEST

FEBRUARY 28, 2014

TABLE OF CONTENTS

	Page
I. IDENTIFICATION OF WITNESS	1
II. PURPOSE OF TESTIMONY.....	2
III. OVERVIEW OF CENTURYTEL/UNITED’S PETITION	2
IV. COMPETITION IN THE OREGON LOCAL EXCHANGE MARKET.....	5
A. SUMMARY	5
B. WIRELINE COMPETITION.....	13
1. CABLE TELEPHONY	13
2. OTHER COMPETITIVE LOCAL EXCHANGE PROVIDERS (“CLEC”).....	20
C. WIRELESS COMPETITION.....	22
D. VOICE OVER INTERNET PROTOCOL COMPETITION	30
V. CENTURYTEL/UNITED PRICE PLAN PROPOSAL	34
VI. CONCLUSION.....	36

I. IDENTIFICATION OF WITNESS

1
2
3 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION WITH**
4 **CENTURYLINK.**

5 A. My name is John M. Felz. My business address is 5454 West 110th Street, Overland Park,
6 Kansas, and I am currently employed by CenturyLink as Director – State Regulatory
7 Operations.

8
9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, WORK**
10 **EXPERIENCE AND PRESENT RESPONSIBILITIES.**

11 A. I received my Bachelor's degree in Accounting from Rockhurst University in Kansas City,
12 Missouri in 1979. In 1989, I earned a Master's Degree in Business Administration with an
13 emphasis in Finance from Rockhurst University. I began my career with Sprint as an
14 internal auditor in 1979 and assumed increasing levels of responsibility in that department,
15 including positions as Senior Auditor, Audit Manager and Assistant Director. From 1986
16 to 1988, I was Revenue Accounting Manager for Sprint's Midwest Group of local
17 telephone companies with responsibility for billing approximately 500,000 customers in six
18 states. In 1988, I was named to the position of Financial Budget Manager and had
19 responsibility for preparing and managing the budget for Sprint's Midwest Group of local
20 telephone companies. From 1991 to 1996, in the position of Revenue Planning Manager, I
21 was responsible for regulatory and tariff issues for Sprint's local telephone operations in
22 Kansas. From 1996 to 1998, I held the position of Senior Manager - Wholesale Markets
23 with responsibility for negotiating and implementing interconnection agreements with
24 competitive local exchange carriers and wireless providers. From January 1998 through
25 May 2006, I held the position of Director – State Regulatory for Sprint and provided state
26 regulatory support for Sprint's local, long distance and wireless operations in several
27 assigned states. In May 2006, I assumed the position of Director – State Regulatory for
28 Embarq, a new company formed by the spin-off of Sprint's local telephone operations. In
29 2009, Embarq was acquired by CenturyLink and I was named to my current position as
30 Director - State Regulatory Operations. In this position, I have responsibility for

1 development and implementation of regulatory policies for CenturyLink’s operations in a
2 number of states, including Oregon.

3 4 **II. PURPOSE OF TESTIMONY**

5 6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

7 A. The purpose of my testimony is to provide the data and analysis necessary to demonstrate
8 that the Oregon telecommunications market in the service area of CenturyTel of Oregon,
9 Inc. d/b/a CenturyLink, CenturyTel of Eastern Oregon, Inc. d/b/a CenturyLink and United
10 Telephone Company of the Northwest d/b/a CenturyLink (hereafter collectively referred to
11 as “CenturyTel/United”) in Oregon is subject to pervasive competition from a variety of
12 technologies and platforms. In light of this highly competitive environment,
13 CenturyTel/United seeks Commission approval to adopt the terms of the proposed
14 modified Price Plan for Qwest Corporation d/b/a CenturyLink QC (“CenturyLink QC”)
15 submitted for Commission consideration as Exhibit A of CenturyLink QC’s January 23,
16 2014 filing in Docket UM 1354. The proposed CenturyTel/United Price Plan is included
17 as Exhibit A to the petition filed concurrent with this testimony and is included as Exhibit
18 CTL-UTNW/101 to my testimony.

19 20 **III. OVERVIEW OF CENTURYTEL/UNITED’S PETITION**

21 22 **Q. WHAT IS THE STATUTORY BASIS FOR CENTURYTEL/UNITED’S** 23 **PETITION FOR ADOPTION OF A PRICE PLAN?**

24 A. The Oregon Legislature established ORS 759.255 that provides the Commission the
25 authority to approve a plan that provides for relaxed regulation commensurate with the
26 increasing level of competition in the telecommunications market. Specifically, the
27 statute allows the Commission to approve a plan under which a telecommunications
28 utility that provides local exchange service may charge prices that are established
29 “without regard to return on investment of the utility.”¹
30

¹ ORS 759.255(1)

1 **Q. WHAT ARE THE FACTORS IN ORS 759.255 THAT THE COMMISSION**
2 **SHOULD CONSIDER IN EVALUATING CENTURYTEL/UNITED'S PROPOSED**
3 **PRICE PLAN?**

4 A. Per the statute, the Commission is to consider whether CenturyTel/United's Price Plan is in
5 the public interest. In making its determination, the Commission is to consider whether the
6 plan:

7 (a) Ensures prices for telecommunications services that are just and
8 reasonable;

9 (b) Ensures high quality of existing telecommunications services and makes
10 new services available;

11 (c) Maintains the appropriate balance between the need for regulation and
12 competition; and

13 (d) Simplifies regulation.²
14

15 **Q. WHAT IS THE BASIS FOR CENTURYTEL/UNITED'S PETITION SEEKING**
16 **APPROVAL OF A PRICE PLAN PURSUANT TO ORS 759.255?**

17 A. The primary basis is the unprecedented level of competition CenturyTel/United faces in
18 virtually all of its markets in the state of Oregon. My testimony will describe the pervasive
19 competition from wireless providers, cable companies, CLECs and Voice over Internet
20 Protocol ("VoIP") providers and provide evidence of the impact of this competition on
21 CenturyTel/United's market share. The evidence clearly shows that these competitors offer
22 services that are either functionally equivalent to and/or substitutable for
23 CenturyTel/United's service offerings on the basis of product design, price and availability
24 and that CenturyTel/United does not have a captive customer base or market power. Given
25 the broad and thriving competitive landscape in Oregon, the Commission should approve
26 and adopt the Price Plan proposed by CenturyTel/United to provide additional regulatory
27 flexibility to allow the company to more effectively compete with its largely unregulated
28 competitors.
29

² ORS 759.255(2)

1 **Q. WHAT ARE THE REGULATORY DIFFERENCES BETWEEN**
2 **CENTURYTEL/UNIED AND ITS COMPETITORS?**

3 A. The Commission does not regulate CenturyTel/United's inter-modal competitors –
4 wireless providers, cable companies and other Voice over Internet Protocol (“VoIP”)
5 providers. Although the Commission does regulate competitive local exchange carriers
6 (CLECs), CLECs are subject to only minimal regulation. Under the Commission's rules,
7 CLECs are classified as competitive companies for which many of the Commission's
8 rules are waived. As competitively classified companies, CLECs are not required to
9 comply with the Commission rules associated with a number of financial transactions and
10 reporting requirements. CLECs do not have to keep their accounting books in
11 accordance with regulatory accounting standards and while annual financial reports are
12 required, they are much more abbreviated than those required of CenturyTel/United.
13 Finally, and most importantly, CLECs are not subject to rate of return regulation, any
14 other type of regulatory pricing constraints, or even a tariff filing requirement, and all of
15 their services are treated as competitively classified services for which there is minimal
16 regulation.

17
18 **Q. WHY IS THE RELATIVE LEVEL OF REGULATION AN IMPORTANT**
19 **CONSIDERATION IN THE COMMISSION'S DELIBERATION OF**
20 **CENTURYTEL/UNITED'S PETITION?**

21 A. It is important because regulatory constraints impede CenturyTel/United's ability to offer
22 its services in manner similar to its competitors. As mentioned in the previous response,
23 CenturyTel/United is required to comply with financial and service quality regulations
24 and reporting requirements. Such regulation forces CenturyTel/United to incur
25 monitoring and reporting costs that are not borne by its competitors. Further,
26 CenturyTel/United's pricing flexibility is limited by legacy monopoly based constraints
27 and rate of return ratemaking requirements while its competitors face no such artificial
28 conditions. For example, earnings monitoring and artificial cost requirements are

1 inappropriate in a competitive environment where costs can vary widely between diverse
2 technologies and where prices are determined by the market. In a competitive market,
3 economically efficient prices are driven by consumer demand, based on product
4 functionality, not the underlying product costs or a company's regulatory return on rate
5 base.

6 Rate of return on rate base (traditional) regulation is a vestige of a bygone era when
7 monopoly phone companies offered customers services at regulator-prescribed rate levels
8 designed to recover each company's costs and a regulator-prescribed return on invested
9 capital (rate base) from a captive customer base. Because pervasive competition has
10 eliminated the monopoly, it has also eliminated the justification for traditional regulation.

11 12 **IV. COMPETITION IN THE OREGON LOCAL EXCHANGE MARKET**

13 14 **A. SUMMARY**

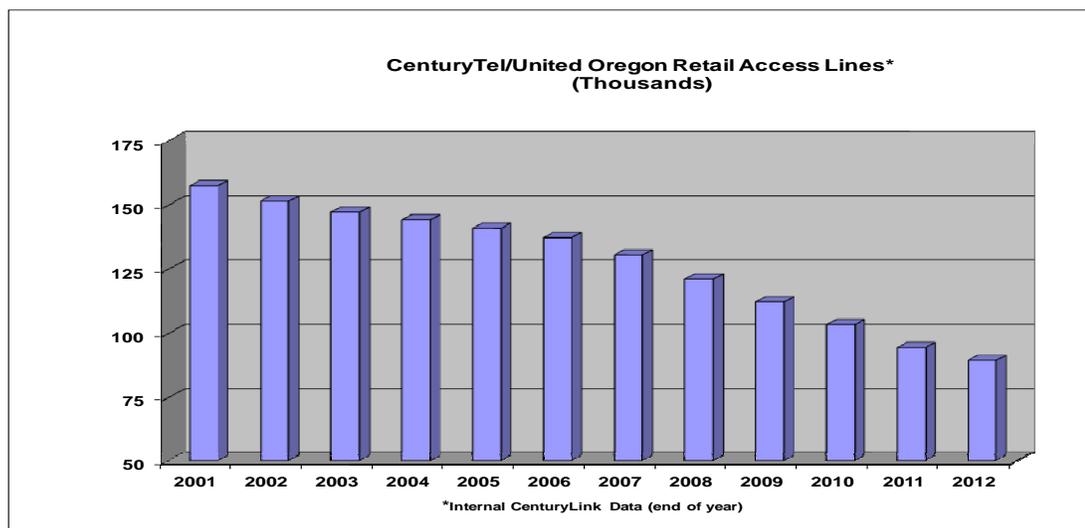
15 16 **Q. WHAT TYPES OF PROVIDERS COMPETE WITH CENTURYTEL/UNITED IN** 17 **THE OREGON LOCAL EXCHANGE VOICE MARKET?**

18 A. As described below, the telecommunications market in Oregon is exceptionally
19 competitive, and the mix of competitive telecommunications alternatives continues to grow
20 and evolve. Traditional competitors such as Comcast, Charter, and Wave Broadband, the
21 major cable companies serving much of CenturyTel/United's Oregon territory, along with
22 several CLECs continue to aggressively compete with CenturyTel/United. At the same
23 time, intermodal voice services from wireless companies such as AT&T, Verizon, Sprint
24 and T-Mobile, and VoIP services from companies like Vonage, Magic Jack and Google are
25 rapidly gaining a significant share of the telecommunications market in the state. Oregon
26 consumers and businesses have numerous alternatives to meet their local voice calling
27 needs. The Oregon telecommunications market is becoming more competitive every day,
28 and there is no reason to conclude that this explosion of competitive alternatives will
29 subside as new technologies are developed and customer preferences evolve.
30 CenturyTel/United's market power is constrained by competition today, and will continue
31 to be constrained by increasing competition in the future.

1
2 Some of these competitors offer services to customers via the purchase of wholesale
3 services from CenturyTel/United (including unbundled network elements, CenturyLink
4 Local Services Platform (“CLSP”), Special Access, and the resale of CenturyTel/United’s
5 retail services) while many other competitors, including cable providers, wireless carriers
6 and certain CLECs, offer services to customers over their own facilities.
7 CenturyTel/United’s wireline services also face competition from non-voice services such
8 as email, texting, internet communication and social networking sites. These services
9 provide users with the ability to communicate instantly across a wide variety of platforms
10 and customer equipment.

11
12 **Q. PLEASE DESCRIBE THE IMPACT OF THIS COMPETITION ON**
13 **CENTURYTEL/UNITED ACCESS LINES IN OREGON.**

14 A. As competition for voice communications services has increased, CenturyTel/United has
15 experienced a *significant decline in access line volumes*. Between December 2001 and
16 December 2012, CenturyTel/United retail access lines in Oregon declined 43%, from
17 157,452 to 89,486.³ CenturyTel/United has experienced these declines across its entire
18 service territory in Oregon.⁴



19
³ Residential retail access lines have dropped 44% and business retail access lines have dropped 40% over this time frame.

⁴ See Confidential Exhibit CTL-UTNW/102 for a comparison of retail access lines between December 2001 and December 2012 by CenturyTel/United wire center.

1 While CenturyTel/United has experienced a steady decline in residential and business
2 access lines over the past eleven years, U.S. Census data shows that both households and
3 the number of people in Oregon have increased. For example, between 2001 and 2012,
4 Oregon population increased from 3,472,867 in July 2001 to 3,899,353 in July 2012, an
5 increase of 12.2%.⁵ The number of households in Oregon increased from 1,476,466 in July
6 2001 to 1,682,502 in July 2012 (the latest data available); an increase of 14%.⁶

7
8 As Oregon has experienced a significant growth trend, demand for voice communications
9 services in Oregon has increased apace. FCC data shows that in the western U.S. (as well
10 as nationally), household expenditures for telephone service have increased steadily each
11 year since 2001,⁷ even as CenturyTel/United revenues have declined. However, despite the
12 large upward trend in households, population, and telephone service expenditures by the
13 public, CenturyTel/United's retail residential access line base in Oregon has fallen sharply
14 since 2001. These divergent trendlines show that consumers are increasingly taking
15 advantage of the expanding array of competitive alternatives to CenturyTel/United's
16 wireline voice telephone services. As CenturyTel/United's access lines decline, consumers
17 are increasingly meeting their telecommunications needs via services provided by cable
18 telephony providers, wireless providers, Voice over Internet Protocol ("VoIP") providers
19 and CLECs.

20
21 **Q. DOES THE DECLINE IN DEMAND FOR CENTURYTEL/UNITED'S SERVICE**
22 **MEAN THAT CUSTOMERS ARE GIVING UP VOICE SERVICE?**

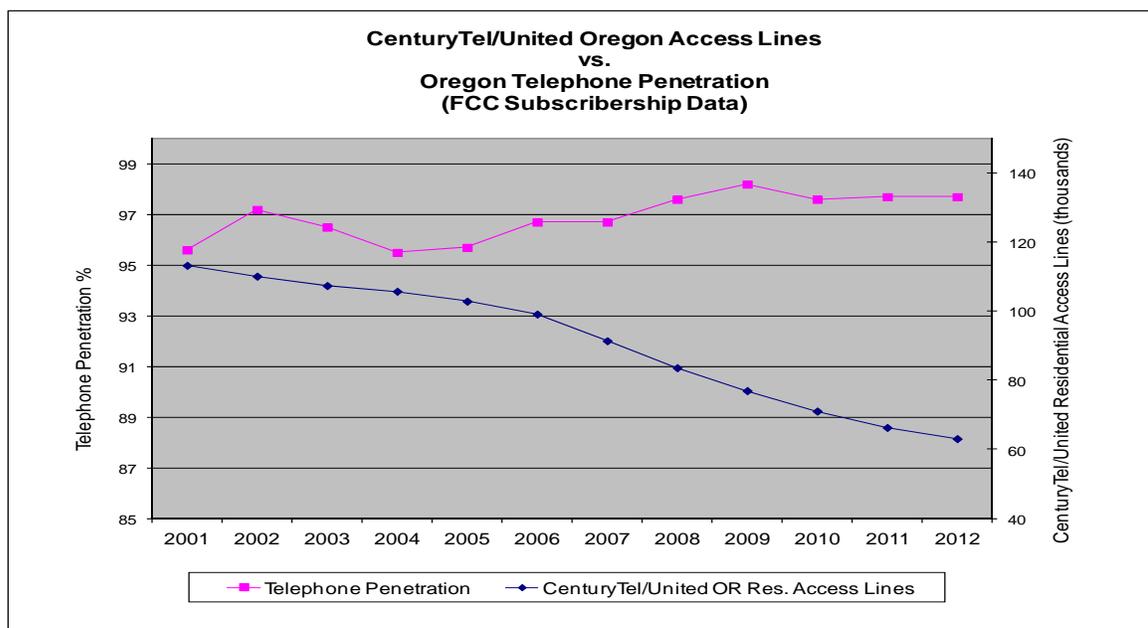
23 A. No. FCC subscribership data demonstrate that the portion of Oregon households without
24 voice service has remained relatively steady over the last eleven years even as
25 CenturyTel/United voice penetration rates have tumbled. When the FCC evaluates
26 telephone subscribership (and develops penetration percentages), it considers all local voice

⁵ US Census Bureau; See: http://www.census.gov/popest/data/historical/2000s/vintage_2001/state.html "Time Series of State Population Estimates: April 1, 2000 to July 1, 2001" (ST-2001EST-01.xls) and <http://quickfacts.census.gov/qfd/states/41000.html>

⁶ US Census Bureau; See: http://www.census.gov/popest/data/historical/2000s/vintage_2001/housing.html (HU-EST2001-00.xls) and <http://quickfacts.census.gov/qfd/states/41000.html>

⁷ See: *Reference Book of Rates, Price indices, and Household Expenditures for Telephone Service Industry*, FCC Analysis & Technology Division, Wireline Competition Bureau, 2008, Table 2.1. See: http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-284934A1.pdf

1 telephone options available to consumers, including wireless, cable and VoIP—since these
 2 are real voice telephone options available to consumers.⁸ The chart below shows that in the
 3 past dozen years, the Oregon telephone subscriber penetration rate has remained relatively
 4 steady (between 95% and 98%) even as the population has increased 12.4%. Stable
 5 penetration rates coupled with a growing population demonstrate that the size of the overall
 6 Oregon market for telephone services has grown substantially during the same period that
 7 CenturyTel/United has lost 43% of its subscribers and access lines. The loss of access lines
 8 in a growing market with stable penetration rates demonstrates that tens of thousands of
 9 Oregonians have left CenturyTel/United for competitors; they have not gone “phoneless.”
 10 The following chart shows CenturyTel/United’s decline in Oregon *residential* access lines
 11 along with the FCC’s Oregon voice penetration rate between 2001 and 2012:⁹



12 This chart clearly demonstrates that Oregon consumers leaving CenturyTel/United are not
 13 going without phone service; instead they are purchasing cable telephony, wireless and/or
 14

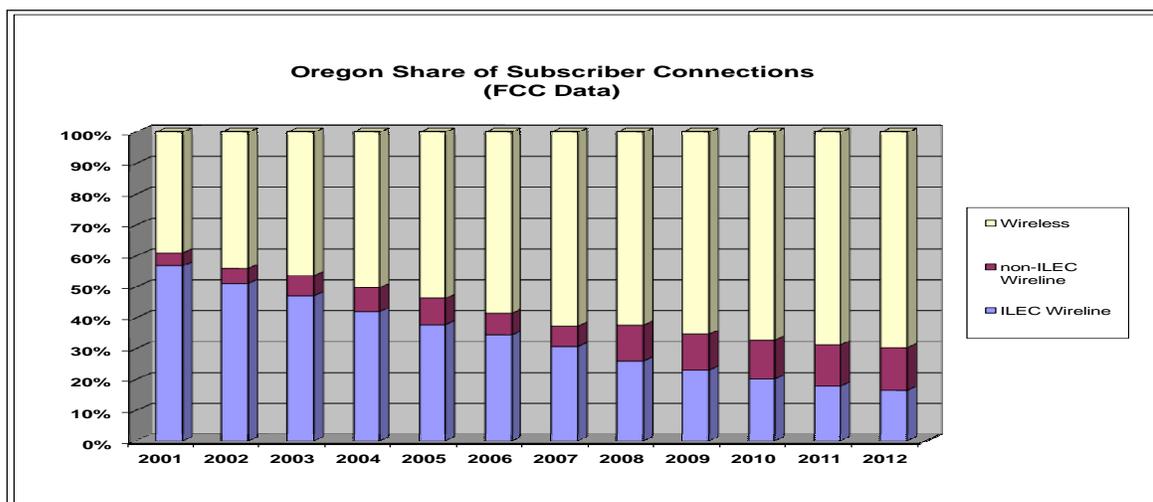
⁸ The FCC’s Current Population Survey (“CPS”), which is used to develop telephone penetration data, asks the following question: “Does this house, apartment, or mobile home have telephone service from which you can both make and receive calls? Please include cell phones, regular phones, and any other type of telephone.” And, if the answer to the first question is “no,” this is followed up with, “Is there a telephone elsewhere on which people in this household can be called?” If the answer to the first question is “yes,” the household is counted as having a telephone “in unit.” If the answer to either the first or second question is “yes,” the household is counted as having a telephone “available.” *Telephone Subscribership In The United States (Data through July 2011)*, Industry Analysis and Technology Division, Wireline Competition Bureau, Federal Communications Commission, Released: December, 2011, pp. 2-3, See: http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-311523A1.pdf

⁹ *Id.*, Table 3.

1 VoIP-based voice services from another provider as a substitute for CenturyTel/United
2 services.

3
4 **Q. PLEASE DESCRIBE THE FCC'S VOICE MARKET DATA FOR OREGON.**

5 A. FCC data also show how competition in Oregon has impacted CenturyTel/United's share
6 of the local voice telephone market in the state. Every six months, the FCC compiles voice
7 connection data reported by ILECs, CLECs and wireless providers, and presents this data
8 in its *Local Competition Report*. This report clearly demonstrates that CenturyTel/United
9 and other ILECs' share of the voice market in Oregon has declined significantly over the
10 past eleven years as customers have chosen cable, wireless, CLEC and VoIP options.
11 Based on the latest FCC report (using December 2012 data), the ILEC share of Oregon
12 voice telecommunications connections (including residence and business lines) is now only
13 16.5% as compared to 13.8% for non-ILECs (including *reporting* VoIP providers) and
14 69.7% for wireless providers.¹⁰ The trends in the migration of customers from
15 CenturyTel/United and other ILEC providers to other wireline and wireless providers over
16 the past eleven years is demonstrated by the following chart:¹¹



¹⁰ *Local Telephone Competition: Status as of December 31, 2012*; Industry Analysis and Technology Division, Wireline Competition Bureau, November 2013, tables 9 & 18.

¹¹ *Id.*, tables 13, 14 & 18. Also see *Local Telephone Competition: Status as of December 31, 2007*, Industry Analysis and Technology Division, Wireline Competition Bureau, September 2008, tables 9, 10 and 14.

1 **Q. CAN YOU ESTIMATE HOW COMPETITION IN OREGON HAS IMPACTED**
2 **CENTURYTEL/UNITED'S SHARE OF THE LOCAL VOICE TELEPHONE**
3 **MARKET IN OREGON?**

4 A. Yes. While CenturyTel/United does not have access to the confidential access line and
5 other data from its competitors, the company has retained the consulting firm *Centris*¹² to
6 estimate voice market share for CenturyTel/United and its competitors in the consumer
7 market across its entire service territory in Oregon.

8
9 **Q. PLEASE DESCRIBE CENTURYTEL/UNITED'S CONSUMER MARKET SHARE**
10 **DATA FOR OREGON.**

11 A. The *Centris* data is based on occupied households within the CenturyTel/United serving
12 area in Oregon, and shows the share of these households that purchase voice service from
13 CenturyTel/United, cable companies, other VoIP providers and CLECs. *Centris* also
14 identifies occupied households without any voice service. *Centris* summarizes its
15 methodology as follows:

16 Centris provides a data collection, data integration, modeling and reporting
17 platform for computing estimates of market size, market share and associated
18 metrics at local levels of geography. A number of these metrics are estimated by
19 provider: (1) This platform combines extensive market research with industry
20 analysis to ensure that the *Centris* estimates line up with published business
21 intelligence, company reports and other market and industry analyses; (2) The
22 process uses multiple layers of geography to provide projections of behavior by
23 provider and location; (3) For all product areas, *Centris* starts with assigning
24 occupied households to the CenturyLink footprint and then overlays cable
25 boundaries to provide the ability to look at market share by competitor. (4)
26 Absolute subscriber numbers and detailed flow share analysis are readily
27 available. For voice, *Centris* uses over a million LIDB (Line Information
28 Database) lookups to determine phone provider by local geography. Next
29 *Centris* uses CenturyLink subscribers, surveys and other data to set state and
30 footprint level constraints. Then *Centris* models voice demand (ILEC, CLEC,
31 cable voice, wireless only, VoIP).
32

¹² *Centris* is a marketing science firm that provides services to CenturyLink and other companies. On its web site, *Centris* states: "Our ongoing survey programs, local market models and advanced analytic skills supplement the research departments of many of the world's leading communication and entertainment companies." *Centris* focuses on the voice, video and data markets. See: <http://www.centris.com/index.html>

1 The testimony which follows discloses data that *Centris* developed using the methods
2 described above; it does not rely on carrier confidential information from
3 CenturyTel/United companies or from the other carriers.

4
5 The *Centris* data demonstrate that the CenturyTel/United share of the consumer voice
6 market has been declining over the past several quarters, and that as of the second quarter
7 of 2013, CenturyTel/United provided voice service to *only* 36.1% of the occupied
8 households in its Oregon serving area:

9 Consumer Market Share

	Connections (000)	Share
10 CenturyTel/United	42	36.1%
11 Cable Telephony	24	20.3%
12 Other VoIP	2	02.0%
13 CLECs	1	00.9%
14 Wireless Only	45	38.0%
15 Other – no voice	3	02.7%
16 Total Occupied Households	117	100.0%

17
18
19 It is important to note that the “wireless only” share includes only households that do not
20 have wireline services at all. If a household has both wireless voice service and
21 CenturyTel/United wireline voice service, the household is included in the
22 CenturyTel/United wireline share,¹³ not the wireless only share.

23
24 Note that the CLEC and VoIP shares in the *Centris* consumer share study are limited. The
25 CLEC share is limited because (1) it does not include the cable providers, such as Comcast
26 or Charter, who are stated separately, and (2) most of the traditional CLECs operating in
27 Oregon are focused on marketing services to business customers rather than the consumer

¹³ The CenturyLink share estimated in the *Centris* study is higher than the ILEC share estimated with the FCC data primarily because the *Centris* study counts CenturyLink households that have both a wireline phone and a wireless phone as a wireline household. The FCC share is based on an analysis that counts each wireline and wireless connection separately, regardless of whether or not the household has both wireline and wireless service. Thus, if a household has a wireline phone and a wireless phone, the FCC analysis would count one wireline connection and one wireless connection, rather than simply one wireline connection. In addition, there may be some differences in the characteristics of CenturyTel/United and other ILEC areas within Oregon.

1 market. The VoIP share is limited because it does not include cable providers such as
2 Comcast or Charter who provide managed VoIP services.¹⁴

3
4 **Q. HAS CENTRIS IDENTIFIED RECENT TRENDS IN THE CONSUMER VOICE**
5 **MARKET IN OREGON?**

6 A. Yes. Recent trends in the *Centris* consumer study are delineated in Confidential Exhibit
7 CTL-UTNW/103. This exhibit provides CenturyTel/United share data for several quarters,
8 and also shows the share for each cable provider. This exhibit demonstrates the trend of
9 declining CenturyTel/United share, along with increasing cable and wireless-only share.

10
11 **Q. WHAT DO YOU CONCLUDE REGARDING THE CONSUMER MARKET?**

12 A. *Nearly sixty-four percent* of the consumer households in the CenturyTel/United serving
13 area in Oregon are not utilizing CenturyTel/United for voice services. Instead, the vast
14 majority of customers are purchasing voice services from cable providers, wireless
15 providers, VoIP providers and CLECs, which have gained significant market share at the
16 expense of CenturyTel/United. The Oregon telecommunications market today is extremely
17 competitive, with these alternative providers successfully offering functionally equivalent
18 or substitute services that are readily available to customers. In this competitive
19 environment, CenturyTel/United lacks any effective market power. Regulation should
20 change to account for this development.

21
22 **Q. IS MARKET SHARE INFORMATION IN CENTURYTEL/UNITED'S BUSINESS**
23 **MARKET TRACKED FOR ITS OREGON OPERATIONS?**

24 A. No. Although business market share is not tracked for CenturyTel/United's Oregon
25 operations, most of the competitors identified in my prior discussion of the consumer
26 market also make services available to business customers at comparable rates, terms and
27 conditions. Specifically, competitors such as Comcast, Charter, Integra, Level 3 and
28 others offer services that compete directly with the business services offered by
29 CenturyTel/United. These competitors' business offerings are discussed in greater detail in
30 the next section of my testimony. In addition, many businesses have chosen to "cut the

¹⁴ Managed VoIP services utilize private networks, and do not traverse the public internet.

1 cord” and adopted wireless service as a substitute for CenturyTel/United’s wireline voice
2 service. Finally, VoIP service is an effective alternative to CenturyTel/United’s wireline
3 voice service for many businesses. Therefore, while estimates of business market share
4 percentages for each of the various competitors in CenturyTel/United’s Oregon markets is
5 not available, there are alternative providers successfully offering functionally equivalent
6 or substitute services that are readily available to business customers. In this competitive
7 environment, CenturyTel/United lacks any effective market power and regulation should
8 change to account for this development.

10 **B. WIRELINE COMPETITION**

12 **1. Cable Telephony**

13 **Q. PLEASE DESCRIBE TELEPHONE COMPETITION FROM CABLE COMPANIES**
14 **IN OREGON.**

15 A. Cable companies provide phone service (along with video and high speed internet)
16 throughout CenturyTel/United’s Oregon serving territory. Charter and Comcast are the
17 major cable companies, offering digital telephone and broadband service to customers in
18 many parts of the state. Wave Broadband also provides telephone and broadband services
19 to certain communities in CenturyTel/United’s Oregon serving area. As shown in
20 Confidential Exhibit CTL-UTNW/104, cable telephony service is available to customers in
21 60 of CenturyTel/United’s 85 wire centers¹⁵ in Oregon and these wire centers account for
22 approximately 94% of CenturyTel/United’s Oregon residential access lines.¹⁶ Thus, cable
23 telephone service is now available to a majority of CenturyTel/United’s exchanges in
24 Oregon.

26 **Q. HOW DO CABLE COMPANIES PROVIDE VOICE SERVICE IN OREGON?**

27 A. Cable companies provide telephone service over their own coaxial/fiber facilities, and
28 sometimes partner with wholesale providers such as Level 3 to offer a complete array of

¹⁵ Based on data from *Centris*.

¹⁶ While cable providers serve at least some customers in these communities, each company may not offer services to all of the areas served by CenturyTel/United in each wire center.

1 local telephone services. The voice services provided via cable telephony include local
2 calling, long distance calling and calling features, and are functionally equivalent to the
3 services that are offered by CenturyTel/United. Cable providers generally use VoIP-based
4 technology, but these are managed services that do not utilize the public internet. Since
5 cable telephony providers utilize their own networks and facilities, they do not rely on
6 CenturyTel/United wholesale network elements in the provision of their telephone services.
7

8 The cable companies listed in Confidential Exhibit CTL-UTNW/104 offer a broad range of
9 telecommunications services to residential and business customers in Oregon, as described
10 below. These offerings demonstrate that cable service providers see the provision of
11 telephone service as a key ingredient in their strategy to expand their customer bases and
12 improve revenue streams by marketing multiple services in addition to cable television
13 service, and that their service offerings are functionally equivalent to and substitutable for
14 CenturyTel/United's voice services.
15

16 **Q. HOW DOES COMCAST COMPETE WITH CENTURYTEL/UNITED IN**
17 **OREGON?**

18 A. Comcast offers digital telephone service to customers in nearly all of its cable serving area,
19 which includes communities served by CenturyTel/United. As shown in Confidential
20 Exhibit CTL-UTNW/104, Comcast offers "Digital Voice" phone service to customers in
21 eight of CenturyTel/United's 85 wire centers in Oregon today, and these wire centers
22 account for nearly 22% of CenturyTel/United's residential access lines in the state as of
23 December 31, 2012. Nationally, Comcast now makes digital voice available to 53 million
24 homes and businesses and provides voice services to 10 million subscribers for a
25 penetration rate of 18.9%.¹⁷ According to Comcast, "We offer voice service plans, using
26 an interconnected Voice over Internet Protocol ("VoIP") technology, that provide either
27 usage-based or unlimited local and domestic long-distance calling, includ[ing] the option
28 for a variety of international calling plans, voice mail, caller ID, call waiting and other

¹⁷ Comcast 2012 Annual Report (10K), page 44. See:
<http://files.shareholder.com/downloads/CMCSA/2372812231x0xS1193125-13-67658/1166691/filing.pdf>

1 features, including the ability to access and manage voice mail and other account
2 information online and through our mobile applications using smartphones and tablets."¹⁸
3

4 **Q. ARE COMCAST'S RESIDENTIAL OFFERINGS FUNCTIONALLY**
5 **EQUIVALENT TO AND SUBSTITUTABLE FOR THE SERVICES OFFERED BY**
6 **CENTURYTEL/UNITED IN OREGON?**

7 A. Yes. In Oregon, Comcast markets its digital voice phone service to residential customers
8 along with cable TV and broadband internet access in Triple Play bundles that it provides
9 for \$99 per month for the first 12 months.¹⁹ Comcast also offers its voice service on a
10 standalone basis with unlimited local and long distance calling as "XFINITY® Voice
11 Unlimited" for \$29.99 per month for 6 months. Comcast's digital voice services are
12 advertised as providing unlimited nationwide calling and numerous calling features,
13 including Caller ID and Voicemail.²⁰
14

15 Comcast also offers services to businesses of all sizes via its "Comcast Business Class"
16 offerings, which are prominently marketed on the Comcast web site. Comcast markets
17 internet and voice services in packages starting at \$89.90 per month, as well as standalone
18 unlimited nationwide voice services starting at \$59.95 per month.²¹ Comcast continues to
19 significantly increase its presence in the business market, offering "cable services to small
20 (up to 20 employees) and medium-sized (up to 500 employees) businesses ("business
21 services")." Comcast also states: "In addition to the features provided to our residential
22 cable services customers, our services for business customers include a website hosting
23 service, an interactive tool that allows customers to share, coordinate and store documents
24 online, hosted voice services using cloud network servers, a business directory listing, and
25 the added capacity for multiple phone lines that meet the needs of our business customers.
26 In 2012, we began increasing the number of services we offer to medium-sized business
27 customers, including adding advanced voice services and our metro Ethernet network

¹⁸ *Id.*, page 4.

¹⁹ See: http://www.comcastoffers.com/Triple-Play/?exp=xp1_pilot

²⁰ See: http://www.comcastoffers.com/Voice/?exp=xp1_pilot

²¹ See: http://www.comcastoffers.com/Business/?exp=xp1_pilot

1 services. We also provide cellular backhaul services to mobile network operators, which
2 help our customers manage continued growth in demand for network bandwidth.”²²

3
4 **Q. DO COMCAST AND CENTURYTEL/UNITED BOTH OFFER BUNDLES OF**
5 **SERVICES AT DISCOUNTED RATES?**

6 A. Yes. Both Comcast and CenturyTel/United offer discounts for customers that bundle
7 telephone service with high speed internet and video services. Comcast offers bundles of
8 phone, internet and video service for as low as \$99 per month for the first twelve months.²³
9 CenturyTel/United offers bundles of phone, internet and video (DirecTV) for as low as
10 \$94.95 per month. Both companies offer additional bundles with added functions (e.g.,
11 faster internet speeds, more video channels) at higher prices. Comcast and
12 CenturyTel/United market bundles to attract and retain customers, and such offerings are
13 the hallmark of a competitive market.

14
15 **Q. DOES COMCAST POST PRICES FOR ITS BUSINESS SERVICES ON ITS WEB**
16 **SITE?**

17 A. Comcast does post prices for some basic business voice plans on its web site, but in many
18 cases, Comcast, like CenturyTel/United, provides services to businesses on an ICB or
19 contract basis. However, Comcast is not required to file its ICB contracts or pricing with
20 the Commission. Therefore, unlike in the consumer market, it is difficult to directly
21 compare prices on a public basis.

22
23 **Q. IS COMCAST LIKELY TO GROW SIGNIFICANTLY IN OREGON IN THE**
24 **FUTURE?**

25 A. Yes. Comcast has expanded the availability of digital phone service in Oregon markedly,
26 and as noted above, nearly all Comcast customers in Comcast’s service area can now order
27 Comcast Digital Voice service. It is significant that Comcast has seen exponential growth
28 in its digital voice offering nationally. As noted above, according to its 2012 year-end
29 report, Comcast now serves 10 million digital voice customers in the United States—up

²² Comcast 2012 Annual Report (10K), page 4.

²³ See: http://www.comcastoffers.com/Triple-Play/?exp=xp1_pilot

1 from 1.9 million in 2006 and 4.4 million in 2007—a growth rate of more than 400% in five
2 years. In 2009 Comcast announced that it was the third largest phone company in the U.S.
3 serving residential customers:

4
5 Comcast, the nation’s leading provider of entertainment, information and
6 communication products and services, today announced that consumers
7 switching to Comcast’s Digital Voice service have made Comcast the third-
8 largest residential phone service provider in the country. . . . Comcast Digital
9 Voice® now serves 6.47 million customers, *which exceeds Qwest’s reported*
10 *residential subscriber base*. The popularity of Comcast’s innovative offerings
11 with consumers has enabled Comcast to add residential subscribers in each of
12 the last twelve quarters.”²⁴ (emphasis added)

13 Comcast has increased its presence in the Oregon telephone market rapidly, and the
14 potential for future growth is even larger, since Comcast has the capacity *today* to serve
15 many more customers in CenturyTel/United’s serving area.

16
17 **Q. PLEASE DESCRIBE HOW CHARTER COMPETES WITH**
18 **CENTURYTEL/UNITED IN THE OREGON VOICE MARKET?**

19 A. As described above, CenturyTel/United competes with Charter in Oregon. Charter was
20 founded in 1993, became a publicly-traded company in 1999 and has been a Fortune 500
21 company since 2001. Charter describes itself as follows:

22 A leading broadband communications company and the fourth-largest cable operator in
23 the United States, Charter today employs more than 21,000 and provides services to more
24 than 5.7 million customers in 29 states. Headquartered in Stamford, CT, the company is
25 focused on integrating the highest-quality service with clearly superior entertainment and
26 communications products. Over the years, billions have been invested in the communities
27 Charter serves through infrastructure upgrades to deliver video, high-speed Internet and
28 phone service to homes and businesses.²⁵

29
30 Charter is a large, well funded competitor to CenturyTel/United reporting revenues of
31 \$7.682 billion for the twelve months that ended on June 30, 2013.²⁶ As of the second
32 quarter of 2013, Charter served over 2 million voice customers.²⁷

²⁴ Comcast Press Release, March 11, 2009, see:

<http://www.comcast.com/About/PressRelease/PressReleaseDetail.aspx?PRID=844>

²⁵ See: <http://www.charter.com/browse/content/about-charter>.

²⁶ See Charter Second Quarter Financial Results Presentation at: <http://phx.corporate-ir.net/phoenix.zhtml?c=112298&p=irol-newsArticle&ID=1844970&highlight>

²⁷ *Id.*

1
2 Confidential Exhibit CTL-UTNW/104 shows that Charter provides service in 29 of the 85
3 CenturyTel/United wire centers in Oregon and these wire centers account for nearly 54%
4 of CenturyTel/United's residential access lines in the state as of December 31, 2012.
5 Similar to Comcast, Charter offers voice services (along with cable and high speed
6 internet) to residence and business customers in the areas they serve and offer packages and
7 bundles that directly compete with CenturyTel/United's offerings. For example, Charter
8 offers a package of unlimited voice service with 11 calling features, high speed internet and
9 cable TV service for \$29.99 each (\$89.96 combined) per month for the first twelve months
10 and \$109.97 for year two.²⁸ Charter's bundled offering provides unlimited local and long
11 distance calling, voicemail and "13 popular features like call waiting and call forwarding,"
12 and "free 411 calls." Bundling offers customers more features including faster internet,
13 high definition, premium channels, and On Demand.

14
15 Charter also markets services to businesses of all sizes as evidenced by the following quote
16 from the company's website: "Serving companies from start-ups to national enterprises,
17 Charter Business has a wide variety of Internet, Ethernet Phone, and TV services that can
18 help businesses of all sizes be more productive."²⁹ For small business customers, voice
19 service bundled with internet service is offered for \$102.55 per month,³⁰ and includes
20 unlimited long distance calling and 21 business features. Charter offers a number of
21 services to meet the needs of larger business customers, including PRI and SIP trunking."³¹
22 Charter also offers Oregon business customers fiber internet service, metro and optical
23 Ethernet services, layer 3 VPN and Wavelength networking services, Web Hosting, Hosted
24 Voice and high speed digital trunks.³² Prices for these services are not provided on the
25 company's web site.

26

²⁸ See: <http://www.charter.com/browse/browse-bundles/bundles>

²⁹ See: <https://www.charterbusiness.com/content/products>

³⁰ See: <https://www.charterbusiness.com/bundles>

³¹ See: <https://www.charterbusiness.com/content/business-solutions>

³² *Id.*

1 **Q. WHAT OTHER CABLE COMPANIES COMPETE WITH CENTURYTEL/
2 UNITED IN THE OREGON VOICE MARKET?**

3 **A.** Wave Broadband also competes with CenturyTel/United in select markets in Oregon.
4 Similar to Comcast and Charter, Wave Broadband offers voice services (along with cable
5 TV and high speed internet) to residence and business customers in the areas they serve and
6 offer packages and bundles that directly compete with CenturyTel/United's offerings.

7
8 Wave Broadband offers residential telephone service for as low as \$19.95 per month.
9 Wave Broadband phone services include local and long-distance calling, voicemail
10 including "online access to your voicemail and settings" and "15 calling features including
11 Caller ID, Call Waiting, Call Forwarding and more."³³ Wave Broadband also offers
12 packages including basic cable TV, high speed internet, and phone service for as low as
13 \$89.95 per month for a twelve-month promotional period.³⁴ Wave Broadband also offers
14 voice, Internet and video solutions for a wide range of business customers. Wave
15 Broadband offers business class phone service for \$39.95 when bundled with Internet or
16 \$49.95 a la carte that includes voice mail, calling features and unlimited local, regional and
17 nationwide long-distance calling. Wave Broadband also provides solutions for Enterprise
18 customers including voice services via T1s and SIP trunking and data solutions such as
19 metro Ethernet and collocation services.³⁵

20
21 **Q. WHAT DO YOU CONCLUDE REGARDING CABLE TELEPHONY
22 COMPETITION IN OREGON?**

23 **A.** It is clear that the majority of the households in CenturyTel/United's Oregon service areas
24 have been greatly impacted by the cable industry's push into the voice market. With voice,
25 cable TV and high speed internet, cable companies can offer a full bundle of services using
26 their own facilities. As demonstrated above, cable providers—especially Comcast and
27 Charter—have gained a significant and growing share of the voice market throughout
28 Oregon by offering functionally equivalent or substitute services readily available at
29 competitive rates, terms and conditions. In addition, the widespread availability of these

³³ See: <http://www.wavebroadband.com/phone/wavephone-packages.php>

³⁴ See: <http://www.wavebroadband.com/bundles/cable-internet-phone-packages.php>

³⁵ See: <http://www.wavebroadband.com/business/enterprise-data.php>

1 services ensures that CenturyTel/United will continue to offer its functionally equivalent
2 services in these markets at competitive rates that are just and reasonable, and that it will
3 continue to offer high quality and new services in order to remain competitive.
4

5 **2. Other Competitive Local Exchange Providers (“CLECs”)**

6 **Q. WHAT OTHER WIRELINE PROVIDERS COMPETE WITH** 7 **CENTURYTEL/UNITED IN THE OREGON VOICE MARKET?**

8 A. According to data from the Commission’s 2013 Local Telecommunication Competition
9 Survey³⁶, there were 241 CLECs certified in Oregon, with 155 of those CLECs providing
10 local exchange services as of December 2012. While not all certificated providers
11 currently offer voice services in Oregon, in addition to Comcast, Charter and other cable
12 providers, there are several CLECs actively competing with CenturyTel/United for
13 customers in Oregon, including Integra, Level 3, Light Speed Networks, North-State
14 Telephone, Axxis Communications, CoastCom, Bullseye Telecom, and InfoStructure.
15 *Most* of these CLECs are primarily focused on serving business customers. In some cases
16 these carriers provide service using their own facilities and in other cases they provide
17 service via the leasing of CenturyTel/United facilities (e.g., resale, CenturyLink Local
18 Services Platform (“CLSP”) or Unbundled Loops (UNE-L)). CLECs are serving business
19 and governmental customers of virtually all sizes.
20

21 I will now briefly describe a few of the CLECs that compete with CenturyTel/United in
22 Oregon.
23

24 **Q. PLEASE DESCRIBE HOW INTEGRA COMPETES WITH** 25 **CENTURYTEL/UNITED.**

26 A. Integra is a major player in the Oregon business market, offering services in several of
27 CenturyTel/United’s Oregon markets. Integra is a facilities-based CLEC providing a range
28 of services to small, medium and Enterprise business customers, including voice services
29 (basic business voice lines, long distance services, ISDN PRI, SIP Solutions), high speed

³⁶ Local Telecommunication Competition Survey, 2013 Annual Report, Staff Report, Public Utility Commission of Oregon, December 2013.

1 internet access, dynamic T-1 bundles, Ethernet services, MPLS VPN, Private Line, Server
2 Collocation, Managed PBX Services and Private line services.³⁷ According to Integra:

3 Integra is one of the largest facilities-based providers of communication and
4 networking services in the western United States. We connect businesses of all
5 sizes with advanced networking, communications and technology solutions in
6 35 metropolitan markets. Integra owns and operates an enterprise-class
7 network consisting of a 5,000-mile long-haul fiber-optic network, 3,000 miles
8 of metropolitan fiber and a nationwide IP/MPLS network. Our fiber network
9 connects directly to more than 2,200 enterprise buildings and data centers.
10 Through our expansive Ethernet-over-copper footprint, we can deliver high-
11 bandwidth services to more than 400,000 businesses.³⁸
12

13 **Q. HOW DOES LEVEL 3 COMMUNICATIONS COMPETE WITH**
14 **CENTURYTEL/UNITED IN OREGON?**

15 A. Level 3 Communications is an international provider of IP-based communications and data
16 services to enterprise, content, government and wholesale customers in several of
17 CenturyTel/United's Oregon markets. Level 3 offers an array of voice communications
18 services including collaboration services, enterprise voice solutions utilizing TDM or SIP,
19 and wholesale/carrier voice services.³⁹ Level 3 also offers a range of data services and
20 solutions including Internet services, content delivery network, converged business
21 network, private line services, rural access solutions, wavelength service and virtual private
22 network services.⁴⁰
23

24 **Q. WHAT DO YOU CONCLUDE REGARDING COMPETITION FROM CLECS?**

25 A. As described above, there are a number of CLECs competing with CenturyTel/United in
26 Oregon. CLECs are able to make functionally equivalent or substitute services readily
27 available at competitive rates, terms and conditions for business and consumer customers.
28 CLECs can easily enter and exit the market, and can offer services by purchasing UNEs or
29 resold services from CenturyTel/United, or by building their own facilities. In addition, the
30 availability of these services ensures that CenturyTel/United will continue to offer its

³⁷ See: <http://www.integratelecom.com/Pages/default.aspx>

³⁸ See: <http://www.integratelecom.com/about/Pages/default.aspx>

³⁹ See: <http://www.level3.com/en/products-and-services/voice/>

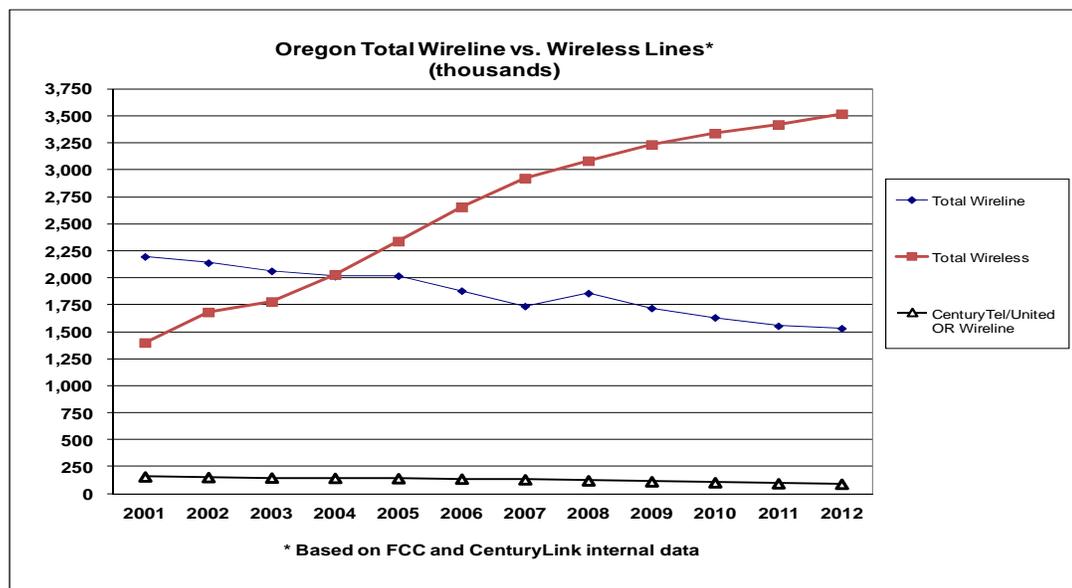
⁴⁰ See: <http://www.level3.com/en/products-and-services/data-and-internet/>

1 functionally equivalent services in these markets at competitive rates that are just and
 2 reasonable, and that it will continue to offer high quality and new services in order to
 3 remain competitive.

4 C. WIRELESS COMPETITION

6 Q. IS COMPETITION FROM WIRELESS PROVIDERS FLOURISHING IN 7 OREGON?

8 A. Yes. According to the FCC's Local Competition Report, as of December 31, 2012 there
 9 were 3.519 million wireless subscribers in Oregon, while there were only 1.532 million
 10 wirelines (both ILEC and non-ILEC).⁴¹ In fact, wireless connections have increased 151%
 11 in Oregon from only 1.399 million in December 2001.⁴² The FCC data shows that the
 12 wireless share of the total voice connection market has grown significantly over this
 13 timeframe, as described earlier in my testimony. While wireless subscribers have increased
 14 dramatically, CenturyTel/United access lines (residence and business) in Oregon dropped
 15 43% over the same time frame—from 157,452 in December 2001 to 89,486 in December
 16 2012. The following graph shows the relationship of wireless connections, total wirelines
 17 and CenturyTel/United access lines in Oregon:



18

⁴¹ *Local Telephone Competition: Status as of December 31, 2012*; Industry Analysis and Technology Division, Wireline Competition Bureau, November 2013, tables 9 and 18.

⁴² *Local Telephone Competition: Status as of December 31, 2001*; Industry Analysis and Technology Division, Wireline Competition Bureau, July 2002, table 11.

1 Nearly all Oregon consumers, except those in extremely remote areas, have wireless
2 options. In fact, the majority of CenturyTel/United customers have multiple wireless
3 options. Exhibit CTL-UTNW/105 contains a map prepared by the FCC showing the
4 number of wireless providers throughout Oregon. Exhibit CTL-UTNW/106 provides maps
5 showing the areas served by CenturyTel/United, along with the areas served by several
6 major wireless carriers – AT&T, Verizon, Sprint, T-Mobile, Cricket and US Cellular.⁴³ It
7 may be observed that there are few areas within CenturyTel/United wire center boundaries
8 where there is no wireless coverage, and this occurs only in the most sparsely populated
9 areas.

10
11 **Q. DOES CENTURYTEL/UNITED PROVIDE WIRELESS SERVICE IN OREGON?**

12 A. No. While CenturyLink does have an agreement with Verizon Wireless designed to
13 provide CenturyTel/United wireline customers with a wireless option as part of a
14 CenturyTel/United service bundle, the service is provided by and branded as Verizon
15 Wireless.⁴⁴ When a customer disconnects his or her CenturyTel/United service and
16 becomes a wireless-only customer, CenturyTel/United will lose the customer, even if he or
17 she subscribes to Verizon Wireless.

18
19 **Q. PLEASE DESCRIBE THE TYPES OF VOICE PRICING PLANS AVAILABLE
20 FROM THE MAJOR WIRELESS CARRIERS IN OREGON.**

21 A. Wireless carriers today feature plans that include voice, text and data, but some voice-only
22 plans are still available. These plans are competitive with CenturyTel/United local
23 exchange service including features. While the plans are many and varied, some examples
24 follow:

- 25
26 ▪ AT&T Wireless offers basic voice plans, including a plan with 450 “anytime”
27 minutes for \$39.99 per month with 5,000 night and weekend minutes, no long
28 distance charges, calling features, and no roaming charges. AT&T offers several
29 other voice plans, including its 900 minute plan for \$59.99 per month, an unlimited

⁴³ Wireless coverage based on maps provided on carrier web sites.

⁴⁴ This arrangement is similar to the agreement CenturyLink has in place to offer DirecTV service as part of a bundle of services.

1 voice plan for \$69.99 per month, and a senior plan with 500 minutes for only \$29.99
2 per month.⁴⁵ AT&T also offers many individual “data connect” plans with additional
3 charges based on the level of data usage ordered. For example, 250mb of data can be
4 purchased for an additional \$14.99 per month while 5gb can be purchased for an
5 additional \$50.00 per month.⁴⁶ AT&T also offers “Mobile Share” plans with
6 unlimited talk, text and data shared between multiple phones. Prepaid plans are also
7 offered.

- 8 ■ Verizon offers a basic “Share Everything” voice plan with 700 minutes of usage,
9 calling features and no domestic long distance charges, for \$40 per month.⁴⁷ This
10 plan includes “pay as you go” texting and data. Verizon also offers many other plans
11 that include voice, text and data. For example, Verizon offers a “Share Everything”
12 plan with unlimited talk and text and 500mb of data for \$70 per month or 1gb of data
13 for \$80 per month. Many other data choices are available. Verizon also offers
14 prepaid plans for as low as \$35 per month with 500 “anytime” minutes.⁴⁸
- 15 ■ T-Mobile offers an individual plan with unlimited talk and text and 500mb of data for
16 \$50 per month. With the addition of 2.5gb of data the monthly rate is \$60 and with
17 the addition of unlimited data the price is \$70 per month.⁴⁹ T-Mobile also offers a
18 variety of family plans and prepaid plans.
- 19 ■ Sprint offers its “Unlimited My Way” plan that includes unlimited talk and text for
20 \$50 per month, with additional charges for data. For basic phones, unlimited data is
21 available for an additional \$10 per month. For smartphones, 1gb of data is available
22 for an additional \$20 per month, and unlimited data is available for an additional \$30
23 per month. Sprint also offers “All In” plans with unlimited talk, text and data along
24 with 5gb of Hotspot usage starting at \$110 per month.⁵⁰

⁴⁵ See: <http://www.att.com/shop/wireless/plans/individualplans.html>

⁴⁶ See: http://www.att.com/shop/wireless/plans/dataplans.html#planlist-ptip_sku6450427

⁴⁷ See: <http://www.verizonwireless.com>

⁴⁸ *Id.*

⁴⁹ See: <http://www.t-mobile.com/cell-phone-plans/individual.html>

⁵⁰ See: http://shop.sprint.com/mysprint/shop/plan/plan_wall.jsp?flow=AAL&planFamilyType=Individual&requestid=677152

1 These and a variety of other wireless plans provide an alternative to CenturyTel/United
2 wireline service. Wireless carriers provide functionally equivalent or substitute services
3 readily available at competitive rates, terms and conditions, and there are a significant
4 number of alternative providers of the service in Oregon. As described below, many
5 customers substitute wireless service for CenturyTel/United basic local exchange service.
6

7 **Q. HAVE THE WIRELESS CARRIERS DEVELOPED SERVICE OFFERINGS TO**
8 **APPEAL TO CUSTOMERS DESIRING TO REPLACE THEIR WIRELINE**
9 **TELEPHONE SERVICE WITH A WIRELESS BASED SERVICE?**

10 A. Yes. Sprint, AT&T and Verizon each make available a home phone service that uses an
11 adapter to provide home phone service utilizing the company's wireless service. Details of
12 these offerings are included below:

- 13 ▪ Sprint's Phone Connect System is a fixed wireless voice terminal that provides home
14 and office phone service using the Sprint voice network instead of a landline or
15 broadband connection for customers' home phone service. Sprint offers the service
16 for \$19.99 per month, and that includes unlimited calling as well as three-way calling,
17 voicemail, call waiting, caller ID and call forwarding.⁵¹
- 18 ▪ Verizon's Home Phone Connect service utilizes an analog telephone adapter that
19 provides home phone service on Verizon Wireless network. Verizon charges \$20 per
20 month for the service which includes the following features: call waiting, call
21 forwarding, 3-way calling, voicemail and caller ID (number only).⁵²
- 22 ▪ AT&T's Wireless Home Phone service utilizes a base unit that allows home phone
23 equipment to connect to the AT&T wireless network to make and receive calls.
24 AT&T charges \$20 per month for the service which includes unlimited local and long
25 distance calling as well as caller number ID, call forwarding and voicemail.⁵³

51 See: http://shop.sprint.com/mysprint/shop/phone_details.jsp?prodId=dvc6630005prd&deviceSKUId=66300086&flow=AAL&planSKUId=&ptn=&tabId=dvcTab1820005

52 See: <http://www.verizonwireless.com/b2c/device/home-phone-connect>

53 See: <http://www.att.com/gethomephone>

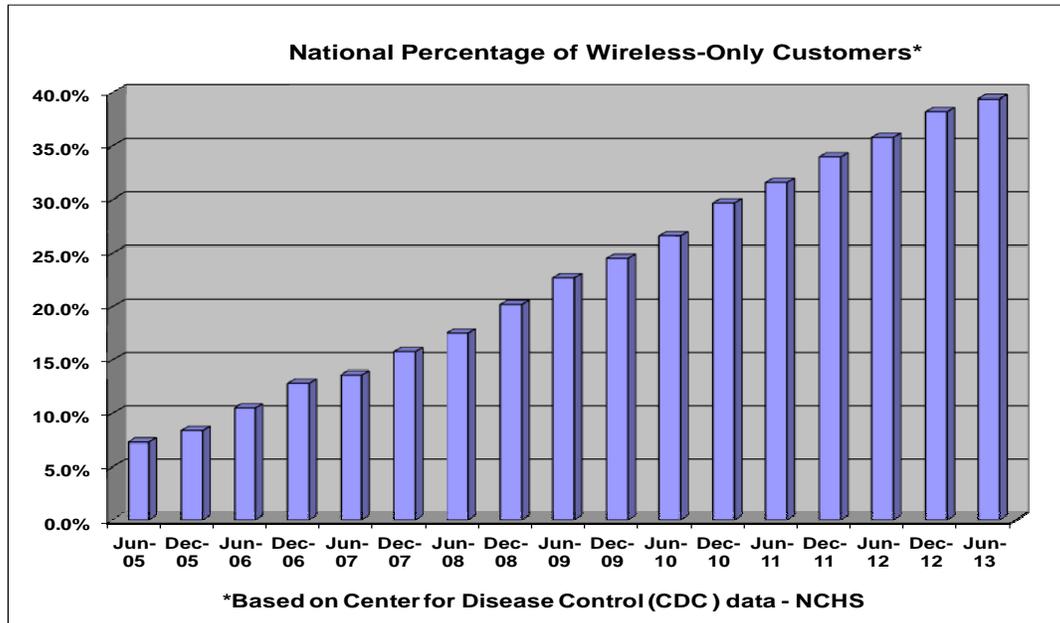
1 **Q. HAVE A SIGNIFICANT NUMBER OF TELEPHONE CUSTOMERS “CUT THE**
2 **CORD,” RELYING SOLELY ON WIRELESS SERVICE TO MEET THEIR**
3 **VOICE TELECOMMUNICATIONS NEEDS?**

4 A. Yes. The decline in CenturyTel/United landlines, coupled with the dramatic increase in
5 wireless connections, demonstrates that an ever-increasing number of Oregon customers
6 view wireless phones as a substitute for wireline service, and that wireless phones are
7 replacing wireline phones. In fact, a significant number of voice customers have already
8 “cut the cord,” relying solely on wireless service to meet their telecommunications needs,
9 and this trend is accelerating. According to the latest survey conducted by the National
10 Center for Health Statistics (“NCHS”), in the first half of 2013, 39.4% of U.S. households
11 did not have a traditional landline telephone, but did have at least one wireless telephone.
12 The study states:

13
14 Two in every five American homes (39.4%) had only wireless telephones (also
15 known as cellular telephones, cell phones, or mobile phones) during the first half of
16 2013—an increase of 1.2 percentage points since the second half of 2012. In
17 addition, nearly one of every six American homes (15.7%) received all or almost all
18 calls on wireless telephones despite also having a landline telephone.⁵⁴

19 Thus, while 39.4% of households have already “cut the cord,” another 15.7% of households
20 are “wireless mostly” and use their wireless phone for nearly all calling. In total, these
21 wireless only and “wireless mostly” households make up over half (55.1%) of households.
22 The chart below depicts how wireless-only households in the U.S. have increased over
23 time, according to the NCHS study:

⁵⁴ *Centers for Disease Control and Prevention, National Center for Health Statistics, Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, January-June 2013*, released December 2013, page 1. In the NCHS study, any households that has removed an additional landline telephone line in favor of wireless service but still retains at least one landline telephone line in the household is not considered “wireless only.”



1
2 There is little doubt that this trend will continue in the future, especially given the large
3 amount of “wireless mostly” households that exist today. These customers are particularly
4 likely to “cut the cord” in the future.

5
6 **Q. DOES “CORD CUTTING” IN OREGON FOLLOW THE TREND OF THE**
7 **NATION AS A WHOLE?**

8 A. Yes. On December 18, 2013, the NCHS released a detailed analysis of its Wireless
9 Substitution report—with state-specific data—for the 2012. For the January to December
10 2012 time period, the NCHS found that 36.8% of adult Oregon households were “wireless
11 only.”⁵⁵

12
13 **Q. DOES THE ABILITY TO SUBSTITUTE WIRELESS SERVICE FOR WIRELINE**
14 **SERVICE PLACE STRONG COMPETITIVE PRESSURE ON WIRELINE**
15 **SERVICE PRICES?**

16 A. Yes. In areas where wireless alternatives exist—which includes nearly all of
17 CenturyTel/United’s Oregon service territory—it is viewed as a viable local service
18 alternative by a large number of customers. This fact is made clear by the growing number

⁵⁵ Centers for Disease Control and Prevention, National Center for Health Statistics, Wireless Substitution: State-level Estimates From the National Health Interview Survey, 2012, released December 18, 2013, Table 1.

1 of consumers who have already “cut the cord” as well as the “wireless mostly” customers
2 who are considering “cutting the cord.” The existence of wireless alternatives constrains
3 CenturyTel/United’s ability to raise prices for wireline basic exchange service above
4 market levels because such an increase would likely cause even more customers to replace
5 their wireline service with a wireless phone, thereby potentially reducing
6 CenturyTel/United’s profitability. Thus, wireless is an effective price-constraining
7 substitute for wireline service.

8
9 **Q. WHY WOULD “WIRELESS MOSTLY” HOUSEHOLDS BE PARTICULARLY**
10 **LIKELY TO “CUT THE CORD” IN THE FUTURE?**

11 A. “Wireless mostly” households are particularly likely to “cut the cord” in the future because
12 the customers already have a wireline phone and a wireless phone, but are using their
13 wireline phones less and less. Minimal wireline usage causes customers to question the
14 value of maintaining and paying for both a wireless and wireline phone, especially if
15 wireline rates increase. Ultimately, a “wireless mostly” customer may decide to “cut the
16 cord;” a scenario that is obviously occurring regularly as evidenced by the NCHS data.
17 The behavior of these customers helps to constrain a wireline company like
18 CenturyTel/United from raising rates above the appropriate market level.

19
20 **Q. FOR WIRELESS TO SERVE AS A PRICE-CONSTRAINING SUBSTITUTE FOR**
21 **WIRELINE SERVICES, MUST ALL CUSTOMERS VIEW IT AS A SUBSTITUTE?**

22 A. No. In various regulatory forums, some parties have argued that wireless service should
23 not be considered to be a substitute for wireline service because *all* customers may not
24 view it as a substitute. There is no doubt that some customers do not view wireless service
25 to be a substitute for wireline service, and some of these customers may not want to give up
26 their wireline phone under any circumstances. However, as long as there are enough
27 customers willing to “cut the cord” (often called customers “at the margin”), this constrains
28 CenturyTel/United’s prices.

29

1 **Q. FOR WIRELESS TO SERVE AS A PRICE-CONSTRAINING SUBSTITUTE FOR**
2 **WIRELINE SERVICES, DOES IT NEED TO BE IDENTICAL TO WIRELINE**
3 **SERVICE?**

4 A. No. Some parties have also argued that wireless service should not be considered to be a
5 functionally equivalent substitute for wireline voice service because it is not *identical* to
6 wireline service. They argue that since it is not identical, it is not *functionally equivalent*
7 and should not be considered as a competitive substitute. Such arguments distort the
8 language of the relevant statutes, but also misstate how the market works. Wireless service
9 does not need to be *identical* to wireline service in order for it to be *functionally equivalent*
10 or serve as an *effective substitute* for wireline services that constrains CenturyTel/United's
11 retail wireline prices. There will *always* be some differences between wireline and wireless
12 service in terms of quality of transmission, data capability, mobility, ergonomics, etc. For
13 example, a wireless phone will always have more mobility than a wireline phone, and
14 handsets are likely to be smaller. This does not mean that they are not substitutes for voice
15 services. A simple non-telephone example may help to put this into perspective. One
16 might argue that metropolitan bus service and subway service are not competitive
17 substitutes for one another because they utilize different technologies, may charge different
18 fares, run different routes to connect the same two points, take different amounts of time to
19 connect the same two points and likely offer tangibly different levels of comfort and ease in
20 the perception of some commuters. While the bus and subway are clearly not perfect
21 substitutes for all commuters, there can be no doubt that bus use would increase if the
22 subway significantly increased its prices. Similarly, if the bus significantly raised fares,
23 many would migrate to subway travel.

24
25 The bottom line is that wireless does not have to be identical to wireline service, nor does it
26 have to be a substitute for all customers, in order for it to constrain CenturyTel/United's
27 pricing of local exchange service and to limit CenturyTel/United's market power. Wireless
28 providers today are making functionally equivalent or substitute services readily available
29 at competitive rates, terms and conditions and CenturyTel/United's market power is
30 limited. The widespread availability of wireless service ensures that CenturyTel/United
31 will continue to offer its functionally equivalent services in these markets at competitive

1 rates that are just and reasonable, and that it will continue to offer high quality and new
2 services in order to remain competitive.

3
4 **D. VOICE OVER INTERNET PROTOCOL COMPETITION**

5
6 **Q. PLEASE DESCRIBE VOICE OVER INTERNET PROTOCOL (“VoIP”)**
7 **SERVICES.**

8 A. It is useful to describe VoIP services as either “managed” or “over-the-top.” Generally,
9 cable companies offer “managed” VoIP-based services that are non-portable and that carry
10 traffic over private managed networks, rather than the internet. Many other companies
11 such as Vonage, Google and MagicJack offer “over-the-top” VoIP services, which rely on
12 a third-party broadband connection, and transmit calls over the public internet. These
13 companies often offer “portable” VoIP services that can be used over any high speed
14 internet connection. Since cable VoIP services were addressed above, I will describe
15 “over-the-top” VoIP services in this section.

16
17 From a customer perspective, VoIP service functions in a manner similar to standard circuit
18 switched telephony, and allows a customer to utilize a standard telephone set to originate
19 and receive telephone calls using the same dialing patterns that are used for standard
20 wireline telephone service.⁵⁶ To utilize VoIP services, a customer must have a high speed
21 connection, such as Digital Subscriber Line (“DSL”), a high-speed wireless connection,
22 satellite broadband, or a cable modem. The FCC describes VoIP as follows:
23 Interconnected VoIP service “(1) [e]nables real-time, two-way voice communications; (2)
24 [r]equires a broadband connection from the user’s location; (3) [r]equires IP-compatible
25 customer premises equipment (CPE); and (4) [p]ermits users generally to receive calls that
26 originate on the public switched telephone network and to terminate calls to the public
27 switched telephone network.”⁵⁷

⁵⁶ VoIP setup is simple—a standard telephone is simply plugged into a VoIP adaptor (provided by the VoIP carrier), which is connected to a broadband internet modem. From the standpoint of the customer, VoIP works just like traditional phone service, except that it provides additional features and functionality.

⁵⁷ *In the Matter of Connect America Fund A National Broadband Plan for Our Future Establishing Just and Reasonable Rates for Local Exchange Carriers High-Cost Universal Service Support Developing an Unified Intercarrier Compensation Regime Federal-State Joint Board on Universal Service Lifeline and Link-Up*, WC

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

Q. DO VOIP-BASED SERVICES REPRESENT A VIABLE ALTERNATIVE TO TRADITIONAL VOICE SERVICES?

A. Yes. VoIP telephone service is a rapidly growing communications technology that clearly represents a competitive alternative to traditional landline-based telephone services in Oregon. In fact, in a 2009 Order regarding IP-enabled services, the FCC recognized that VoIP-based services are increasingly replacing traditional wireline services:

Consumers increasingly use interconnected VoIP service as a replacement for traditional voice service, and as interconnected VoIP service improves and proliferates, consumers' expectations for this type of service trend toward their expectations for other telephone services.⁵⁸

The FCC has also noted in its NPRM regarding Intercarrier Compensation and Universal Service, that “the emergence of VoIP provides another alternative to traditional wireline phone service”⁵⁹ and that “consumer demand for VoIP services continues to increase.”⁶⁰ More recently, in its Report and Order and Further Notice of Proposed Rulemaking in this docket, the FCC found that “Interconnected VoIP services, among other things, allow customers to make real-time voice calls to, and receive calls from, the PSTN, and increasingly appear to be viewed by consumers as substitutes for traditional voice telephone services.”⁶¹ In addition, as described earlier, the FCC includes VoIP-based telephone service when it is developing telephone subscribership data, and the FCC now includes VoIP-based services in its *Local Competition Report*, where it includes the

Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, Notice of proposed rulemaking and further notice of proposed Rulemaking, FCC 11-13, released February 9, 2011 (“*ICC/USF NPRM*”), footnote 923.

⁵⁸ *Report and Order*, In the Matter of IP-Enabled Services, Federal Communications Commission, WC Docket No. 04-36, Released: May 13, 2009, ¶ 2.

⁵⁹ *ICC/USF NPRM*, ¶ 503

⁶⁰ *Id.* ¶610

⁶¹ *In the Matter of Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing an Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-Up, Universal Service Reform – Mobility Fund*, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161, Released November 18, 2011, (“*ICC/USF Order*”), ¶63.

1 number of reported “End-User Switched Access Lines and VoIP Subscriptions.”⁶² As
2 noted in the most recent *Local Competition Report*, non-ILEC VoIP subscriptions in
3 Oregon increased to 468,000 in December 2012.⁶³ VoIP-based telephone offerings
4 represent an increasing and significant form of competition for CenturyTel/United’s local
5 exchange service.

6
7 **Q. IS THE PROVISION OF VOIP-BASED SERVICES INCREASING IN OREGON?**

8 A. While it is very difficult to obtain accurate subscribership information regarding VoIP
9 services in Oregon, VoIP is clearly a rapidly growing communications technology that
10 represents a competitive alternative to traditional landline-based telephone services. “Over
11 the Top” VoIP-based telephone service, which is typically offered as a package that
12 includes unlimited local and long distance service plus an array of calling features, is now
13 readily available from a broad range of providers to *any customer in Oregon that has high-*
14 *speed broadband internet access.* And it is clear that broadband availability and
15 subscribership will increase over time, especially given the recent initiative by the FCC to
16 provide universal service funding for broadband. In fact, the FCC acknowledged how
17 increases in broadband availability will stimulate VoIP usage: “The deployment of
18 broadband infrastructure to all Americans will in turn make services such as interconnected
19 VoIP service accessible to more Americans.”⁶⁴

20
21 Broadband access has been increasing rapidly in Oregon. According to the FCC’s latest
22 *Internet Access Services Report*, ADSL broadband connections in Oregon have grown from
23 57,899 in December 2001 to 373,000 in December 2012—an increase of over 500 percent,
24 and cable modem broadband connections in Oregon have grown over this timeframe from
25 approximately 100,000 to 711,000—an increase of over 600 percent.⁶⁵ As of December
26 31, 2012, according to the FCC, there were 373,000 ADSL connections, 711,000 cable

⁶² It is not clear that all over-the-top VoIP providers report VoIP lines to the FCC.

⁶³ *Local Telephone Competition: Status as of December 31, 2012*; Industry Analysis and Technology Division, Wireline Competition Bureau, November 2013, table 9.

⁶⁴ *ICC/USF Order*, ¶67

⁶⁵ *Internet Access Services: Status as of December 31, 2012*, FCC Industry Analysis and Technology Division, Wireline Competition Bureau, December 2013, Table 16, and *High Speed Services for Internet Access: Status as of December 31, 2007*, FCC Industry Analysis and Technology Division, Wireline Competition Bureau, January 2009, Tables 11 and 12.

1 modem connections, 67,000 fiber connections, 16,000 fixed wireless broadband
2 connections, 2,014,000 mobile wireless broadband connections, and 30,000 other
3 broadband connections, for a total of 3,211,000 broadband connections.⁶⁶ According to the
4 FCC, as of June 2012, high speed internet access was available to 92% of ILEC residential
5 end-user premises and 98% of cable residential end-user premises in Oregon.⁶⁷ As of
6 December 2012, 71% of Oregon residential households subscribed to a high speed internet
7 connection from one of the 86 broadband providers in the state.⁶⁸ Thus, competitive
8 broadband services are now widely available from multiple providers in Oregon, and these
9 services have been embraced by a rapidly increasing number of customers. Each
10 broadband connection represents an existing or potential VoIP subscriber.

11
12 **Q. CAN CENTURYTEL/UNITED DSL CUSTOMERS SUBSCRIBE TO VoIP**
13 **TELEPHONE SERVICE PROVIDED BY ANOTHER PROVIDER?**

14 A. Yes. CenturyTel/United DSL service subscribers have the option of utilizing their DSL
15 connection to subscribe to VoIP service from another provider, in lieu of traditional
16 CenturyTel/United local exchange services. Residential and business customers within
17 CenturyTel/United's service territory in Oregon may subscribe to CenturyTel/United DSL
18 service on a "stand-alone" basis. These customers may order VoIP telephone service from
19 a wide range of non-CenturyTel/United VoIP providers as a replacement for
20 CenturyTel/United basic exchange voice service.

21
22 **Q. PLEASE PROVIDE EXAMPLES OF SOME OF THE VOIP-BASED TELEPHONE**
23 **SERVICE OFFERINGS AVAILABLE IN OREGON.**

24 A. Numerous companies offer VoIP services in Oregon, including Vonage, Lingo, 8x8,
25 MagicJack, VoIP.com, viataalk, Intalk, PhonePower, CallCentric, VoIPYourLife and many
26 others. There are numerous pricing plans and services available for residential and
27 business customers. Vonage offers "Vonage World" service for \$26.99 per month (\$9.99
28 for the first three months), which includes unlimited domestic usage and unlimited calls to

⁶⁶ *Internet Access Services: Status as of December 31, 2012*, FCC Industry Analysis and Technology Division, Wireline Competition Bureau, December, Table 16.

⁶⁷ *Internet Access Services: Status as of June 30, 2012*, FCC Industry Analysis and Technology Division, Wireline Competition Bureau, May 2013, Table 22.

⁶⁸ *Id.*, Tables 14 and 21.

1 60 countries, Voicemail, Caller ID, Call Waiting, Anonymous Call Block, 3-Way-Calling
2 and many other standard features, online account access and portability (“Take your
3 Vonage adapter anywhere there's a high-speed Internet connection and use your service just
4 like at home.”) Vonage also offers its “U.S. & Canada 400” plan for \$12.99 per month that
5 includes 400 minutes of outbound local and long distance home phone service across U.S.,
6 Canada and Puerto Rico, with 5 cents for each additional minute, along with the same
7 features listed above.⁶⁹ Lingo offers numerous plans, including the “America Unlimited”
8 plan that provides unlimited calling in the U.S. and Canada for \$23.95 per month (first
9 month free), with many calling features. Lingo also offers international plans such as the
10 “World Select” plan with 1,000 minutes of calls to 65+ countries for \$23.95 per month
11 (first month free), including many calling features.⁷⁰ Other providers offer similar plans,
12 and many carriers offer additional business-related features.

13
14 **Q. WHAT DO YOU CONCLUDE REGARDING COMPETITION FROM “OVER
15 THE TOP” VOIP PROVIDERS?**

16 A. VoIP providers offer very attractively priced phone services today; these are functionally
17 equivalent or substitute services readily available at competitive rates, terms and
18 conditions. As with cable, CLEC and wireless competition, this limits CenturyTel/United’s
19 market power. There are dozens of VoIP providers offering voice service to Oregonians.

20
21 **V. CENTURYTEL/UNITED PRICE PLAN PROPOSAL**

22
23 **Q. PLEASE DESCRIBE CENTURYTEL/UNITED’S PRICE PLAN PROPOSAL?**

24 A. CenturyTel/United is requesting Commission approval for a Price Plan that mirrors the
25 provisions of the proposed Qwest Corporation d/b/a CenturyLink QC modified Price Plan,
26 submitted for approval in Docket UM 1354 on January 23, 2014. CenturyLink QC’s
27 proposed modified Price Plan seeks changes to certain terms of the original plan approved
28 by the Commission in Oder No. 08-408 that CenturyLink QC has been operating under
29 since August 14, 2008.

⁶⁹ See: <http://www.vonage.com>

⁷⁰ See: <http://www.lingo.com/voip/residential/world.jsp>

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

Q. IS IT APPROPRIATE FOR CENTURYTEL/UNITED TO OPERATE UNDER THE SAME PRICE PLAN TERMS AS CENTURYLINK QC?

A. Yes, for several reasons. First, the modified Price Plan proposed by CenturyLink QC was originally approved by the Commission and found to be in the public interest. CenturyLink QC has operated under that Price Plan for over five years, and has met the objectives set forth in the plan. Consistent with the terms of the plan, CenturyLink QC has proposed modifications to the plan to provide additional pricing and regulatory flexibility, and has provided testimony on how these changes are consistent with the public interest. Therefore, if CenturyLink QC's modified Price Plan is found to be consistent with the public interest, it would likewise be consistent with the public interest to allow CenturyTel/United to mirror those Price Plan terms.

Second, the competitive pressures faced in the CenturyTel/United areas, as outlined in this testimony, are entirely consistent with the impacts of competition being felt in the CenturyLink QC area. CenturyLink QC's modified Price Plan is designed to provide additional regulatory flexibility to allow the company to more effectively compete with its largely unregulated competitors. Similarly, CenturyTel/United should be afforded the same regulatory flexibility provided by CenturyLink QC's modified Price Plan to address competitive pressures in its markets.

Third, allowing CenturyLink QC and CenturyTel/United to operate under the same Price Plan terms would simplify regulation, one of the tenets of the statute that the Commission is to consider when evaluating whether to approve a telecommunications utility's petition for a price plan. Applying the same regulatory framework to all of CenturyLink's Oregon ILECs would simplify regulation and increase administrative efficiency, both for the Commission and for CenturyLink. Operating under the same Price Plan terms would allow CenturyLink to standardize processes for pricing and regulatory reporting, including elimination of unnecessary regulatory reports. The Commission would likewise experience efficiencies associated with its review of CenturyLink price changes and regulatory reports

1 since all CenturyLink companies would be subject to the same regulatory requirements,
2 some of which would be reduced or eliminated as a result of the proposed Price Plan.
3

4 VI. CONCLUSION

5
6 **Q. PER ORS 759.255, THE COMMISSION IS TO CONSIDER WHETHER**
7 **CENTURYTEL/UNITED’S PRICE PLAN IS IN THE PUBLIC INTEREST BASED**
8 **ON AN EVALUATION OF CERTAIN PUBLIC POLICY GOALS. DOES**
9 **CENTURYTEL/UNITED’S PRICE PLAN PROPOSAL SATISFY THESE PUBLIC**
10 **POLICY GOALS?**

11 A. Yes. The public policy goals cited by the statute are satisfied under CenturyTel/United’s
12 Price Plan submitted in this proceeding. I will address each of the goals set forth in the
13 statute below.
14

15 **1. Ensures prices for telecommunications services that are just and reasonable**

16 Given the highly competitive environment described above, CenturyTel/United’s
17 pricing is constrained by the market. CenturyTel/United must set rates at levels that
18 allow for the recovery of costs and investment in the network, while operating within
19 competitive price constraints. If prices are set too low, CenturyTel/United may not
20 recover costs or be profitable, and CenturyTel/United is constrained by a statutory cost
21 floor under the Price Plan. If prices are set too high, CenturyTel/United may
22 experience a mass exodus of customers to the competition, with a potential loss in
23 profitability. The nearly ubiquitous availability of cable telephony, wireless service,
24 VoIP-based services and CLEC services provide protection for Oregon consumers. If
25 customers are unhappy with CenturyTel/United prices or service quality, they may
26 easily move to a competitor’s services—whether cable, another CLEC, wireless or
27 VoIP. And, CenturyTel/United’s competitors are not constrained by artificial caps on
28 the prices they can charge. This is the way competitive markets work, and this
29 disciplines CenturyTel/United’s prices. If CenturyTel/United sets rates too high or
30 provides poor service quality, then customers will simply leave CenturyTel/United for
31 another option. For example, the threat of a customer “cutting the cord” constrains

1 CenturyTel/United's local exchange prices. If CenturyTel/United sets local exchange
2 rates too high, many customers will simply disconnect their wireline phone and use
3 their wireless phones for all calls. Many customers already use their wireless phone for
4 most calls, and a rate increase that consumers perceive to be unreasonable would cause
5 CenturyTel/United to lose more customers to the competition, exerting pressure on
6 CenturyTel/United to provide a competitive response, including considering a rate
7 reduction. Thus, wireless competition, along with cable telephony, CLEC and VoIP-
8 based competition protects Oregon residential customers from unreasonable rate
9 increases because the competitive market determines what rates are reasonable and
10 disciplines competitors whose rates are not reasonable.

11
12 **2. Ensures high quality of existing telecommunications services and makes new**
13 **services available.**

14 Nothing in CenturyTel/United's Price Plan affects its current retail or wholesale service
15 quality obligations, with the exception of the proposed modifications to simplify
16 CenturyTel/United's service quality reporting requirements. The highly competitive
17 market, not regulation, ensures and will continue to ensure that customers receive high
18 quality telecommunications services. In today's highly competitive market, if
19 CenturyTel/United does not provide a high quality product that is efficiently
20 provisioned and attractive to customers, they have an array of alternatives and, as
21 demonstrated, are willing to exercise them. Further, CenturyTel/United must continue
22 to deploy new services to compete with other providers. The more freedom that
23 CenturyTel/United has from regulations that do not apply to its competitors, the better
24 able it will be to deploy new services to compete with other providers.

25
26 **3. Maintains the appropriate balance between the need for regulation and**
27 **competition.**

28 CenturyTel/United's Price Plan balances the need for regulation and competition. As
29 explained throughout my testimony, the highly competitive marketplace provides
30 sufficient discipline for CenturyTel/United's pricing, rendering Commission oversight
31 of pricing unnecessary. In addition, CenturyTel/United's Price Plan seeks elimination

1 of certain accounting and financial reporting requirements because the company's
2 pricing is no longer related to those accounting results. Conversely, although the
3 competitive marketplace is sufficient to ensure continued provision of high quality
4 service is maintained, CenturyTel/United's Price Plan maintains Commission oversight
5 of service quality.

6
7 **4. Simplifies regulation.**

8 CenturyTel/United's Price Plan will simplify regulation through streamlined financial
9 and service quality reporting and more efficient accounting and product management
10 and pricing processes.

11
12 In sum, granting CenturyTel/United's petition meets the public policy goals under ORS
13 759.255, and is therefore consistent with the public interest.

14
15 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

16 A. Yes, it does.

CENTURYTEL/UNITED'S PRICE PLAN UNDER ORS 759.255

I. Definitions

- A.** "Alternative provider" means a provider, other than CenturyTel of Oregon, Inc. d/b/a CenturyLink, CenturyTel of Eastern Oregon, Inc., d/b/a CenturyLink, and United Telephone Company of the Northwest, d/b/a CenturyLink hereafter collectively referred to as "CenturyTel/United") or any affiliate of CenturyTel/United, of any service that is a functionally equivalent or substitutable service, without regard to the technology used to provide the service and without regard to whether the provider is subject to regulation by the Commission or any other agency. "Alternative provider" includes but is not limited to telecommunications carriers, radio common carriers, cable telephony providers, and providers of voice over internet protocol ("VoIP") service.
- B.** "Essential functions" means those unbundled network elements (UNEs) that ILECs are required to provide pursuant to 47 U.S.C. § 251(c)(3) according to the most current requirements of the FCC. "Nonessential functions" are all other functions used in providing a telecommunications service that are not essential functions.
- C.** "Functionally equivalent or substitutable" means that a service is reasonably interchangeable with the service to which it is being compared, even if the services are not identical, without regard to the technology used to provide the service or whether the service or provider are subject to regulation by the Commission.
- D.** "New service" means a retail telecommunications service that is offered in Oregon for the first time following the effective date of this price plan. A service is not a new service if it merely renames, repackages, or is a variation of an existing service, or if it is reintroduced in substantially the same form after having being withdrawn or abandoned.
- E.** "Pre-plan rates" means the rates charged by CenturyTel/United in Oregon pursuant to its tariffs or price lists on the effective date of this price plan.
- F.** "Primary line residential basic service" means the first line only of residential basic local exchange service for an individual residential customer account at a single location that is not sold as part of a package. For purposes of this definition, "residential basic local exchange service" means residential single party flat rate local exchange service and residential single party measured local exchange service, including local exchange usage.

II. Objectives of Price Plan

A. General objectives. CenturyTel/United's price plan will achieve the following objectives:

1. Ensure the plan is operating in a way that is in the public interest.
2. Produce prices for CenturyTel/United's retail telecommunications services that are just and reasonable.
3. Ensure that the quality of existing telecommunications services will stay at or above current high levels.
4. Maintain the availability of primary line residential basic service at affordable rates.
5. Allow CenturyTel/United to price other services competitively with services offered by alternative providers, including those using landline, wireless, cable, and VoIP technologies.
6. Increase CenturyTel/United's pricing flexibility to meet changing market conditions.
7. Make new telecommunications services available.
8. Simplify and reduce the burden of regulation for both CenturyTel/United and the Commission.

III. Pricing and Availability of Services Under Price Plan

A. Initial Rates. The rates that CenturyTel/United charges upon commencing operation under the price plan will be its pre-plan rates. These rates are subject to adjustment as provided below.

B. Primary line residential basic service.

1. **Price caps.**
 - a. There will be no price caps for non-recurring and recurring charges for primary line basic services as of the effective date of the plan.
 - b. CenturyTel/United is permitted to adjust recurring and non-recurring charges for primary line residential basic service upward or downward with decreases subject to the applicable price floors for primary line basic service.

2. **Availability.** CenturyTel/United will continue to offer primary line residential basic service on a stand-alone basis (*i.e.*, CenturyTel/United will not require customers to purchase a package to obtain this service).
 3. CenturyTel/United agrees that it will not geographically deaverage the rates for primary line basic services under the plan any further than they were as of the effective date of this plan.
- C. Telephone Assistance Plans.** CenturyTel/United will continue to offer current Telephone Assistance Plans (OTAP, Tribal Lifeline, and Tribal Link-Up) pursuant to state and federal requirements.
- D. Switched Access.** Rates for intrastate switched access services are capped at pre-plan rates. The Commission may adjust the price caps if required by FCC action.
- E. EAS.** Rates for extended area service (EAS) are capped at pre-plan rates. However, CenturyTel/United is permitted to combine rates for primary line residential basic service and EAS additives into a single rate. CenturyTel/United will not be required to establish any new or expanded EAS routes as long as it operates under the price plan.
- F. New Services.** Any new service introduced after the effective date of the price plan will be price listed and will not be subject to price caps.
- G. Other Retail Services.** All remaining residential and business services not previously listed in this section ("Other Services") will not be subject to price caps.
- H. Packages and Bundles.** CenturyTel/United may combine any regulated telecommunications service with any other service(s) to offer packages and bundles of services, which may include primary line residential basic service and EAS, at any price subject to the following conditions:
1. Customers can purchase separately from the company's tariff or price list any regulated telecommunications service included in the package or bundle.
 2. The package or bundle price is not less than the sum of the price floors (determined pursuant to ORS 759.255(4)) of the regulated telecommunications services included in the package or bundle.
 3. The package or bundle price is not more than the sum of the retail prices of all services available in the package or bundle.
 4. Terms applicable to new packages or bundles, including those that include primary line residential basic service, will be established in the company's price list at least one day prior to their effective date.

- I. Notice of price changes.** CenturyTel/United will provide the Commission notice of price increases for services within Sections III.B. to III.E. by making tariff filings at least 15 days prior to the effective date of such price changes. CenturyTel/United will provide the Commission notice of price decreases for services within Sections III.B. to III.E. by making tariff filings at least one day prior to the effective date of such price decreases.

CenturyTel/United will make price list changes for new services, Other Retail Services and packages and bundles within Sections III.F. to III.H, at least one day prior to the effective date of any price change. CenturyTel/United will also provide customers with at least 30 days' prior notice of price increases for services they are purchasing at the time of the price increase. For services purchased on a per-call basis, CenturyTel/United will give reasonable notice to the customer of the price prior to the customer's use of the service.

- J. Services exempt from regulation.** Services that the Commission has already ordered to be exempt from regulation will remain exempt from regulation subject to the conditions of the order that exempted the service from regulation. CenturyTel/United retains the ability to petition the Commission to exempt additional services from regulation under ORS 759.052.

- K. Promotions.** CenturyTel/United may offer promotions for primary line residential basic service and other regulated services pursuant to ORS 759.182.

IV. Tariffs and Price Lists

- A.** Tariffs for the services within Sections III.B to III.E will be filed with the Commission pursuant to the provisions of OAR 860-022-0015 and 860-022-0025(1). For price increases to primary line residential basic service allowed under provisions III.B.1 of the price plan, CenturyTel/United is not required to comply with the provisions of OAR 860-022-0025(2) or 860-022-0030.

V. Service Quality

- A.** CenturyTel/United will continue to be subject the Retail Telecommunications Service Standards for Large Telecommunications Utilities identified in OAR 860-023-055 with the following exceptions:
1. CenturyTel/United will provide reports on a quarterly basis instead of monthly.
 2. CenturyTel/United will provide only exception information for those measures that did not meet the established standard during the quarter.

VI. Waiver of statutes and rules

A. **Statutes.** CenturyTel/United's compliance with the following statutes, and all Commission rules implementing these statutes, is waived in full, unless a partial waiver is noted:

- ORS 759.120 Form and manner of accounts prescribed by commission.
- ORS 759.125 Records and accounts prescribed by commission; prohibition on other records or accounts; exception; blanks for reports.
- ORS 759.130 Closing date of accounts; filing balance sheet; audit.
- Waiver of condition 11 in Commission Order No. 11-095 (Appendix A) in Docket UM 1484 (In the Matter of the Application for Approval of Merger between CenturyTel, Inc. and Qwest Communications International, Inc.). Condition 11 imposed as a condition of approval of the merger a requirement that CenturyTel/United continue submission of the Commission standard *Annual Report* Form O and *Oregon Separated Results of Operations Report* Form I.
- ORS 759.135 Depreciation accounts; undepreciated investment allowed in rates; conditions.
- ORS 759.180 to ORS 759.200 (with the exception of ORS 759.182).
 - 759.180 Hearing on reasonableness of rates; procedures; exceptions
 - 759.185 Suspension of rates pending hearing; time limitation; refund of revenue collected; interim rates.
 - 759.190 Notice of schedule change.
 - 759.195 Price listing of services; conditions; maximum rates; essential services; justification by utility of rates for price-listed services.
 - 759.200 Inclusion of amortizations in rates; deferral of certain expenses or revenues; limitation on amounts; prohibited uses.
- ORS 759.215(2) Public access to schedules.
- ORS 759.220 Joint rates and classifications; procedure; considerations - with regard to joint rates and establishment of new through services, but not with regard to canceling any existing through service.
- ORS 759.285 Charging rates based on cost of property not presently providing service.
- ORS 759.300 to ORS 759.393

- Issuance of Securities
 - 759.300 “Stocks” defined.
 - 759.305 Power to regulate issuance of telecommunications stocks.
 - 759.310 When issuance of securities void.
 - 759.315 Purposes for which securities may be issued; order required; exceptions.
 - 759.320 Application of ORS 759.315.
 - 759.325 Application of ORS 759.375.
 - 759.330 Hearings and supplemental orders for securities issuance; joint approval for issuance by utility operating in another state.
 - 759.335 Obligation of state as consequence of approval of issuance
 - 759.340 Conditional approval of issuance.
 - 759.345 Use of proceeds from issuance; accounting.
 - 759.350 Limitation on authority of utility to guarantee debt of another.
 - 759.355 Issuance or use of proceeds contrary to commission order.
 - 759.360 Prohibited acts regarding issuance of securities.

- Transactions of Utilities
 - 759.375 Approval prior to sale, mortgage or disposal of operative utility property.
 - 759.380 Purchase of stock or property of another utility.
 - 759.385 Contracts regarding use of utility property; filing with commission; investigation.
 - 759.390 Contracts with affiliated interests; procedure; use in rate proceedings.
 - 759.393 Applicability of ORS 759.385 and 759.390.
 - Waiver of condition 18 in Commission Order No. 11-095 (Appendix A) in Docket UM 1484 (In the Matter of the Application for Approval of Merger between CenturyTel, Inc. and Qwest Communications International, Inc.). Condition 18 imposed as a condition of approval of the merger the removal of the CenturyLink QC price plan exemption from the requirements of ORS 759.380 and ORS 759.375. Condition 18 did allow an exemption from ORS 759.375(1)(a) for property sales where the sales price is less than \$10 million, except that the sale of any CenturyTel/United exchange will be subject to Commission approval under ORS 759.375. CenturyTel/United seeks exemption from ORS 759.380 and ORS 759.375 consistent with the exemption originally granted to CenturyLink QC in Docket UM 1354.

B. Rules. CenturyTel/United's compliance with the following Commission rules is waived in full, unless a partial waiver is noted:

- OAR 860-022-0025(2) Requirements for Filing Tariffs or Schedules Changing Rates.
- OAR 860-022-0030 Requirements for Filing Tariffs or Schedules Naming Increased Rates.
- OAR 860-022-0042 Relating to City Privilege Taxes, Fees, and Other Assessments Imposed Upon a Large Telecommunications Utility. Partial waiver of paragraph (4) limiting the pass through of privilege taxes to only amounts in excess of 4 percent.
- OAR 860-023-0055 Retail Telecommunications Service Standards for Large Telecommunications Utilities (partial as outlined in Section V.A).
- OAR 860-027-0100 Reporting of Affiliated Transactions.
- OAR 860-027-0015 New Construction Budget.
- OAR 860-027-0025 Applications for Authority to Sell, Lease, Assign, Mortgage, Merge, Consolidate or Otherwise Dispose of or Encumber its Property, or to Acquire Stock, Bonds, or Property of Another Utility.
- OAR 860-027-0050 Uniform System of Accounts for Large Telecommunications Utilities.
- OAR 860-027-0052 Allocation of Costs by a Large Telecommunications Utility.
- OAR 860-027-0070 Annual Report Requirements for Electric, Large Telecommunications, Gas, and Steam Heat Utilities.
- Waiver of condition 11 in Commission Order No. 11-095 (Appendix A) in Docket UM 1484 (In the Matter of the Application for Approval of Merger between CenturyTel, Inc. and Qwest Communications International, Inc.) Condition 11 imposed as a condition of approval of the merger a requirement that CenturyTel/United continue submission of the Commission standard *Annual Report* Form O and *Oregon Separated Results of Operations Report* Form I.
- OAR 860-032-0190 Definition of Basic Telephone Service (partial). This rule defines "basic telephone service" for purposes of administering ORS 759.425, among other statutes. For all other purposes involving application of the rule, including administration and distribution of the universal service fund, CenturyTel/United would still be subject to the definition of "basic telephone service" found in OAR 860-032-0190.

VII. Conditions for Review of CenturyTel/United's Performance Under Plan

- A. Five-year reviews.** CenturyTel/United's performance under the price plan will be comprehensively reviewed by the Commission every five years. To commence that review, CenturyTel/United will file a detailed report regarding its performance as compared to the objectives of the plan by the 90th day of the fifth year of operation under the plan, and every five years thereafter unless and until ordered otherwise by the Commission. CenturyTel/United will promptly respond to data requests submitted by Staff and other parties related to information contained in CenturyTel/United's report.
- 1. Contents of Report.** The report will review how the objectives of the plan are being met and will include the following information:
 - a. A summary of CenturyTel/United's performance for the review period with respect to the Commission's retail service quality standards and any other relevant information.
 - b. An analysis of current market conditions for the various categories of CenturyTel/United's regulated retail telecommunications services and functionally equivalent or substitutable services, to the extent such information is publicly available.
 - c. Data regarding the gain or loss of access lines, organized by CenturyTel/United Oregon wire center.
 - d. A discussion of how the pricing flexibility allows CenturyTel/United to meet the plan's objectives.
 - e. Identification of any new services CenturyTel/United has introduced.
 - f. Identification of any ways in which the burden of regulation for both CenturyTel/United and the Commission has been simplified or reduced.
 - 2. Performance of objectives.** The Commission will evaluate CenturyTel/United's performance as compared to the objectives of the plan. If the Commission determines that CenturyTel/United has not substantially satisfied its objectives, as set forth in Section II of this plan, the Commission may enter discussions with CenturyTel/United to establish an agreement, including a timeline and a process, under which CenturyTel/United will achieve compliance with the objectives. If the Commission and CenturyTel/United cannot reach such an agreement within a reasonable time of commencing such discussions the Commission may order modifications to the plan, following notice and an opportunity for hearing, or open an investigation under Section VII.B.2. of this plan.

3. **Evaluation of market, modifications to plan.** The Commission will review the data submitted by CenturyTel/United and other relevant evidence regarding the competitiveness of the market for services that are functionally equivalent or substitutable for services offered by CenturyTel/United and determine whether other modifications to the plan are appropriate to provide CenturyTel/United with additional regulatory flexibility beyond that included in the original price plan or better ensure the plan is in the public interest according to the factors set forth in ORS 759.255(2).

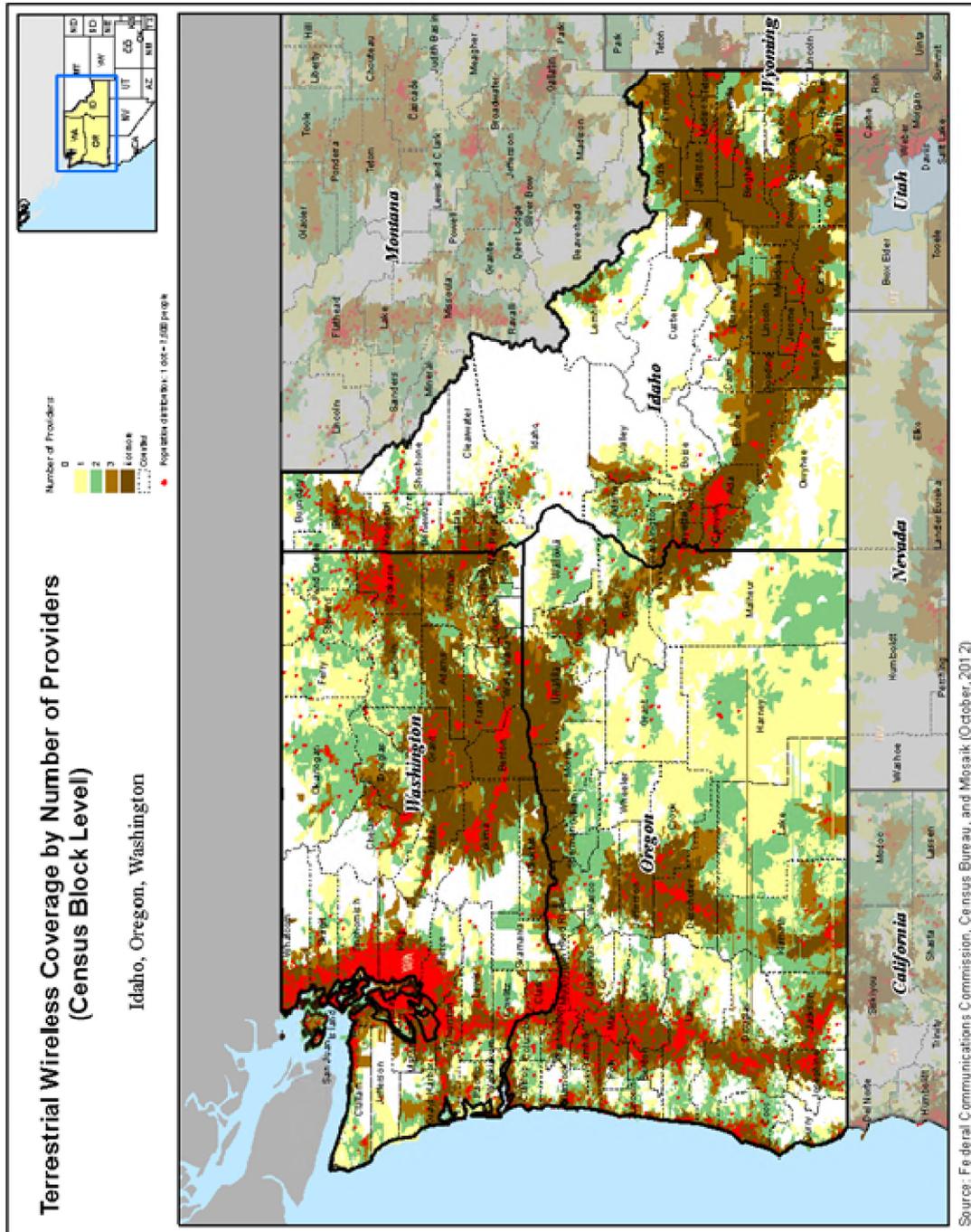
B. Ongoing conditions for review

1. **Review of service quality.** The Commission may review CenturyTel/United's retail customer service quality at any time during operation of the price plan. If CenturyTel/United does not meet the objective service levels for one or more individual standards in OAR 860-023-0055 for three months out of a twelve month sliding window,¹ then the Commission may require CenturyTel/United to submit a performance plan pursuant to ORS 759.450(5) and may suspend CenturyTel/United's authority under the price plan to increase retail prices until such time as CenturyTel/United has met all the goals of the performance plan. If the Commission determines after a notice and an opportunity for hearing that CenturyTel/United has not met the goals of a performance plan within six months, or if the plan is disapproved by the Commission, then, in addition to the remedies set forth in ORS 759.450(5) – (7), the Commission may open an investigation under Section VII.B.2. of this plan.
2. **Public interest.**
 - a. The Commission may open an investigation at any time pursuant to ORS 756.515 to determine whether further adjustments to the price plan or termination of the price plan is required by the public interest, according to the factors set forth in ORS 759.255(2). The Commission may order further adjustments to the price plan or termination of the price plan only after providing CenturyTel/United notice and an opportunity for hearing. If the Commission determines to hold such a hearing, it may suspend CenturyTel/United's authority to increase prices pending the conclusion of the proceeding. In any such investigation and proceeding, the Parties agree that the Commission should first attempt to identify and require adjustments to the price plan such that continuation of the price plan is in the

¹ Sliding 12-month window: The 12-month window consists of the current reporting month and data from the previous eleven months. For example, using "commitments for service" with an objective service level of 90 percent (OAR 860-023-0055(4)(b)(A)), a performance plan may be required if three or more months during the 12-month window were reported with less than 90 percent commitments met. Each new month would look at the adjusted 12-month window and the data would be compared to the objective service level.

public interest before it orders termination of the price plan (unless this proceeding was opened pursuant to Section VII.A.2. of the plan).

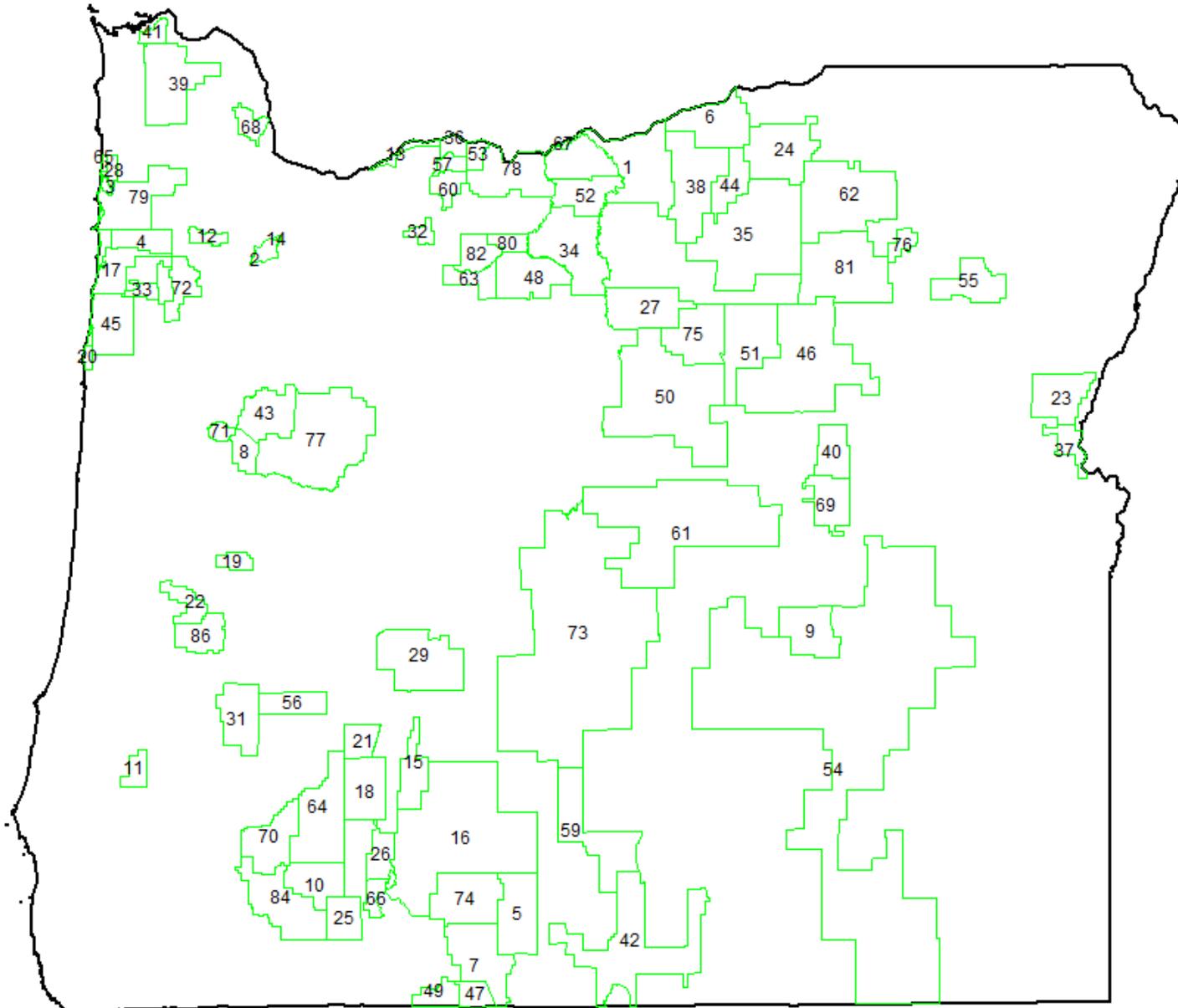
- b. If the Commission orders termination of the price plan, CenturyTel/United would no longer be able increase its rates as it was permitted to do under the price plan, but CenturyTel/United would be allowed to decrease its rates subject to any applicable price floor.
- c. If the Commission orders termination of the price plan, CenturyTel/United may thereafter pursue any form of price regulation or relief therefrom then permitted under Oregon law, including but not limited to: exemptions from regulation pursuant to ORS 759.052; price listing pursuant to ORS 759.054, 759.056, and/or 759.195; rate regulation pursuant to ORS 759.175 – 759.190; another price plan pursuant to ORS 759.255; or price cap regulation pursuant to ORS 759.405 – 759.410.



Source: Map C-12: Wireless Coverage by Number of Providers by Region (9), 2012; 16th Mobile Wireless Competition Report (FCC 13-34) – March 21, 2013
http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-13-34A1.pdf

CenturyTel and United Telephone Oregon Wire Centers

Exhibit CTL-UTNW/106
Felz/1



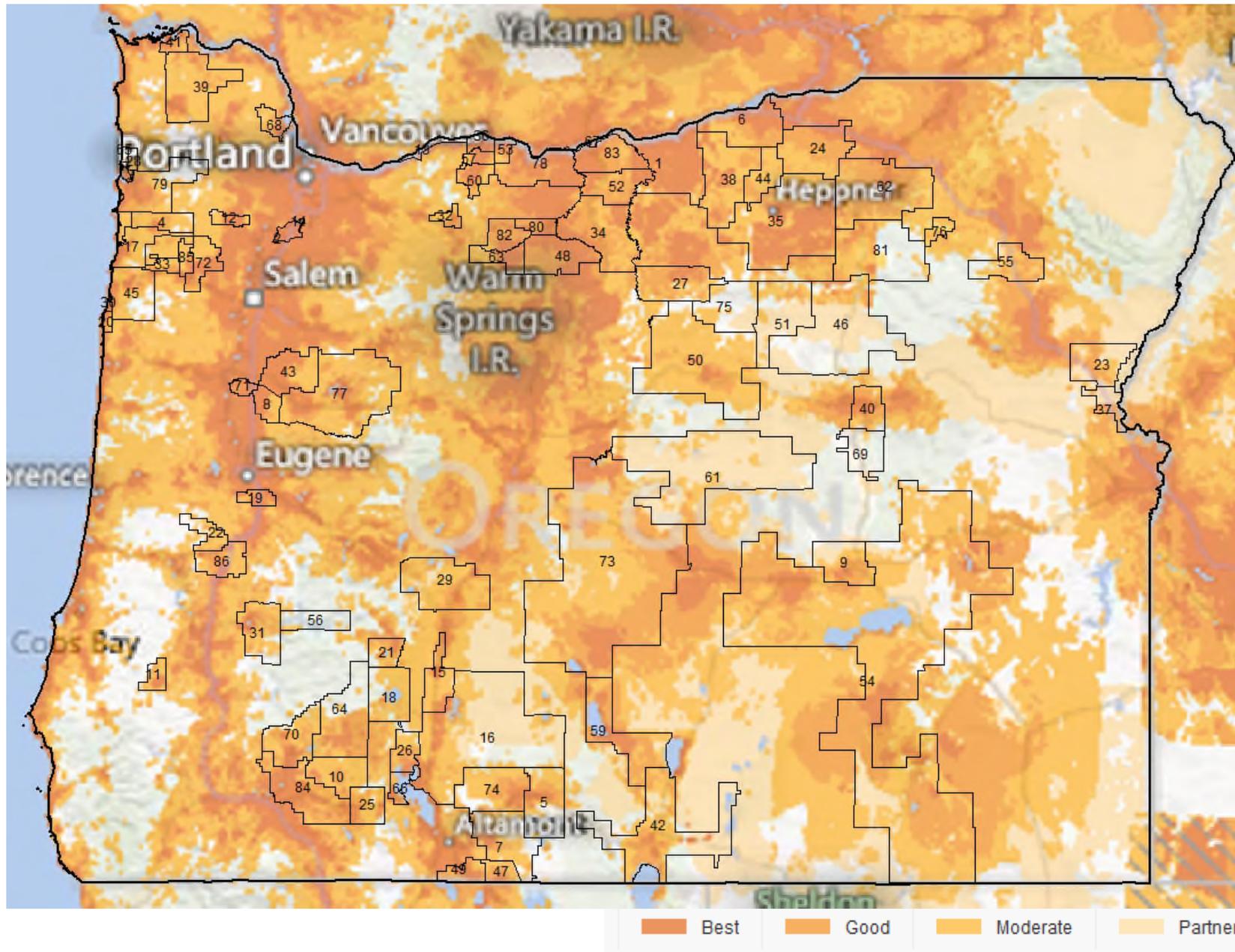
CenturyTel and United Telephone Oregon Wire Centers

Exhibit CTL-UTNW/106
Felz/2

<u>REF</u>	<u>WIRE CENTER</u>	<u>REF</u>	<u>WIRE CENTER</u>	<u>REF</u>	<u>WIRE CENTER</u>
1	Arlington	38	Ione	75	Spray
2	Aurora	39	Jewell	76	Starkey (Pilot Rock)
3	Bay City	40	John Day	77	Sweet Home
4	Beaver	41	Knappa	78	The Dalles
5	Bly	42	Lakeview	79	Tillamook
6	Boardman	43	Lebanon	80	Tygh Valley
7	Bonanza	44	Lexington	81	Ukiah
8	Brownsville	45	Lincoln City	82	Wamic
9	Burns	46	Long Creek	83	Wasco
10	Butte Falls	47	Malin	84	White City
11	Camas Valley	48	Maupin	85	Willamina
12	Carlton	49	Merrill	86	Yoncalla
13	Cascade Locks	50	Mitchell		
14	CHARBONNEAU	51	Monument		
15	Chemult	52	Moro		
16	Chiloquin	53	Mosier		
17	Cloverdale	54	North Harney County		
18	Crater Lake	55	North Powder		
19	Creswell	56	North Umpqua		
20	Depoe Bay	57	Odell		
21	Diamond Lake	58	Pacific City		
22	Drain	59	Paisley		
23	Durkee	60	Parkdale		
24	Echo	61	Paulina		
25	Fish Lake	62	Pilot Rock		
26	Fort Klamath	63	PINE GROVE		
27	Fossil	64	Prospect		
28	Garibaldi	65	Rockaway		
29	Gilchrist	66	Rocky Point		
30	GLENEDEN BEACH	67	Rufus		
31	Glide	68	Scappoose		
32	Government CP	69	Seneca		
33	Grand Ronde	70	Shady Cove		
34	Grass Valley	71	Shedd		
35	Heppner	72	Sheridan		
36	Hood River	73	Silver LK		
37	Huntington	74	Sprague River		

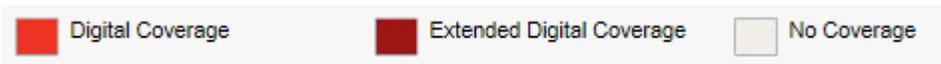
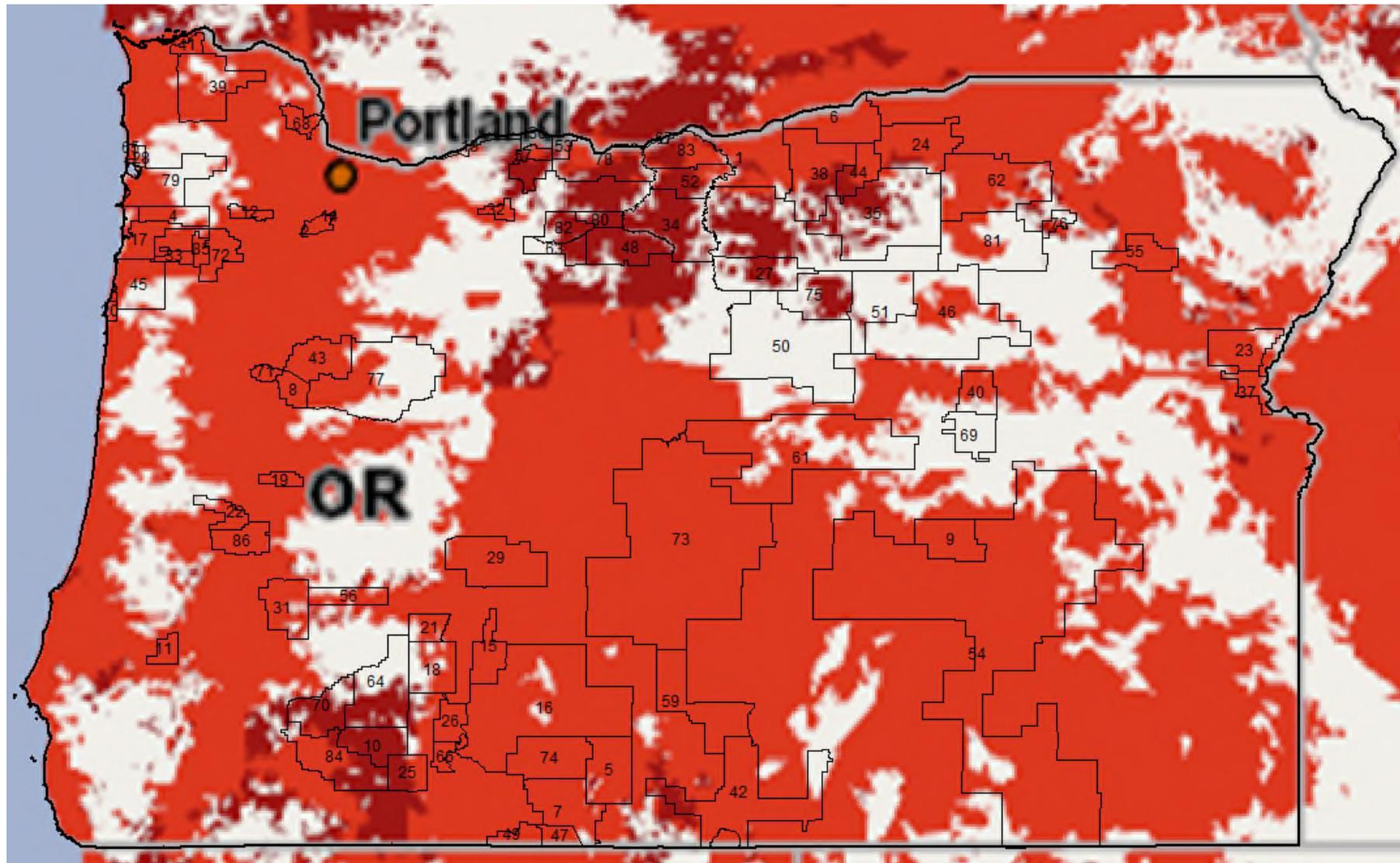
AT&T Wireless Coverage and CenturyTel and United Telephone Oregon Wire Centers

Source: AT&T Coverage website on 01/10/14



Verizon Wireless Coverage and CenturyTel and United Telephone Oregon Wire Centers

Source: Verizon Coverage website on 01/10/14



Sprint Wireless Coverage and CenturyTel and United Telephone Oregon Wire Centers

Source: Sprint Coverage website on 01/10/14

