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September 3, 2010

Via Electronic Filing and U.S. Mail

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
PO BOX 2148
SALEM OR 97308-2148

RE: Docket No. UM 1484 – In the Matter of CENTURYLINK, INC. Application for Approval of Merger between CenturyTel, Inc. and Qwest Communications International, Inc.

Enclosed for electronic filing in the above-captioned docket is the Public Utility Commission Staff's Reply Testimony.

/s/ Kay Barnes
Kay Barnes
Regulatory Operations Division
Filing on Behalf of Public Utility Commission Staff
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c: UM 1484 Service List (parties)

PUBLIC UTILITY COMMISSION OF OREGON

UM 1484

STAFF DIRECT TESTIMONY OF
Michael Dougherty
Jorge Ordonez
John Reynolds
Irvin L. Emmons
Kay Marinos
Jon Cray

In the Matter of
CENTURYLINK, INC.
Application for Approval of Merger between CenturyTel, Inc. and Qwest Communications

<u>REDACTED</u>
September 3, 2010

CASE: UM 1484
WITNESS: Michael Dougherty

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 100

Reply Testimony

September 3, 2010

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Michael Dougherty. I am the Program Manager for the Corporate Analysis and Water Regulation Section of the Public Utility Commission of Oregon (Commission). My business address is 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2551.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. My Witness Qualification Statement is found in Exhibit Staff/101.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is three-fold. First, I am the lead witness for the Commission Staff (Staff) in this proceeding. Accordingly, I am familiar with Staff sponsored testimony and recommended ordering conditions. Second, I will generally discuss the structure of this transaction, potential risks of the transaction, and mitigation of these risks. Third, I will list Staff's recommended ordering conditions proposed by Staff in this docket.

Q. WHAT IS STAFF'S RECOMMENDATION CONCERNING THIS DOCKET?

A. Staff recommends the Commission deny CenturyLink, Inc.'s (CenturyLink or Company) request to approve this transaction. There are significant risks posed by this transaction, which CenturyLink and Qwest Communications International, Inc. (QC II) have failed to adequately address.

Q. ARE THERE ANY CIRCUMSTANCES UNDER WHICH STAFF WOULD RECOMMEND THE COMMISSION APPROVE THE TRANSACTION?

A. Yes. The Commission could approve the transaction subject to the Applicants voluntarily offering or agreeing to conditions or commitments that either reduce the numerous risks of the transaction or offset the risks. Although Staff believes its recommended conditions (discussed later in testimony) reduce the risks of the transaction, Staff does not believe its conditions will completely mitigate the risks with the transaction, which include (and discussed later):

1. Maintaining a dividend of $2.90 per share;
2. CenturyLink taking on increased and substantial debt;
3. Increased debt leverage, Net Debt/EBITDA[1] (from approximately 2.0x to 2.4x (2.2x if synergies are achieved));
4. Potential for CenturyLink debt to fall below investment grade;
5. CenturyLink taking on steeper access line losses (Qwest currently has an 11 percent line loss as compared to CenturyLink's 6.6 percent);
6. Post-merger CenturyLink being less profitable than pre-merger CenturyLink. The decreased profitability may preempt or halt broadband expansion in legacy CenturyLink territories;
7. The inability to effectively ring fence the operating companies from the parent company;
8. CenturyLink is still in the process of integrating Embarq (a company that was approximately three times the size of CenturyTel when the

[1] Earnings Before Interest, Taxes, Depreciation, and Amortization

merger occurred) and the focus of rapid expansion in a short period may result in a lack of focus in Oregon;[2]

9. CenturyLink does not have experience as a BOC,[3] which may have an adverse effect on competition; and

10. Associated risks as presented by CenturyLink in its SEC Filing S-4 dated June 4, 2010.

As such, CenturyLink must offer conditions that will offset risks to ensure the legal standard for the transaction (in the public interest, no harm) is satisfied.

Q. PLEASE PROVIDE A LIST OF STAFF WITNESSES, EXHIBIT NUMBERS, AND THE SUBJECTS EACH ADDRESSES.

A. Staff witnesses who are providing direct testimony in this docket are as follows:

Table 1 – Staff Assignments

Witness	Exhibit	Subject(s)
Dougherty	100	Legal Standard; Summary of the Transaction; Risks and Risk Mitigation; Records, Access to Books; Ratemaking; Synergy Savings; Goodwill; Affiliated Interest Issues; and Recommended Approval Conditions
Ordonez	200	Financial Analysis; Financial Leverage; Profitability; and Credit Ratings Aspects of the Merger
Reynolds	300	Broadband Issues and Customer Support and Billing Systems

[2] Per Staff's UM 1416 memo, dated March 18, 2009: "As of December 31, 2008, Embarq served approximately 6.5 million local access lines including approximately 60,000 total access lines in Oregon. CenturyTel served approximately 2.1 million local access lines, including approximately 62,000 access lines in Oregon."
[3] Bell Operating Company.

Witness	Exhibit	Subject(s)
Emmons	400	Service Quality, Engineering and Service Assurance
Marinos	500	Long Distance and Competitive Issues
Cray	600	OTAP/Lifeline

Q. DID YOU PREPARE EXHIBITS FOR THIS DOCKET?

A. Yes. I prepared Exhibit Staff 102, consisting of 31 separately numbered pages.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony is organized as follows:

ISSUE 1 - LEGAL STANDARD

Q. WHAT IS THE LEGAL STANDARD THAT THE COMMISSION SHOULD APPLY TO THIS TRANSACTION?

A. According to advice given by the Oregon Department of Justice, the Commission should apply an “in the public interest, no harm” standard when considering whether to approve this transaction. This is the standard the Commission used in its Order No. 10-067, involving the indirect transfer of control of Verizon Northwest Inc. to Frontier Communications Corporation; Order No. 09-169 involving the merger between CenturyTel and Embarq; and Order No. 95-526 involving a transaction pursuant to ORS 759.375(1)(c) and

759.380 (sale of 23 exchanges). This is a ***lesser*** standard than the "net benefits" standard employed under ORS 757.511 for energy utility acquisitions. Additionally, the Commission has used the "in the public interest, no harm" standard for property sales including telecommunication utility property sales (Commission Order No. 08-617 (UP 247) and Commission Order No. 02-466 (UP 195)).

<u>ISSUE 2 - STRUCTURE OF TRANSACTION, POTENTIAL RISKS OF THE TRANSACTION, AND MITIGATION OF THESE RISKS</u>

Q. PLEASE PROVIDE A BRIEF CHRONOLOGY OF THIS DOCKET.

A. On May 24, 2010, CenturyLink submitted an application (Application) requesting a Commission order approving the indirect merger of CenturyLink's and Qwest's regulated incumbent local exchange subsidiaries, which operate as telecommunications utilities in the state of Oregon. Qwest did not join as an applicant in the matter because ORS 759.375 and ORS 759.390 do not apply to Qwest due to the Commission's approval of its price plan in Order No. 08-408, UM 1354, which include the waivers of these statutes.[4] The operating subsidies include the four separate Incumbent Local Exchange Carriers (ILECs) in Oregon (no change from current allocated areas) – CenturyTel of Oregon Inc., CenturyTel of Eastern Oregon, Inc., United Telephone Company of the Northwest (dba Embarq), and Qwest Corporation (Qwest) (collectively, Operating Companies).

[4] Docket UM 1484, Application for an Order to Approve the Indirect Transfer of Control of Qwest Corporation (Application), page 1, dated May 24, 2010.

A Prehearing Conference was held on June 8, 2010; and on June 22, 2010, the Administrative Law Judge (ALJ) issued his Prehearing Conference Report and Ruling. On June 22, 2010, CenturyLink and Qwest submitted supplemental testimony concerning competitive issues to support their application. On August 2, 2010, the ALJ granted an unopposed motion to amend the procedural schedule. Settlement conferences were conducted on August 3, 2010, August 17, 2010, and August 30, 2010. Additional settlement conferences are scheduled for September 8, 2010, September 27, 2010, and October 12, 2010.

Q. PLEASE SUMMARIZE CENTURYLINK AND QWEST'S OPERATIONS.

A. According to the Application, CenturyLink is a publicly-traded Louisiana corporation with headquarters in Monroe, Louisiana. CenturyLink serves approximately 7 million access lines nationwide, 2.2 million broadband subscribers, and over 553,000 video subscribers in 33 states.[5] CenturyLink Oregon ILECs are telecommunication utilities as defined in ORS 759.005 and are subject to traditional rate regulation. Combined, the Century Link ILECs serve approximately 109,000 access lines in the state.[6]

Qwest is a subsidiary of QCII, which is a publicly traded corporation with its headquarters in Denver, Colorado. Qwest provides ILEC services in 14 states, serving approximately 10.3 million local access lines. Qwest serves approximately 802,000 access lines, as well as intrastate interexchange services, in Oregon.

[5] Application, dated May 24, 2010, at 7.
[6] *Id.* at 8.

Both the CenturyLink Oregon ILECs and Qwest provide regulated retail and wholesale services under the jurisdiction of this Commission, as well as interconnection services to Competitive Local Exchange Carriers (CLECs) through numerous interconnection agreements approved by the Commission.[7]

The combined operation will serve over 5 million broadband customers and 17 million access lines (over 900,000 in Oregon) across 37 states.[8]

Q. PLEASE PROVIDE A BRIEF BACKGROUND OF THE TRANSACTION.

A. According to the Application, on April 21, 2010, Qwest, CenturyLink, and SB 44 Acquisition Company (Acquisition Company) entered into an Agreement and Plan of Merger (Merger Agreement). Under the terms of the Merger agreement, QCII and Acquisition Company will merge, after which QCII will be the surviving entity and the Acquisition Company will cease. QCII will become a wholly-owned, first-tier subsidiary of CenturyLink. According to CenturyLink, there will be no change in corporate structure of the respective CenturyLink and QCII operating entities as a result of the Transaction. Qwest will remain a subsidiary of QCII.[9,10]

The transaction is a tax-free, stock-for-stock business deal with no new debt or refinancing required. Shareholders of QCII will receive 0.1664 shares of CenturyLink for each share of QCII common stock owned at closing. Upon closing, shareholders of pre-merger CenturyLink will own approximately

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[7] *Id.* at 8, 9 and 10.
[8] CenturyLink and Qwest Merger Transaction Overview, Oregon Public Utility Commission, dated May 3, 2010, at 6. Included in Staff Exhibit 102, pages 1 - 9.
[9] Application, dated May 24, 2010, at 4.
[10] Please see Staff Exhibit 102, page 10 for a diagram of the merger.

50.5 percent of post-merger CenturyLink and shareholders of the pre-merger QCII will own approximately 49.5 percent of post-merger CenturyLink.

CenturyLink will issue new stock to acquire QCII. It is not paying cash or financing the transaction through debt.[11] With that said, it is important to note that CenturyLink will be assuming $11.8 billion in Qwest debt, resulting in a total CenturyLink corporate debt of $19.4 billion. The increased debt will increase CenturyLink's pre-merger leverage (Net debt/trailing EBITDA) of 2.0x to a post-merger level of 2.4x. (*See* Staff/200, Ordonez/4)

Q. HAS CENTURYLINK FILED A SIMILAR APPLICATION IN OTHER STATES?

A. Yes. As a result of being under certain regulatory requirements by federal and state agencies, CenturyLink was required to file for approval in several jurisdictions. The table below summarizes the status of jurisdictional approvals as of June 21, 2010, (based on CenturyLink's response to Staff Data Request No. 24).[12]

Table 2 – List of Regulatory Approvals

Regulatory Agency	Approval Necessary (Yes/No)	Current Status if Approval is Pending	Scheduled Hearing Date (if applicable)	Projected Close Date
Federal Filings				
DOJ/FTC	Yes	Initial HSR filing on 5/12/2010; refiled on 6/15/10 to provide additional information	N/A	Pending

[11] Application, dated May 24, 2010, at 5.
[12] Included in Staff Exhibit 102, pages 11-12.

Regulatory Agency	**Approval Necessary (Yes/No)**	**Current Status if Approval is Pending**	**Scheduled Hearing Date (if applicable)**	**Projected Close Date**
FCC	Yes	214 Application filed on 5/7/2010	Comments due 7/12/10; reply comments due 7/27/10	Pending
State filings – ILEC States				
Arizona	Yes	Application filed 5/28/10	Schedule Pending	Pending
California	Yes	Advice letter filed 5/14/10	N/A	Pending
Colorado	Yes	Application filed 5/27/10	Schedule Pending	Pending
Georgia	Yes	Application filed 5/2510	Schedule Pending	Pending
Iowa	Yes	Application filed 5/24/10	Schedule Pending	Pending
Louisiana	Yes	Application filed 5/19/10	Schedule Pending	Pending
Minnesota	Yes	Application filed 5/13/10	Schedule Pending	Pending
Mississippi	Yes	Application filed 5/25/10	Schedule Pending	Pending
Montana	Yes	Application filed 5/28/10	Schedule Pending	Pending
Nebraska	Yes	Application filed 6/4/10	Schedule Pending	Pending
New Jersey	Yes	Application filed 5/19/10	Schedule Pending	Pending
Ohio	Yes	Application filed 5/28/10	Schedule Pending	Pending
Oregon	Yes	Application filed 5/21/10	October 20-21	Pending
Pennsylvania	Yes	Application filed 5/14/10	Schedule Pending	Pending
Utah	Yes	Application filed 5/28/10	October 26-27	Pending
Virginia	Yes	Application filed 5/25/10	Schedule Pending	Pending
Washington	Yes	Application filed 5/13/10	January 5-7, 2011	Pending

State Filings – Non-ILEC States				
Regulatory Agency	**Approval Necessary (Yes/No)**	**Current Status if Approval is Pending**	**Scheduled Hearing Date (if applicable)**	**Projected Close Date**
Alaska	Yes	Application filed 6/3/120	Schedule Pending	Pending
District of Columbia	Yes	Application filed 6/4/10	Schedule Pending	Pending
Hawaii	Yes	Application filed 6/3/10	N/A	Approved 6/15
Maryland	Yes	Application filed 6/8/10	Schedule Pending	Pending
New York	Yes	Application filed 6/4/10	Schedule Pending	Pending

Q. PLEASE SUMMARIZE THE CUSTOMER BENEFITS OF THIS MERGER AS PRESENTED BY CENTURYLINK.

A. CenturyLink, in its *CenturyLink and Qwest Merger Transaction Overview, Oregon Public Utility Commission*, dated May 3, 2010, lists the following as general customer benefits:

1. <u>Increased Capabilities</u>: Creates a stronger data/voice and long-haul competitor to the long haul efforts of the two largest integrated communication companies.
2. <u>Expanded and Enhanced Consumer Offerings</u>: Increases the likelihood of faster, broader broadband service deployment enabling terrestrial based video competition via IPTV.
3. <u>Customer Focus</u>: Creates a local go-to-market focus bringing decisions closer to the needs of local customers and communities.
4. <u>Financial Strength and Flexibility</u>: The combined company's sound capital structure will support its ability to take advantage of

opportunities that may arise, while continuing to invest in its business.[13]

Additionally, in its application and in direct testimony, the Company discusses its track record of successfully integrating companies including its recent merger with Embarq that was approved by the Commission in Order No. 09-169 (UM 1416);[14] and the increased economies of scale and scope that will result from the merger.[15]

Q. DID CENTURYLINK, IN ITS TESTIMONY, OFFER ANY CONDITIONS OR COMMITMENTS CONCERNING THESE CUSTOMER BENEFITS?

A. No.

Q. HAS CENTURYLINK TOUTED ANY OTHER BENEFITS TO THE TRANSACTION?

A. Yes. In its CenturyLink and Qwest Merger Conference Call, dated April 22, 2010, CenturyLink lists the following as shareholder positives of the transaction:

1. Maintain annual dividend of $2.90 per share; and
2. Significant synergy savings of $625 million run-rate, which includes $50 million of run-rate capital expenditure (capex) synergies.[16]

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[13] CenturyLink and Qwest Merger Transaction Overview, Oregon Public Utility Commission, dated May 3, 2010, at 7. Included in Exhibit Staff 102, pages 1-9.
[14] Application at 7-8 and 21-22; CTL/200, Schafer/7-12; and CTL/201, Schafer.
[15] *Id.* at13. See also Qwest/1, Peppler/10-13.
[16] CenturyLink and Qwest Merger Conference Call, dated April 22, 2010. Included in Staff Exhibit 102, page 13.

Q. DO THESE SHAREHOLDER POSITIVES TRANSLATE TO POSTIVES FOR CUSTOMERS?

A. No. In fact, these positives for shareholders could come as a detriment for customers. Concerning the level of dividends, CenturyLink could potentially place a higher priority on paying dividends to shareholders than maintaining service quality and investing in business operations. If earnings per share are lower than the dividend per share, the Company would need to reach into free-cash flow to pay those dividends. Being that depreciation expense is a significant contributor to free cash flow, paying of dividends could consume funds that could have been allocated for plant investment.

Also, in order to achieve the operating synergy goals, CenturyLink projects one-time operating costs of $650 to $800 million. In order to achieve the capital synergy goal, CenturyLink projects one-time capital costs of $150 to $200 million.[17] These one-time costs, could potentially consume funds that may have otherwise been allocated to benefit customers such as broadband expansion, improved service quality, and additional product offerings.

In addition, the combined company, despite the increased economies of scale and scope, will continue to confront access line losses that could negatively affect revenues, resulting in decreased funds to invest in the Oregon network. In fact in Qwest/1, Peppler/15, Qwest states that its residential and business access lines in Oregon declined more than 50 percent when in this same time

[17] CenturyLink and Qwest Merger Conference Call, dated April 22, 2010. Included in Staff Exhibit 102, page 13.

period, Oregon's actual population grew by 24 percent.[18] It is interesting to note that CenturyLink in CTL/300, Bailey/16 actually admits the companies have not attempted to identify the specific benefits of new services that might be made available as a result of the transaction by stating:

> No. The process of integration is too early at this point to estimate the full extent of the opportunities to provide new products and services to customers and to increase broadband penetration rates in the combined service territory.[19]

Finally, the increased value to shareholders of rapid expansion, high dividends, and higher share prices for Qwest shareholders could result in a CenturyLink's management being more focused on shareholders than Oregon customers. In fact in its SEC S-4 filing, the Company acknowledges this risk of rapid expansion by stating:

> CenturyLink's future results will suffer if CenturyLink does not effectively manage its expanded operations following the merger.[20]

Q. WHAT ARE THE RISKS OF THE TRANSACTION TO CENTURYLINK CUSTOMERS?

A. As previously mentioned, Staff believes the risks of the transaction are considerable and include:

1. Maintaining a dividend of $2.90 per share;
2. CenturyLink taking on increased and substantial debt;

[18] Docket UM 1484 Qwest/1, Peppler/15.
[19] Docket UM 1481 CTL/300, Bailey/16.
[20] CenturyLink SEC Form S-4, dated July 16, 2010, at 20. Included in Staff Exhibit 102, page 20.

3. Increased debt leverage, Net Debt/EBITDA (from approximately 2.0x to 2.4x (2.2x if synergies are achieved));
4. Potential for CenturyLink debt to fall below investment grade;
5. CenturyLink taking on steeper access line losses (Qwest currently has an 11 percent line loss as compared to CenturyLink's 6.6 percent);
6. Post-merger CenturyLink being less profitable than pre-merger CenturyLink. The decreased profitability may preempt or halt broadband expansion in legacy CenturyLink territories;
7. The inability to effectively ring fence the operating companies from the parent company;
8. CenturyLink is still in the process of integrating Embarq (a company that was approximately three times the size of CenturyTel when the merger occurred) and the focus of rapid expansion in a short period may result in a lack of focus in Oregon;
9. CenturyLink does not have experience as a BOC which may have an adverse effect on competition; and
10. Associated risks as presented by CenturyLink in its SEC Filing S-4 dated June 4, 2010.

Q. PLEASE BRIEFLY LIST THE OPERATIONAL RISK FACTORS PRESENTED BY THE COMPANY IN ITS SEC FORM S-4.

A. The listed operational risk factors include:

- CenturyLink expects to incur substantial expenses related to the merger;

- Following the merger, the combined company may be unable to integrate successfully the businesses of CenturyLink and Qwest and realize the anticipated benefits of the merger;

- The merger will change the profile of CenturyLink's local exchange markets to include more large urban areas, with which CenturyLink has limited operating experience;

- Following the merger, the combined company may be unable to retain key employees;

- If CenturyLink and Qwest continue to experience access line losses similar to the past several years, following the merger, the combined company's revenues, earnings and cash flows may be adversely impacted;

- CenturyLink and Qwest face competition, which is expected to intensify and place further pressure on the market share of the combined company;

- CenturyLink could be harmed by rapid changes in technology;

- The industry in which CenturyLink operates is changing; CenturyLink cannot assure you that its diversification efforts will be successful;

- CenturyLink may not be able to grow through acquisitions;

- CenturyLink's future results will suffer if CenturyLink does not effectively manage its expanded operations following the merger;

- Following the merger, CenturyLink may need to conduct branding or rebranding initiatives that are likely to involve substantial costs and may not be favorably received by customers;

- Following the merger, CenturyLink's relationship with other communications companies will continue to be material to its operations and will expose it to a number of risks and

- Network disruptions or system failures could adversely affect CenturyLink's operating results and financial conditions.[21]

[21] CenturyLink SEC Form S-4, dated July 16, 2010, at 16–21. Included in Staff Exhibit 102, pages 16–21.

In addition to operating risks, the Company lists numerous risks under Risks Relating to the Merger, Regulatory and Legal Risks and Other Risks.[22] It is important to note that the SEC requires, as a matter of full disclosure, the inclusion of any and all potential risks to shareholders even if they are unlikely to occur. However, these risks are real risks that can negatively impact customers.

Q. DO YOU BELIEVE THE FOUR STATED CUSTOMER BENEFITS OUTWEIGH THE MANY RISKS OF THE TRANSACTION?

A. No.

Q. HOW CAN THE COMMISSION REDUCE THE MANY RISKS ASSOCIATED WITH THE TRANSACTION?

A. Staff has recommended numerous conditions that are designed to protect customers and the public generally. Please note that Staff separated the conditions into general categories. These categories are:

- Records/Rates/Tariffs/Access to Books
- Broadband
- Financial
- Service Quality and Safety – Retail
- Operations Support Systems
- Long Distance
- Wholesale Services
- OTAP/Lifeline
- Affiliated interests/Non-regulated Operations
- Most Favored State Commitment

Many of the recommended conditions are similar to the conditions ordered in Commission Order 10-067 (UM 1431) involving the indirect transfer of control

[22] *Id.* at 21–22. Included in Staff Exhibit 102, pages 21–22.

of Verizon Northwest Inc. to Frontier Communications Corporation and Commission Order No. 09-169 (UM 1416) involving the merger between CenturyTel and Embarq. As a difference from the conditions accepted by CenturyLink in UM 1416, Staff prepared numerous additional conditions that address broadband, long distance, service quality, Oregon Telephone Assistance Programs, and competitive issues. The recommended conditions also require increased reporting that will allow Staff, parties, and interested persons to monitor the transition of Qwest's operations to CenturyLink. These types of additional conditions were approved by the Commission in UM 1431. As previously mentioned, Staff does not believe its conditions will completely mitigate the risks to meet the statutory requirements due to the financial risk posed by the change in ownership, the inability to ring fence the operating companies from the parent, CenturyLink, and risks relating to competition.

Q. PLEASE DISCUSS THE RISK OF MAINTAINING A $2.90 PER SHARE DIVIDEND.

A. CenturyLink's post-transfer dividend policy of maintaining a $2.90 per share dividend may be problematic. In its response to Staff Data Request No. 7, CenturyLink had 301,031,397 outstanding shares in 2010. If CenturyLink shareholders will own 50.5 percent of the combined company, total outstanding shares will equal approximately 596,101,776. Dividend payments of $2.90 per share will equal approximately $1.73 billion.

As a result, CenturyLink could potentially place a higher priority on paying dividends to shareholders than maintaining service quality and investing in business operations. CenturyLink's Pro forma income statement in its SEC Form S-4 shows earnings per share (EPS) of $2.40.[23] This is $0.50 less than the $2.90 dividend per share. A dividend that is higher than the EPS will require an allocation of CenturyLink's cash flow from operations that could result in hindering upgrading its current network infrastructure and may delay or cease broadband expansion in CenturyLink's legacy service area as overall demand for landlines falls.

As a result, Staff's recommended condition No. 15 places a restriction on the amount of net income the operating companies can dividend up to any company (including affiliates and subsidiaries of post-merger CenturyLink) if the Company's Net debt/training 12-month EBITDA is greater than 2.6x. It is important to note that Staff's metric of 2.6x allows some cushion over the 2.4x (2.2x if synergies are achieved) projected by the Company. CenturyLink actually accepted a similar condition concerning operating company dividends in UM 1416, Commission Order No. 09-169. It is important to note that the dividend condition in UM 1416 used a different metric (average market value of CenturyTel's common equity is less than 50 percent of the book value of CenturyTel's net debt) than the net leverage metric used in Staff condition 15.

Q. HAS THE COMMISSION APPROVED RESTRICTION OF DIVIDENDS OR DISTRIBUTIONS IN ANY PREVIOUS TELECOMMUNICATIONS MERGER FILING?

[23] CenturyLink SEC Form S-4, dated July 16, 2010, at 113. Included in Staff Exhibit 102, page 23.

A. Yes. As previously mentioned, the Commission has placed restrictions on dividends or distributions in UM 1416 (CenturyTel/Embarq), Commission Order No. 09-169, Condition 4.j. I believe that this recommended condition reduces the risks of the transaction and helps ensure that the "in the public interest, no harm" standard is achieved.

Q. PLEASE DISCUSS THE RISKS THAT PERTAIN TO INCREASED DEBT, INCREASED NET LEVERAGE, THE POTENTIAL FOR CENTURYLINK DEBT TO FALL BELOW INVESTMENT GRADE, AND THE POTENTIAL TO BECOME LESS PROFITABLE.

A. Staff Ordonez in Staff/200, Ordonez/6-8 discusses the financial risks associated with the transaction. As Staff Ordonez demonstrates in Staff/200, Ordonez/4, CenturyLink's debt will increase from $7.6 billion to $19.4 billion. As a result, the debt service of this increased level of debt will increase from the current $556 million to $1,543 million.[24] Although the Company will have increased revenue to service this debt, if Qwest line losses continue on its current pace (approximately 11 percent per year), the debt service will require a higher allocation of CenturyLink's cash flow from operations. The increased debt service could potentially result in hindering CenturyLink from upgrading its current network infrastructure and may delay or cease broadband expansion in CenturyLink's legacy service area as overall demand for landlines falls. In fact, a May 5, 2010, article from MarketWatch points out that total phone lines, including business and wholesale, dropped 10.5 percent to 9.39 million from a

[24] CenturyLink SEC Form S-4, dated July 16, 2010, at 113. Included in Staff Exhibit 102, page 23.

year earlier; and that second quarter 2010 revenue dropped 5 percent from the same quarter of 2009.[25]

Concerning the risk of increased leverage, Staff Ordonez in Staff/200, Ordonez/6, succinctly states:

> Financial leverage is the extent to which a company relies on debt rather than equity for capitalization. Measurements of financial leverage assist in determining the likelihood a firm will default on its contractual debt. The more debt there is on a company's balance sheet relative to equity, the greater the probability that it will be unable to fulfill its contractual obligations. [26]

Additionally, because Qwest's debt is currently non-investment grade, CenturyLink's acquisition of Qwest could result in a possible downgrade of CenturyLink's credit rating from BBB- to BB+ or BB (*See* Staff/200, Ordonez/13). Staff Ordonez also points out in Staff/200, Ordonez/12 that Qwest has a higher prospective interest rate than CenturyLink's in issuing debt securities. Higher interest rates result in higher debt service payments. As previously mentioned, the increased debt service will require a higher allocation of CenturyLink's cash flow from operations, which could hinder CenturyLink from upgrading its current network infrastructure and may delay or cease broadband expansion in CenturyLink's legacy service area as overall demand for landlines falls.

Staff Ordonez also discusses profitability and the effect of lower profitability in Staff/200, Ordonez/7. In Table 2 of Staff/200, Ordonez/7, Mr. Ordonez shows the CenturyLink's pre-merger profitability (EBITDA Margin) will decrease from

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[25] http://www.marketwatch.com/story/qwest-communications-profit-drops-26-2010-08-04.
[26] Ross, Westerfield and Jaffe, Corporate Finance 36 (McGraw-Hill Irwin, 2005).

its current 50 percent to a 41 percent post-merger profitability. The lower levels of profit could become a detriment to CenturyLink's current customers because a less profitable and more leveraged company may experience more difficulties and costs in procuring capital in the capital markets. These may affect the level of investment including investments in broadband by CenturyLink towards its current pre-merger customers.

Q. HOW DOES CENTURYLINK'S CAPITAL STRUCTURE DIFFER BETWEEN PRE- AND POST-MERGER?

A. In CenturyLink's response to Staff Data Request No. 3,[27] the Company provides the pre- and post-merger capital structure and cost of capital:

Table 3 - Pre-Merger Capital Structure

Component	**% of Capital**	**Cost**	**Weighted Cost**
Long Term Debt	42.60%	7.65%	3.26%
Preferred Stock	N/A	N/A	00.00%
Common Equity	57.40%	10.40%	5.97%
Total	**100%**		**9.23%**

Table 4 - Post-Merger Capital Structure

Component	**% of Capital**	**Cost**	**Weighted Cost**
Long Term Debt	52.10%	8.15%	4.25%
Preferred Stock	N/A	N/A	00.00%
Common Equity	47.90%	13.40%	6.42%
Total	**100%**		**10.67%**

As can be seen from the above tables, the post-merger company has a higher debt level, higher cost of debt, and a higher cost of capital. To address the

[27] Included in Staff Exhibit 102, page 24.

potential harm of the capital structure on customers, Staff's recommended condition 8 states:

> The Operating Companies will not advocate in any general rate case proceeding for a higher overall cost of capital as compared to what its cost of capital would have been absent the transaction, but the Operating Companies may seek a cost of capital under the then-existing capital market conditions.

Q. DOES STAFF PROPOSE ANY METHODS TO RING FENCE THE OPERATING COMPANIES FROM THE CENTURYLINK?

A. No. Ring fencing the Oregon operating companies from CenturyLink would be a challenge due to CenturyLink's proposed organizational structure. Based on the proposed organizational structure, CenturyLink's Oregon operating companies would not be well-defined subsidiaries that have their own credit ratings and access to capital. Further, the nature of the business activities across the CenturyLink subsidiaries may not be sufficiently diversified to enable a non-consolidation opinion to be obtained even if the operating companies were well-defined subsidiaries.

Staff's perspective on ring fencing continues to be that ring fencing energy utilities is always appropriate and achieves the desired effect of isolating the utility from negative financial impacts created by its parent company or other affiliates. In a bankruptcy of an energy utility, customers face significant risks due to the uncertainty of preeminence of federal versus state law. For example, a plan for reorganization put forth by creditors could entail selling generation assets including low cost resources, or selling storage facilities for natural gas companies. If adopted, customers would lose the benefits of those resources and the state may not be successful in opposing such a structuring given the uncertainty over whether federal bankruptcy preempts state regulatory authority. The output from electrical generating resources can be sold in the wholesale market distinct from the retail customers of the utility.

With respect to telecommunications utilities, presumably the greatest value for creditors of local plant is one of continued operations. It is doubtful that local loop and switches would be transported and sold elsewhere and as such is quite different from electricity economics. Because of the different nature of operations between energy utilities and telecommunications, ring fencing could be counterproductive for telecommunications utilities and possibly result in higher interest rates and increased financial risks of the operating companies.

In UM 1431 (Commission Order No. 10-067), the parties agreed to replace the Staff recommended ring fencing condition with a broadband commitment that invests up to $25 million in Oregon and increases broadband availability in 18 wire centers in Oregon. The commitment includes a fast (two-year) completion, which ensures broadband investments will be quickly focused towards Oregon. As a result, the Commission should require a similar broadband commitment from CenturyLink. There are significant risks, most notably financial, competition, and corporate focus, to the transaction. A broadband commitment would offset risks of the transaction with a benefit for customers.

SYNERGY SAVINGS

Q. DOES CENTURYLINK ADDRESS SYNERGY SAVINGS OF THE TRANSACTION?

A. Yes. CenturyLink believes it may achieve $575 million in annual operating cost synergies and $50 million in annual capital expenditure (capex) synergies. These purported synergies will result from savings in corporate overhead, network and operational efficiencies, Information Technology (IT) support, increased purchasing power, and advertising and marketing.[28]

Q. ARE THESE SYNERGY SAVINGS SIMILAR TO THE SYNERGY SAVINGS REPORTED IN THE EMBARQ/CENTURYTEL MERGER, DOCKET NO. UM 1416?

A. Yes. Staff calculates that the synergy savings are approximately 8.7 percent of consolidated EBITDA.[29] In UM 1416, the Embarq/ CenturyTel synergy savings were approximately 9.5 percent of consolidated EBITDA.[30] As a result, the synergy savings, if achieved, are comparable to those projected in the Embarq/CenturyTel merger. In a highly confidential response to a Staff Data Request, CenturyLink demonstrated significant strides in achieving the synergy savings stated in UM 1416. However, it should be noted that some of CenturyLink's post-transfer financial projections take into consideration the synergy savings. As such, if CenturyLink does not fully achieve the synergy

[28] CenturyLink and Qwest Merger Conference Call, dated April 22, 2010. Included in Staff Exhibit 102, page 13.
[29] CenturyLink witness Bailey, actually estimates in CTL/300, Bailey/15 that the $625 million in combined synergy savings is less than 8 percent of Qwest's operating cash. Mr. Bailey also states that the synergy savings are below 9 percent of the target company cash operating expenses.
[30] Based on data included in Staff's UM 1416 public meeting memo.

savings, net income and cash flow will be lower than current projections. As previously mentioned, CenturyLink in its SEC Form S-4 points out that

> The inability to successfully combine the businesses of CenturyLink and Qwest in a manner that permits the combined company to achieve the cost savings anticipated to result from the merger, which would result in the anticipated benefits of the merger not being fully realized in the time frame currently anticipated or at all.[31]

Q. ARE OREGON OPERATIONS INCLUDED IN THE SYNERGY SAVINGS?

A. No, at least not initially. However, the Company has not offered any commitments concerning retention and pay of Oregon personnel in the same manner as Frontier in UM 1431.

Q. DOES THE AMOUNT OF SYNERGY SAVINGS POSE A POTENTIAL RISK TO CUSTOMERS?

A. Yes. Although the purported synergies will result from savings in corporate overhead, network and operational efficiencies, Information Technology (IT) support, increased purchasing power, and advertising and marketing, CenturyLink will also be required to pay stated dividends, service the higher debt load, confront increasing landline losses, and invest in certain investments that may be required as part of any state or federal merger approval. If all these factors come into play, investments needed to improve or maintain the current level of service for Oregon retail customers may become a low priority of the Company.

[31] CenturyLink SEC Form S-4, dated June 4, 2010, at 17. Included in Staff Exhibit 102, page 17.

GOODWILL

Q. ARE THERE GOODWILL ISSUES CONCERNING THIS TRANSACTION?

a. Yes. Partially as a result of previous transactions, CenturyLink currently shows $10.252 billion of goodwill on its pro forma balance sheet. In an acquisition, goodwill is recognized as the excess of the cost of an acquired entity over the net of the amounts assigned to identifiable assets acquired (including identifiable intangibles) and liabilities assumed.[32] Based on the pro forma financial statements contained in the Form S-4 (Joint Proxy Statement) filed with the SEC, the estimated post-merger goodwill that will be carried on CenturyLink's balance sheet is approximately $20,681 billion,[33] which is over double the current amount. In CTL/300, Bailey/33, Mr. Bailey states in footnote 23 that the transaction premium is estimated to be approximately 15 percent using the share prices of Qwest and CenturyLink at the New York Stock Exchange close of the day before the announcement.[34]

The potential problem with a large amount of goodwill on a company's books is that goodwill cannot be amortized over a given period of time. According to Generally Accepted Accounting Principles (GAAP), goodwill must be tested for impairment on an annual basis. Impairment occurs when the fair value of a long-term asset group is less than the book value. If goodwill is impaired, its carrying amount is reduced and an impairment loss is recognized on a

[32] *GAAP 2005, Interpretation and Application of Generally Accepted Accounting Principles*, Wiley, page 367. Included in Staff Exhibit 102, page 25.
[33] Figures taken from CenturyLink's SEC Form S-4, dated July 16, 2010, page 112. Included in Staff Exhibit 102 page 26.
[34] Docket UM 1484, CTL/300, Bailey/23.

company's income statement. As a result, impairment losses could potentially create earnings volatility with no cash flow effects and signal a loss in economic value of the company.

Both CenturyLink and Qwest's 2009 annual evaluation of goodwill resulted in conclusions that goodwill was not impaired. If goodwill was substantially impaired, the impairment loss would be a non-cash charge to earnings and would not, by itself, necessitate the issuance of debt or other financing for the impairment loss. Staff placed a recommended condition that goodwill would be carried on the books of the parent company and that the Company would not seek to recover in Oregon retail or wholesale rates any acquisition premium paid by CenturyLink to Qwest.

Q. IN ADDITION TO THE DIVIDEND CONDITION, DOES STAFF RECOMMEND ADDITIONAL FINANCIAL CONDITIONS?

A. Yes. Staff recommends six additional conditions which require enhanced reporting concerning Net debt/trailing 12-month EBITDA, increased reporting concerning financial data, a restriction of requesting approval from the Commission to encumber the assets of the Operating Companies, restriction of including any acquisition premium in rates, and agreement by CenturyLink that the Qwest operating company would be subject to ORS 759.395 and ORS 759.380, notwithstanding the price plan. Staff believes that a commitment from CenturyLink that the Qwest operating company would be subject to ORS 759.395 and ORS 759.380 is important in order to ensure the Commission approval authority over a subsequent sale of Qwest properties.

Q. HAS THE COMMISSION APPROVED FINANCIAL CONDITIONS IN PREVIOUS TELECOMMUNICATIONS MERGER FILINGS?

A. Yes. The Commission has placed financial conditions on previous mergers/financing applications. These financial conditions include:

- UM 1416 (CenturyTel/Embarq), Commission Order No. 09-169, Conditions 4.j., 4.k., 4.l., and 4.m; and
- UM 1431 (Verizon Northwest/Frontier), Commission Order No. 10-067, Conditions 15 to 17.

The Commission should adopt Staff's recommended conditions concerning, records, access to books, rates, and tariffs. These recommended conditions reduce the risks of the transaction and help ensure that the "in the public interest, no harm" standard is met.

<u>RECORDS/RATES/TARIFFS/ACCESS TO BOOKS</u>

Q. ARE THERE CONCERNS ABOUT CENTURYLINK'S ABILITY TO PROVIDE ACCESS TO BOOKS AND RECORDS?

A. No. CenturyLink has previously met all Oregon reporting and tariff requirements. However, because of the significant change in the scale of CenturyLink's Oregon operations, Staff recommends certain conditions (listed later in testimony) in order to ensure that:

- Staff has proper access to all books and records of the transaction;
- The four current Oregon operating companies are maintained immediately after completion of the transaction;
- Existing agreements are maintained;
- Existing tariffs are maintained;

- Qwest's UM 1354 price plan (Order Nos. 08-408, 08-544, and 10-215) is maintained for the Qwest ILEC;
- The transaction is transparent to customers;
- Customers will not be harmed by higher rates that result from the transaction; and
- The Commission is able to monitor the impacts on Oregon operations and customers.

Q. HAS THE COMMISSION PREVIOUSLY APPROVED RECORDS, ACCESS TO BOOKS, RATES, AND TARIFF CONDITIONS IN PREVIOUS TELECOMMUNICATIONS MERGER ORDERS?

A. Yes. The Commission has required records, access to books, rates and tariff conditions in previous telecommunications merger applications. These dockets include:

- UM 1416 (CenturyTel/Embarq), Commission Order No. 09-169, Conditions 1, 2, 3, 4.d., 4.e., 4.f, 4.g., 4.h., 4.i., and 4.o; and
- UM 1431 (Verizon Northwest/Frontier), Commission Order No. 10-067, Conditions 1 to 13.

The Commission should adopt Staff's recommended conditions concerning, records, access to books, rates, and tariffs. These recommended conditions reduce the risks of the transaction and help ensure that the "in the public interest, no harm" standard is met.

SERVICE QUALITY

Q. ARE THERE CONCERNS ABOUT CENTURYLINK'S ABILITY TO PROVIDE ADEQUATE LEVELS OF RETAIL SERVICE QUALITY?

A. Yes. Both Staff Witness Reynolds (Staff/300) and Staff Witness Emmons (Staff/400) discuss service quality issues and associated concerns resulting from the transfer. Recommended ordering conditions 22 through 28 (listed later in testimony) ensure that adequate service quality is maintained through enhanced service quality and safety reporting and actions. As previously mentioned, CenturyLink may come under pressure to reduce investments and operations in Oregon in order to maintain shareholder dividends, service a greater debt load, or allocate capital resources to other states that resulted from acceptance of certain merger conditions. Staff recommended condition 24 allows Staff to have the ability to monitor CenturyLink's investments in Oregon including a comparison to other states. This condition will allow Staff to be proactive in working with the Company to ensure Oregon retail service quality is not deteriorated.

Staff recommended ordering condition 28 requires CenturyLink to construct a physical communication link between the cities of Lincoln City and Newport, Oregon, which would allow network redundancy. Commission Safety Staff believes that this link is necessary as a result of system outages, community isolation, and lack of network redundancy. Additionally, Staff has received a letter in support of such condition from the Oregon Military Department, Oregon Emergency Management (OEM).[35] In UM 1484 CUB/100, Feighner/3, Mr. Feighner also supports construction of a physical connection between Lincoln City and Newport, Oregon, or some other form of network redundancy.

Q. IN PARKER COMMUNICATIONS/100, PARKER/3-4, MR. PARKER RECOMMENDS A MORE DETAILED COMMITMENT CONCERNING COASTAL NETWORK REDUNDANCY. DOES STAFF BELIEVE THE ADDITIONAL REQUIREMENTS ARE NECESSARY?

A. No. Discussions with Safety Staff who act as a liaison to OEM believe that the Staff recommended condition is adequate to ensure network redundancy. I have been informed that Safety Staff had previously suggested in dialogue with the Lincoln County Legislative Representative and with the former Commission Chair that the resolution of redundancy could have been solved by the collaborative actions of resident Lincoln County CLECs. This suggestion was rejected by these parties in favor of placing the cost, construction, maintenance and the operation of the deployment, which enables the diverse routing of region traffic on the incumbents in North and South Lincoln County.

Secondly, if this stipulation is enacted and becomes operational, ISP operators can contract with the incumbent for Special Access services which could access the proposed facility at the existing tariff rates.

[35] Included in Staff Exhibit 102, page 27.

Q. HAS THE COMMISSION APPROVED SERVICE QUALITY STANDARDS IN PREVIOUS TELECOMMUNICATIONS MERGER ORDERS?

A. Yes. The Commission has required service quality standards in previous merger applications. These dockets include:

- UM 1416 (CenturyTel/Embarq), Commission Order No. 09-169, Condition 4.n; and
- UM 1431 (Verizon Northwest/Frontier), Commission order No. 10-067, Conditions 18 to 27.

The Commission should adopt Staff's recommended service quality and safety conditions. These recommended conditions reduce the risks of the transaction and help ensure that the "in the public interest, no harm" standard is met.

<u>OPERATING SUPPORT SYSTEMS</u>

Q. ARE THERE CONCERNS ABOUT CENTURYLINK'S AND QWEST'S OPERATION SUPPORT SYSTEMS (OSS)?

A. No, not initially. It is important to note that CenturyLink has yet to complete its customer conversion project, including Oregon customers, from its merger with Embarq. In CTL/202, Schafer, the Company's witness sets a third quarter 2011 completion time for the customer conversion. According to the timeline, the Company completed conversion of its Ohio and North Carolina customers in May 2010. It is important to note that if CenturyLink acquires Qwest's 10 million access lines, it will have grown by approximately nine times its size within less than two years. The concern is that CenturyLink is still in the midst of fully integrating the former Embarq customers into CenturyLink and sufficient time has not passed to determine how smoothly that merger activity will actually have progressed before the Commission must make a determination on the more significant merger with Qwest.

CenturyLink may eventually transition Qwest from the Qwest systems to CenturyLink's OSS. Because the transferred Qwest properties are larger than CenturyLink's current properties, Staff has no means of being assured that CenturyLink's OSS can handle the increased traffic, both retail and wholesale. As a result, Staff condition 29 requires certain reporting by the Company on its OSS conversion activities. Both Staff Witnesses Reynolds and Marinos further discuss OSS aspects and risks of this transaction in Staff/300 and Staff/500.

Q. IS CENTURYLINK PERFORMING A REPLICATION OF QWEST'S OSS IN A SIMILAR FASHION AS OCCURRED IN UM 1431?

A. No. CenturyLink is acquiring Qwest as a whole, which is unlike UM 1431 where Frontier only acquired certain Verizon properties and not Verizon as a whole. As a result, CenturyLink will not have to replicate the Qwest OSS as was required by Frontier in UM 1431. Although at some point in the future, CenturyLink may integrate the Qwest OSS to the CenturyLink OSS. In a response to Staff Data Request No. 32, CenturyLink stated:

> At this time, system integration plans for the proposed transaction with Qwest have not been fully developed. In fact, complete integration plans cannot be developed until the merger is concluded. However, because the transaction results in the entirety of Qwest, including operations and systems, merging into and operating as a subsidiary of CenturyLink, it will allow a disciplined approach to systems

> and practices integration decisions to proceed in a disciplined manner.[36]

When asked for additional clarification on its plans concerning wholesale OSS operations, the Company responded to Staff Data Request No. 60 by stating:

> Integration planning is in the early stages and decisions on wholesale OSS systems have not been made at this time. Upon merger closing, there will be no immediate changes to Qwest's or CenturyLink's OSS. Any changes will occur only after a thorough and methodical review of both companies' systems and processes to determine the best system to be used on a go-forward basis. Decisions will be made from both a combined company and a wholesale customer perspective and consistent with the continued provision of quality service to our wholesale customers.[37]

Although Staff does not have any reason not to believe that the Company will take a disciplined and methodical approach, Staff is requiring certain reporting concerning the integration of Qwest's OSS.

Q. PLEASE EXPLAIN STAFF'S SPECIFIC CONDITION TO ADDRESS THE COMPANY'S CURRENT AND FUTURE OSS?

A. Yes. Staff recommended condition 29 (listed later in testimony) requires CenturyLink to maintain Qwest's legacy OSS intact for a minimum of three years after closing of the transaction; and requires increased reporting concerning the UM 1416 CenturyTel/Embarq conversion. Staff believes that the Company's increased focus on integrating Qwest properties may take focus off its current customers. As such, Staff is recommending reporting concerning the CenturyLink legacy properties to ensure current customers are not harmed by this transaction. As a result of the inherent risks (personnel,

[36] Included in Exhibit Staff 102, page 28.
[37] Included in Exhibit Staff 102, page 29.

technical, data integration, support) surrounding the different OSSs that will be used by CenturyLink, the Commission should adopt Staff's recommended conditions as necessary to meet the statutory standard, "in the public interest, no harm" for approving the transaction.

CAPITAL EXPENDITURES

Q. DOES STAFF INCLUDE ANY SPECIFIED AMOUNT OF CAPITAL EXPENDITURES IN THE RECOMMENDED CONDITIONS?

A. With the exception of broadband expansion and a physical communication link between the cities of Lincoln City and Newport, Oregon, Staff is not requiring any specific amount of capital expenditures in the recommended conditions. Based on the no harm standard, Staff believes that the test of sufficient capital expenditures will be reflected in CenturyLink's ability to meet its service quality requirements pursuant to Commission statutes and rule (ORS 759.450 – 455 and OAR 860-023-0055). The service quality standards are effectively the performance measurements in place to ensure adequate customer service. Staff Witnesses Reynolds and Emmons further discuss the service quality aspects of this transaction in Staff/300 and Staff/400. With that said, Staff has concerns about the age of CenturyLink and Qwest switches.

Staff's recommended condition 24 was included to partially address these concerns. Additionally, as previously mentioned, condition 24 allows Staff to have the ability to monitor CenturyLink's investments in Oregon including a comparison to other states. This condition will allow Staff to be proactive in working with the Company to ensure Oregon retail service quality is not deteriorated.

BROADBAND

Q. DID STAFF PROPOSE A BROADBAND CONDITION SIMILAR TO THE ONE ACCEPTED BY THE COMMISSION IN UM 1431?

A. Yes. Staff modeled a Broadband Condition, recommended condition 13, that closely resembles the broadband condition in UM 1431. Similar to concerns in UM 1431, Staff has concerns that during the post-transaction period, CenturyLink may not have the financial capability and the adequate attention to invest in the Oregon communications network; and the sufficiency of funds to dedicate to Oregon-specific investments. To realize public benefits and to protect against potential harms, CenturyLink should be required to spend a specific level of capital expenditures for broadband over a defined period of time, in order to meet specific accessibility milestones. Staff's recommended condition requires CenturyLink to spend $20 million for broadband improvements by July 1, 2012. Additionally, the condition requires CenturyLink to place $40 million in an escrow account in order to achieve certain accessibility and broadband speed milestones.

A broadband commitment should provide the Commission a high degree of certainty that CenturyLink will commit sufficient capital and attention to maintain and enhance its Oregon network. Additionally, the quick timeline to make capital improvements will help reduce the risk of a future unforeseen financial circumstance that would preclude the commitment from being fulfilled.

The $40 million recommended by Staff to be placed in escrow will also ensure funds are set aside and dedicated to Oregon.

It is important to note that in Qwest testimony, Qwest/1, Peppler/9, the Qwest witness states:

> Qwest is seeking $44 million in Oregon to fund projects totaling $59 million for the deployment of broadband services to more than 71,000 new living units.[38]

This statement indicates that there is additional opportunity to expand broadband in Oregon. This expansion should not only occur in Qwest service territory, but for legacy CenturyLink territories. Expansion in legacy CenturyLink territory is necessary to offset the risk of the transaction on CenturyLink's rural customers.

As previously mentioned, CenturyLink has not completed the customer conversion in Oregon as it has in Ohio and North Carolina. Although Staff is confident that the Federal Communication Commission (FCC) will impose broadband conditions on CenturyLink, Staff believes that Oregon should not be last in line to receive any FCC mandated broadband expansion. Staff's condition 13 would prevent a lack of focus in Oregon. As previously mentioned, Oregon customers are exposed to significant risks from the transaction and a dedicated effort to improve broadband associability in Oregon would help offset the considerable risks. This is important because CenturyLink witness Bailey in CTL/300, Bailey/16 states that the process of integration is too early to estimate the full extent of opportunities for increased

[38] Docket UM 1481, Qwest/1, Peppler/9-10

broadband penetration rates in the combined service territory.[39] It is important to note that a total investment of $60 million equals approximately $71 per line based on a total combined access line count of 851,042. On a per line basis this is approximately 24 percent less than what Frontier committed in UM 1431 ($25 million divided by 269,415 access lines - $93 per access lines). The $71 per line is also minimal compared to the $5,208 per line that CenturyLink invested in Oregon wire line improvements.[40] As previously mentioned, dividend payments of $2.90 per share will equal approximately $1.73 billion paid annually to shareholders. In comparison, the Company should be willing to show a commitment to Oregon of $60 million over a three year period.

Staff condition 14 requires broadband reporting. This condition mirrors the broadband reporting condition imposed by the Commission in UM 1431. Staff believes there should not be a degradation in conditions that have been previously imposed by the Commission. Staff believes these requirements are consistent with the "in the public interest, no harm" standard.

Q. HAVE YOU REVIEWED MR. PARKER'S TESTIMONY CONCERNING RELIABILITY AND SPEED OF THE INTERNET?

A. Yes.

Q. DO YOU BELIEVE THIS CONDITION IS NECESSARY?

A. Staff has not had sufficient time to examine the technical aspects of

[39] Docket UM 1484 CTL/300, Bailey/16.
[40] Response to Staff Data Request No. 25. Included in Staff Exhibit 102, pages 30.

Mr. Parker's recommendation. However, Staff's condition 13 allows for a total of $60 million to spend on broadband infrastructure improvements. If sufficient funds are available after the milestones listed in condition 13 are completed, Staff would support the use of surplus funds to effectuate Mr. Parker's recommended condition.

COMPETITIVE ISSUES / LONG DISTANCE

Q. WOULD THIS TRANSACTION HAVE ANY NEGATIVE EFFECTS ON COMPETITION?

A. Yes. Staff Witness Marinos discusses potential problems concerning competition, wholesale customers, and interconnection aspects of this transaction in Staff/500. Staff Witness Marinos also addresses the risks associated with CenturyLink not being a BOC and the recommended conditions to minimize these risks. Additionally, Staff witness Marinos addresses concerns about Long Distance and recommends certain conditions to remedy these concerns.

OTAP / LIFELINE

Q. DOES STAFF HAVE CONCERNS ABOUT THE MERGER'S EFFECT ON OREGON TELEPHONE ASSISTANCE PROGRAMS (OTAP) AND LIFELINE?

A. Yes. Staff Witness Cray explains Staff's concerns about OTAP/Lifeline and recommends certain conditions to remedy these concerns in Staff/600.

AFFILIATED INTERESTS

Q. ARE THERE AFFILIATED INTEREST CONCERNS REGARDING THIS TRANSACTION?

A. Yes. There are basically two affiliated interest (AI) issues: (1) Qwest being exempted from affiliated interest filings resulting from UM 1354, Qwest's price plan; and (2) the current status of the management service AI agreement between CenturyLink and CenturyLink operating companies, including the three CenturyLink ILECs. According to CenturyLink's response to Staff Data Request No. 23:

> CenturyLink does not currently anticipate changes in the type of affiliated services provided to or from the Oregon operating companies as a result of the transaction. To the extent affiliated interest changes do occur, new or updated agreements will be filed with the Commission as appropriate.[41]

Concerning Qwest and AI contracts, Qwest is currently exempt from affiliated interest filings as a result of its price plan. To ensure CenturyLink is not over allocating management or other affiliate costs to Qwest, recommended condition 53 will require CenturyLink to file an updated Cost Allocation Manual for services that reflect as charges and credits to operating accounts in each operating company's Oregon Form-O within six months after close of the transaction.

[41] Included in Staff Exhibit 102, page 31.

Q. HAS THE COMMISSION APPROVED AI CONDITIONS IN PREVIOUS TELECOMMUNICATIONS MERGER FILINGS?

A. Yes. The Commission has placed AI conditions on previous mergers/financing applications. These AI conditions include:

- UM 1416 (CenturyTel/Embarq), Commission Order No. 09-169 Conditions 4.p. and 4.q; and
- UM 1431 (Verizon Northwest/Frontier), Commission Order No. 10-067, Conditions 51 to 53.

The Commission should adopt Staff's recommended AI conditions. These recommended conditions reduce the risks of the transaction and help ensure that the "in the public interest, no harm" standard is achieved.

ISSUE 3 - RECOMMENDED CONDITIONS PROPOSED BY STAFF

Q. PLEASE SUMMARIZE STAFF'S RECOMMENDED CONDITIONS.

A. A complete listing of the conditions starts on page 45 of this testimony. As previously mentioned Staff separated the conditions into general categories. These categories are:

- Records/Rates/Tariffs/Access to Books
- Broadband
- Financial
- Service Quality and Safety – Retail
- Operations Support Systems
- Wholesale Services
- Long Distance
- OTAP/Lifeline
- Affiliated interests/Non-regulated Operations
- Most Favored State Commitment

Records/Rates/Tariffs/Access to Books

These conditions are recommended in order to ensure:

- Staff has proper access to all books and records of the transaction;
- The four current Oregon operating companies are maintained immediately after completion of the transaction;
- Existing agreements are maintained;
- Existing tariffs are maintained;
- Qwest's UM 1354 price plan (Order Nos. 08-408, 08-544, and 10-215) is maintained for the Qwest ILEC;
- The transaction is transparent to customers;
- Customers will not be harmed by higher rates that result from the transaction; and
- The Commission is able to monitor the impacts on Oregon operations and customers.

Broadband

These conditions are recommended in order to ensure:

- Adequate investment in broadband improvements in Oregon including a specified amount to be placed in an escrow account to ensure funds are available for improvements; and
- Enhanced broadband reporting.

Financial

These conditions are recommended in order to ensure:

- A restriction on dividends by the operating companies to any affiliate if CenturyLink's Net Debt/trailing 12-month EBITDA is more than 2.6x;
- Enhanced reporting by CenturyLink;

- CenturyLink will not encumber the assets of the Oregon Operating Companies;
- Prevention of any acquisition premium going into rates; and
- CenturyLink agrees post-merger that any sale, transfer, or merger concerning Qwest properties will be subject to ORS 759.395 and ORS 759.380, notwithstanding the price plan.

Service Quality and Safety – Retail

These conditions are recommended in order to ensure:

- Enhanced service quality and safety reporting;
- A commitment by CenturyLink to maintain minimum service quality standards as being reported in Qwest's monthly service quality reports; and
- A commitment by CenturyLink to construct a physical communication link between the Cities of Lincoln City and Newport, Oregon within 24 months following the close of the transaction.

Operations Support Systems

These conditions are recommended in order to ensure:

- Enhanced reporting on integration efforts;
- Maintaining the current Qwest legacy OSS intact for a minimum of three years; and
- Achieving Commission approval prior to modifying Qwest/CenturyLink OSS

Wholesale Services

These conditions are designed to ensure that competitors and their customers are not harmed by the transaction; and that competition continues to be fostered in Oregon. Additionally, these conditions address the concerns of CenturyLink not having experience as a BOC.

Long Distance

These conditions are recommended in order to ensure current customers are afforded current choices concerning long distance service and the opportunity to change providers without paying any change charges for 90 days after close of the transaction.

OTAP/Lifeline

These conditions require enhanced reporting concerning OTAP/Lifeline programs.

Affiliated Interests/Non-regulated Operations

These conditions require enhanced affiliated interest reporting and timely filing of affiliated interests contracts that result from the transaction.

Most Favored State Commitment

This condition requires a favored state commitment that is consistent with the condition included in Commission Orders Nos. 09-169 and 10-067 for telecommunications utilities. Additionally, favored state conditions were also included in the UM 1209 (PacifiCorp/MEHC) and UM 1283 (Cascade Natural Gas/MDU Resources) stipulations.

STAFF'S RECOMMENDED CONDITIONS

Records/Rates/Tariffs/Access to Books

1. CenturyLink Inc. (CenturyLink) shall provide the Public Utility Commission of Oregon (Commission) access to all books of account, as well as, all documents, data, and records that pertain to the transaction.

2. The Commission reserves the right to review, for reasonableness, all financial aspects of this transaction in any rate proceeding or earnings review under an alternative form of regulation.

3. The Applicants shall immediately notify the Commission of any substantive material changes to the transaction terms and conditions from those set forth in their Application that: (1) occur while a Commission order approving the transaction is pending, or (2) occur before the transaction is closed, but after the Commission issues its order approving the transaction. The Applicants must also submit a supplemental application for an amended Commission order in this docket if the substantive transaction conditions and terms affecting Commission regulated services change as set forth in this condition.

4. Except as authorized by this Commission, CenturyLink (referring to the parent company at the conclusion of this transaction) will maintain an organizational structure that includes the four separate ILECs in Oregon (no change from current allocated areas) – CenturyTel of Oregon Inc., CenturyTel of Eastern Oregon, Inc. United Telephone Company of the Northwest (dba Embarq), and Qwest Corporation (Qwest) (collectively, Operating Companies). CenturyLink (also referred to as "Company") agrees that an application must be filed with the Commission should it propose to merge or consolidate the operations of the Operating Companies, to the extent required by Oregon law.

5. Prior to the closing of the transaction, customer notification of the merger and change of parent company will be given to all local exchange and long distance customers and comply with any Oregon and FCC rules and regulations. This notice will include notification to all existing and acquired OTAP/Lifeline customers that the acquisition will not affect their OTAP/Lifeline credits and that there is no action required on their part. Prior to the notification, CenturyLink will submit a draft of the OTAP/Lifeline portion to the OTAP Manager for review.

6. No Commission-regulated intrastate service currently offered by Qwest in Exchange and Network Services Tariff No. 33 and Private Line Transport Services Tariff No. 31 will be discontinued for a period of at least three years following the Closing Date, except as approved by the Commission.

7. Post-closing, the Qwest Operating Company shall follow the terms and conditions of Qwest's UM 1354 price plan (Order Nos. 08-408, 08-544, and 10-215). An exception to this condition is noted in Condition 12 below. Any proposed changes to the approved price plan must receive Commission approval. Within 60 days following any branding or administrative changes to Qwest's Oregon rates, rules, and regulations, CenturyLink will file updated Qwest Oregon rates, rules, and regulations that show the branding change.

8. The Operating Companies will not advocate in any general rate case proceeding for a higher overall cost of capital as compared to what its cost of capital would have been absent the transaction, but the Operating companies may seek a cost of capital under the then-existing capital market conditions.

9. Operating Companies will not seek recovery of one-time transition, branding or transaction costs in Oregon intrastate regulated rate proceedings. Operating Companies will not seek to recover through wholesale service rates one-time transaction, branding or transition costs.

10. Operating Companies will hold retail and wholesale customers harmless for increases in overall management costs that result from the transaction.

11. As a requirement for post merger financial reporting, each operating company will submit the Commission standard *Annual Report* Form O and Commission standard *Oregon Separated Results of Operations Report* Form I, unless otherwise approved by the Commission.

12. Beginning with the first of the month following 12 months after close of the transaction, and for two subsequent 12-month periods, CenturyLink shall file with the Commission a report describing:

    a. Substantive activities undertaken relating to integrating Qwest operations with CenturyLink, as well as achieving synergies made available as a result of this transaction. CenturyLink synergies will be reported on a CenturyLink total company basis;

    b. Costs and projected savings of each such respective activity on a CenturyLink total company and Oregon-allocated basis;

    c. Organizational and staff force changes in Oregon operations; and,

    d. Impacts on Oregon operations and customers.

    e. The reporting requirement required by Condition 12 shall end with the submission of the third report unless otherwise directed by the Commission.

Broadband

13. Before July 1, 2012, CenturyLink will prudently expend up to $20 million on broadband deployment in CenturyLink territory in Oregon. Before July 1, 2014, CenturyLink will prudently expend an additional $40 million ($60 million in aggregate) in the CenturyLink territory in Oregon. Funds used for investment can include Company funds, federal stimulus funds received through the American Recovery and Reinvestment Act (ARRA), Broadband Investment Plan (BIP), other stimulus or a combination of funds. CenturyLink will have broadband service available in not less than 95% of the legacy CenturyLink Oregon wire centers within two years of closing of the proposed transaction. By July 1, 2014, in aggregate, no less than 95% of households in legacy CenturyLink wire centers will have broadband available at no less than 1.5 mbps download speed. By July 1, 2014, in aggregate, no less than 95% of households in legacy Qwest wire centers will have broadband available at no less than 4.0 mbps download speed. CenturyLink may petition the Commission for a slower speed if 1.5 mbps or 4.0 mbps download speed cannot effectively be deployed.

    By July 1, 2013, CenturyLink shall report to the Commission on its progress towards meeting the broadband deployment thresholds contained in this condition. Should it appear that CenturyLink will not expend the entire $60 million meeting these thresholds, then CenturyLink shall consult with the Commission to identify additional priority areas within Oregon for which the remaining $60 million shall be expended.

    Within 180 days after closing, CenturyLink will submit to the Commission Staff a detailed broadband deployment plan identifying the wire centers and geographic areas CenturyLink is targeting for additional broadband deployment, any anticipated engineering or technical issues associated with the deployment, and the expected timeline for completing the deployment. CenturyLink agrees to consult with Staff regarding the timing of the deployment in specific wire centers and geographic areas the Commission identifies as priority areas.

    During the three-year period after closing, CenturyLink will file quarterly reports with the Commission, for Commission and CUB review, detailing the broadband deployment that CenturyLink has completed to date, identifying the additional number of households capable of receiving broadband during that preceding period, identifying any impediments that may prevent fulfillment of this condition and describing additional deployment CenturyLink plans to implement in the following year.

Within 60 days of closing, CenturyLink shall deposit in an Oregon bank account, Oregon escrow account or other Oregon account as approved by the Commission ("Account") $40 million to fulfill the remaining broadband commitment and this Account shall remain in place, retaining all deposited funds and interest thereon, until CenturyLink has met and completed, to the satisfaction of the Commission in its sole and reasonable discretion, the above broadband commitment contained in this condition (the Broadband Commitment).

In addition, any portion of the $20 million that has not been expended on broadband deployment as of July 1, 2012, in accordance with the first sentence of this condition shall also be deposited into the Account. The Account shall not be subject to any liens, security interests or claims of any other kind from any entity except CenturyLink and the Commission. In the event that CenturyLink does not ever meet the Broadband Commitment, the funds and all interest and earnings shall remain in the Account. Any administrative costs associated with the maintenance of the Account shall be borne solely by CenturyLink and not included in regulated accounts. In the event an institution acceptable to the Commission cannot be found to hold the Account under the conditions set forth in this condition, then the parties shall use best efforts to agree to an acceptable alternate method of setting aside funds that will be an equivalent financial incentive to CenturyLink to meet this condition. CenturyLink commits that this condition will not result in the diminishment of Oregon maintenance and investment expenditures in Oregon outside plant.

If CenturyLink determines that it is technically infeasible to fulfill one or more of the broadband deployment objectives identified above, CenturyLink will immediately (within 30 days of determining technical infeasibility) submit to the Commission a detailed report identifying the technical or operational impediments and limitations that prevent fulfillment of the condition and propose an alternative broadband deployment plan that provides at least a similar level of public benefit. The Commission may accept the alternative plan, or if it determines the alternative plan does not provide a similar level of public benefit, the Commission may order a different broadband deployment plan to provide a similar level of public benefit as an alternative to satisfy this condition.

Once the Commission makes this determination the Account funds will be released for the purpose of enhancing broadband quality and capacity and availability. CenturyLink and Qwest will report in its annual Form O Report for the current and preceding three years of expenditures in Plant Accounts 2111 – 2690 and Operating Expense Accounts 6110 – 6720.

14. Given that the Commission is approving the transaction based in part on the increased availability of broadband, CenturyLink is directed to provide the following reporting requirements:

    a. Not less than 90 days following the first anniversary of the close of the transaction, and for the four subsequent annual periods, CenturyLink shall provide the following reports on the preceding twelve-month period, regarding the provision of DSL service in Oregon:

    b. By month, the numbers of initial and verified trouble report complaint (TRC) data.

    c. The types and duration of TRCs.

    d. A brief caption as to the cause of each TRC. (TRCs may be grouped into categories for administrative reporting simplicity.)

    The filing must thoroughly document what information CenturyLink collects in the form of customer complaints about DSL service on the number, types, and causes of trouble that impinge on CenturyLink's provisions of DSL service in Oregon.

    CenturyLink must also file a report with the Commission not less than 90 days following the first anniversary of the close of the transaction, and for the four subsequent annual periods, the following:

    a. By customer class, wire center, by month, the number of DSL subscriptions.

    b. By customer class, wire center, by month, the number of requested DSL subscriptions.

Financial

15. If post-merger CenturyLink Inc.'s quarterly Net Debt/trailing 12-month EBITDA is more than 2.6x, the Operating Companies of post-merger CenturyLink Inc.'s will limit payments of dividends on common equity distributed to any company (including affiliates and subsidiaries of post-merger CenturyLink Inc.) holding shares of the Operating Companies to an amount not more than 50 percent of net income in the preceding fiscal year. The Operating Companies will limit payment of dividends on common equity in any quarter, if dividends are distributed quarterly, to not more than one-fourth of the annual limitation amount of 50 percent of net income in the preceding fiscal year.

a. The Net Debt/trailing 12-month EBITDA ratio will be calculated by Bloomberg L.P., as of the date post-merger CenturyLink files its quarterly 10-Q report with the Securities and Exchange Commission.

16. Within 30 days after the close of the transaction, CenturyLink will notify Commission staff of:

a. Post-merger CenturyLink's consolidated 2010 Net Debt/trailing 12-month EBITDA.

b. Post-merger rating agency reports of CenturyLink.

c. Pre-merger stand-alone CenturyLink's price per share as of the date of closing of the merger.

d. Pre-merger stand-alone Qwest's price per share as of the date of closing of the merger.

17. CenturyLink will not encumber the assets of the Oregon Operating Companies that are necessary or useful in the performance of their duties to the public without seeking Commission approval pursuant to ORS 759.375.

18. CenturyLink agrees that it will not seek to recover in Oregon intrastate regulated retail or wholesale rates any acquisition premium paid by CenturyLink for Qwest. Any acquisition premium will be recorded in the books at the parent level.

19. CenturyLink agrees that post-merger that any sale, transfer, or merger concerning Qwest properties will be subject to ORS 759.395 and ORS 759.380, notwithstanding the price plan.

20. After the closing of the transaction and for a period of not less than three years, CenturyLink must file with the Commission quarterly reports with:

a. CenturyLink's consolidated balance sheet.

b. Intercompany receivables and payables showing the beginning balance, the change for the quarterly and the ending balance of those accounts will be submitted to the Commission. This report shall be filed annually on April 1 of each year.

c. Dividend payments declared by CenturyLink to its shareholders (in total and per share) for that same time period.

21. These quarterly reports in condition 20 should be filed no more than 90 days following the close of each quarter. CenturyLink could waive this condition if its post transaction issuer credit rating is affirmed as investment grade by two of the following credit rating agencies: Fitch Ratings, Standard and Poor's or Moody's Investor Services.

Service Quality - Retail

22. Immediately after the close of this transaction, the Operating Companies will report retail service quality results in accordance with OAR 860-023-0055. CenturyTel is currently exempt from service quality reporting, having met the conditions of OAR 860-023-0055(16)(d), but is required to submit to the Commission the monthly CenturyTel retail service quality reports for two years after the close of this transaction.

23. CenturyLink will maintain current Commission minimum retail service quality standards (OAR 860-023-0055) as are currently being reported in the Qwest's monthly service quality reports to the Commission. If CenturyLink fails to maintain the current service quality levels for the Qwest Operating Company, it will be subject to potential penalties as set forth in ORS 759.450.

24. No later than one year from the close of the transaction, CenturyLink will provide to the Commission the following:

    a. A multi-year strategic plan that identifies the expected remaining life of each of the base unit and remote switches currently deployed in legacy Qwest's and legacy CenturyLink franchise area in Oregon and a proposed replacement plan for the switches, if any, so that CenturyLink will be able to meet the then current service standards pursuant to Oregon statutes and rules.

    b. For three years, an annual report detailing Oregon capital expenditures concerning planned actions on subsection (a) above. Included in the report will be a comparison of the amount of planned Oregon capital expenditures as a percentage of total system expenditures; and a comparison of the amount of capital expenditure per Oregon access line with the amount of capital expenditure per CenturyLink system-wide access lines.

25. CenturyLink will provide to Commission Staff in electronic form, and subject to confidentiality, the detailed, Form-477 data that the four Operating Companies are currently providing to the FCC for their service areas. This will be done annually for three years beginning with the year after the closing

of the transaction, subject to the continuation of the requirement for filing with the FCC.

Safety

26. CenturyLink is committed to complying with all applicable federal and Oregon safety standards and requirements, and will commit to comply with the safety and reliability laws in Oregon per ORS 757.035, OAR 860 Division-024, and OAR 860 Division-028.

27. Within seven (7) days after close of the transaction, CenturyLink agrees to provide the Commission a listing of CenturyLink primary and secondary points of contact within its new organization for safety and pole attachment matters.

28. CenturyLink will construct a physical communication link between the Cities of Lincoln City and Newport, Oregon within 24 months following the close of the transaction. The deployment expectation is that this link construct have, at a minimum, the bandwidth capacity of OC-192 in both directions to each community.

Operations Support Systems (OSS)

29. The Applicants commit to the following OSS actions:

General

Operations support systems included in this requirement will include:

a. Systems used to monitor cable and pair information and operation,
b. Systems used to track or monitor in-service circuit equipment information,
c. Systems used to track or monitor switch components,
d. Billing systems, and
e. Systems used for customer pre-ordering, ordering, provisioning, maintenance, and repair operations.

This requirement applies to both wholesale and retail systems.

CenturyLink will keep Qwest's legacy operations support systems intact for a minimum of three years after the closing of the transaction.

Prior to modifying or integrating existing Qwest/CenturyLink operations support systems, CenturyLink will request approval from the Commission six months in advance of the proposed action. Notification will consist of a description of the systems involved, the action to be taken, the proposed work schedule, a description of the Company's and customers' activities that will be affected, and a list of status reports to be provided to the Commission.

<u>CenturyTel – Embarq Conversions</u>
CenturyLink will provide to Commission Staff quarterly reports for the state of Oregon for the same performance measures as those currently submitted to the FCC in FCC 09-54. This reporting requirement will begin with data for the first quarter following Commission approval of the merger and will continue at least through the end of 2012. During 2012, Commission staff will analyze the performance data and recommend whether there is a need for continued reporting.

CenturyLink will enable Commission staff to access the service quality data currently available to CLECs on the company's website.

Wholesale Services

30. CenturyLink will honor, assume or take assignment of all obligations under Qwest's existing interconnection agreements. CenturyLink will not terminate, change the conditions of (with the exception of those governing expiration), or increase the rates in, any effective interconnection agreement during the unexpired term of the agreement, or for a period of four years from the Closing Date, whichever occurs later, unless requested by the non-ILEC interconnecting party, approved by the Commission, or required by a change of law. Furthermore, CenturyLink will allow requesting carriers to extend existing interconnection agreements, whether or not the initial or current term has expired, at least four years from the Closing Date, or the date of expiration, whichever is later.

31. CenturyLink will honor or assume all obligations in effect as of the Merger Filing Date under Qwest's current intrastate tariffs, including those for access services, and price lists for wholesale services. CenturyLink will not increase rates for such services for a period of at least four years from the Closing Date.

32. CenturyLink will continue to provide intrastate transit service in all ILEC territories subject to the same rates, terms, and conditions that were provided as of the Merger Filing Date unless approved or directed otherwise by the Commission.

33. No Qwest wholesale intrastate service offered to competitive carriers as of the Merger Filing Date will be discontinued for four years after closing of the transaction except as approved by the Commission.

34. CenturyLink and all of its ILEC affiliates will comply with the statutory obligations applicable to all incumbent local exchange carriers (ILECs) under 47 U.S.C. Section 251 and 252. In the legacy Qwest territory, CenturyLink will not seek to avoid any of its obligations on the grounds that it is exempt from any of the obligations pursuant to Section 251(f)(1) or Section 251(f)(2) of the Act.

35. After the close of the transaction the legacy Qwest ILEC territory shall continue to be classified as a Bell Operating Company ("BOC"), pursuant to Section 3(4)(A)-(B) of the Communications Act and shall be subject to all requirements applicable to BOCs, including but not limited to the "competitive checklist" set forth in Section 271(c)(2)(B) of the Act.

36. In the legacy Qwest ILEC territory, CenturyLink shall comply with all wholesale performance requirements for all wholesale services, including those set forth in regulations, tariffs, and interconnection agreements applicable to legacy Qwest as of the Merger Filing Date, unless otherwise directed by the Commission or agreed to by customers.

37. Following the Closing Date, CenturyLink shall continue to comply with the provisions of the Qwest Performance Assurance Plan (QPAP) that are in effect as of the Merger Filing Date for at least four years following the Closing Date, or such period as negotiated by any other party in this docket, whichever is longer. CenturyLink shall provide the monthly reports of wholesale performance metrics that Qwest currently provides to Staff and to each CLEC. Any changes to the PIDs or PAP must be approved by the Commission or agreed to by affected wholesale customers. Staff will monitor QPAP reported data and alert the Commission if service performance appears to be deteriorating from pre-merger levels.

38. After the close of the transaction, CenturyLink shall provide and maintain updated escalation information, contact lists and account manager information that is in place at least 30 days prior to the transaction close date. For changes to support center locations, wholesale customer-impacting organizational structures, or contact information, CenturyLink will provide at least 30 days advance written notice to all CLECs and Commission Staff.

39. CenturyLink will continue to make available to each wholesale carrier in the Legacy Qwest ILEC territory the types of information that Qwest made available as of the Merger Filing Date concerning wholesale Operational Support Systems functions and wholesale business practices and

procedures, including information provided via the wholesale web site, notices, industry letters, the change management process, and databases/tools.

40. CenturyLink will maintain the current Qwest Change Management Process (CMP), utilizing the terms and conditions set forth in the CMP Document. Pending CLEC Change Requests shall be completed in a commercially reasonable time frame.

41. CenturyLink shall ensure that Wholesale and CLEC support centers are sufficiently staffed by adequately trained personnel dedicated exclusively to wholesale operations so as to provide a level of service that is comparable to that which was provided in the Legacy Qwest ILEC area prior to the transaction and to ensure the protection of CLEC information from being used for CenturyLink's retail operations.

42. The Merged Company shall allow a requesting competitive provider to use its pre-existing interconnection agreement, including agreements entered into with Qwest, as the basis for negotiating a new replacements interconnection agreement. If Qwest and a requesting competitive carrier are in negotiations for a replacement interconnection agreement before the Closing Date, the Merged Company will allow the requesting carrier to continue to use the negotiations draft upon which negotiations prior to the Closing Date have been conducted as the basis for negotiating a replacement interconnection agreement.

43. In the Legacy CenturyLink ILEC territory, the Merged Company will permit a requesting carrier to opt into any interconnection agreement to which Qwest is a party in Oregon, including agreements in evergreen status

Long Distance

44. For at least 180 days following the close of the proposed transaction, CenturyLink will offer substantially the same intrastate toll calling services, at the same rates, in the pre-merger Qwest area as provided by Qwest immediately prior to the closing. This includes the bundled service offerings of local and long distance at the same rates as set forth in the price lists of Qwest. In addition, CenturyLink will honor all commitments made by Qwest to customers regarding the terms for which promotional discounts on intrastate long distance services apply.

45. If CenturyLink changes the carriers it uses to provide intrastate long distance service to customers in either the pre-merger CenturyLink or the pre-merger Qwest areas, the company will notify each of the affected Oregon intrastate

long distance customers at least 30 days in advance of the change. Furthermore, for 90 days following any such change, CenturyLink will waive any change charges, e.g., PICs, for any affected long distance customer choosing to change carriers

OTAP/Lifeline

46. CenturyLink will designate a representative to serve on the Commission's Oregon Telecommunications Industry Advisory Committee which generally convenes on a quarterly basis should the incumbents representing Qwest and CenturyLink respectively, vacate their seats as a result of the merger.

47. Prior to any billing system consolidations or changes, CenturyLink will notify the OTAP Manager and Administrative Specialist with a description of how the OTAP credits are listed on customer bills. CenturyLink will also provide the OTAP Manager and Administrative Specialist a sample copy of a customer's bill that lists the OTAP/Lifeline credits. The OTAP Manager and Administrative Specialist will accept a redacted copy in which the customer's personal identifying information is protected.

48. CenturyLink will maintain staffing levels for its existing territories and its newly acquired territory for daily communications with Commission Staff regarding daily OTAP/Lifeline questions and concerns and OTAP/Lifeline reporting issues. Prior to any billing system consolidations or changes, CenturyLink will provide notice to the OTAP Manager of any of its staffing level changes, including its staff for filing with the Commission OTAP reimbursement reports, in any of its territories.

49. If legacy Embarq or CenturyTel staff identify an approved OTAP/Lifeline customer for the other's territory on a Commission-approval report due to Commission Staff error, legacy staff may either:

  a. Notify the OTAP Manager and Administrative Specialist of the discrepancy on the No Match report
  b. Contact legacy staff (and the OTAP Manager and Administrative Specialist) of the customer's respective territory to apply the OTAP/Lifeline credit to their account.

Note this does not apply to Qwest transactions due to its automated systems.

50. Before the close of transaction, CenturyLink will designate at least one liaison for higher level discussions with the OTAP Manager should the incumbents representing Qwest and CenturyLink respectively, vacate their positions as a result of the merger.

51. Post merger, CenturyLink will advise the OTAP Manager of any impending OTAP/Lifeline marketing and outreach efforts (e.g. radio public service announcements). In addition, CenturyLink will provide the OTAP Manager electronic copies of its OTAP/Lifeline advertising collateral.

52. Prior to the merger, CenturyLink including Embarq and Qwest will have no outstanding debt to the Commission with respect to the RSPF surcharge collection, remittance, and reporting requirements.

53. CenturyLink will provide notice to and obtain input from the OTAP Manager prior to making material changes to the existing Qwest mechanized OTAP reporting system.

Affiliated Interests/Non-regulated Operations

54. CenturyLink agrees that the Operating Companies will comply with all applicable Commission statutes and regulations regarding affiliated interest transactions, including timely filings of applications and reports, consistent with their respective forms of regulation, and terms of such regulation, as applicable to each respective Operating Company. To the extent affiliated interest changes do occur, the Company or its Operating Companies will make the appropriate affiliated interest filings pursuant to ORS 759.390 consistent with their respective forms of regulation.

55. Within 9 months after the close of this transaction, CenturyLink will file with the Commission affiliated interest agreements including an updated Cost Allocation Manual for services that reflect as charges and credits to operating accounts in Operating Companies' Form O.

56. The certificates of all CenturyLink and Qwest entities certified as Competitive Providers in Oregon will remain in effect and unchanged as of the date of close of the transaction. Thereafter, CenturyLink and Qwest will report any changes affecting those certificates in compliance with applicable Commission statutes and regulations.

Most Favored State Commitment

57. CenturyLink agrees that the Conditions may be expanded or modified as a result of regulatory decisions in other states and the FCC, including decisions based upon settlements, that impose conditions or commitments related to this merger proposal. CenturyLink agrees that the Commission may adopt any commitments or conditions from other states and the FCC that are

adopted after the final order in UM 1484 is issued that are related to addressing harms of this transaction if:

The commitment or condition does not result in the combined company being required to provide a "net benefit" and either:

i. The Commission or Staff had not previously identified the harm to Oregon ratepayers and such harm is applicable to Oregon; or

ii. The commitments or conditions in a final order of another state and the FCC are more effective at preventing a harm previously identified by the Commission or Staff.

Should new commitments or conditions meeting the requirements of subsections i. or ii. of this paragraph occur, CenturyLink will commit to the following process to facilitate a prompt decision from the Commission under this section:

a) Within fifteen (15) calendar days after a final order adopting a new condition or stipulation with new or amended commitments by a commission in another state jurisdiction and the FCC, CenturyLink will send a copy of the stipulation and commitment to Oregon Commission Staff and to all parties in UM 1484.

b) CenturyLink will notify the Commission that they have received the last such final order from other states and the FCC adopting new conditions, stipulations or commitments (the "Final Filing") within fifteen (15) calendar days of receipt and send it to Staff and all UM 1484 parties.

c) Within fifteen calendar days after the last such filing from the other states and the FCC ("Final Filing"), any party to this proceeding may file with the Commission its response, including its position as to whether any of the covenants, commitments and conditions from the other jurisdictions (without modification of the language thereof except such non-substantive changes as are necessary to make the commitment or condition applicable to Oregon), meets the two requirements set forth above, and should be adopted in Oregon. Any party filing such a response should serve it upon the UM 1484 parties.

Q. DO YOU BELIEVE THAT THESE CONDITIONS ARE SUFFICIENT TO FULLY MITIGATE THE RISKS TO THIS TRANSACTION?

A. No. As previously mentioned, although Staff believes its recommended conditions reduce the risks of the transaction, Staff does not believe its conditions will completely mitigate the risks to meet the statutory requirements due to the change in financial risk, wholesale competition risk, and the inability to effectively ring fence the Oregon operating companies from the parent, CenturyLink under the proposed organizational structure. With that said, many of these conditions were accepted by the Commission in the CenturyTel/Embarq merger approved in docket UM 1416 and the indirect transfer of Verizon Northwest properties to Frontier Communications Corporation approved in docket UM 1431.

Q. DOES THIS CONCLUDE YOUR REPLY TESTIMONY?

A. Yes.

CASE: UM 1484
WITNESS: Michael Dougherty

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 101

Witness Qualification Statement

September 3, 2010

WITNESS QUALIFICATION STATEMENT

NAME:	MICHAEL DOUGHERTY
EMPLOYER:	PUBLIC UTILITY COMMISSION OF OREGON
TITLE:	PROGRAM MANAGER, CORPORATE ANALYSIS AND WATER REGULATION
ADDRESS:	550 CAPITOL ST. NE, SALEM, OR 97308-2148
EDUCATION:	Master of Science, Transportation Management, Naval Postgraduate School, Monterey, CA Bachelor of Science, Biology and Physical Anthropology, City College of New York, New York, NY
EXPERIENCE:	Employed with the Oregon Public Utility Commission from June 2002 to present, currently serving as the Program Manager, Corporate Analysis and Water Regulation. Performed a five-month job rotation as Deputy Director, Department of Geology and Mineral Industries, March through August 2004. Employed by the Oregon Employment Department as Manager - Budget, Communications, and Public Affairs from September 2000 to June 2002. Employed by Sony Disc Manufacturing, Springfield, Oregon, as Manager - Manufacturing, Manager - Quality Assurance, and Supervisor - Mastering and Manufacturing from April 1995 to September 2000. Retired as a Lieutenant Commander, United States Navy. Qualified naval engineer. Member, National Association of Regulatory Commissioners Staff Sub-Committee on Accounting and Finance. Team Member in UE 1206, PGE Issuances of Securities (PGE Independence); Team Member in UM 1209, MEHC acquisition of PacifiCorp; Team Member in UM 1283, MDU acquisition of Cascade Natural Gas Corporation; Team Leader in UM 1416, Merger of CenturyTel and Embarq; and Team Leader in UM 1431, Merger of Verizon Northwest and Frontier.

CASE: UM 1484
WITNESS: Michael Dougherty

PUBLIC UTILITY COMMISSION OF OREGON

STAFF EXHIBIT 102

Exhibits in Support Of Reply Testimony

September 3, 2010

CenturyLink and Qwest Merger Transaction Overview
Oregon Public Utility Commission

May 3, 2010

CenturyLink™

Qwest®

Transaction Summary

Transaction Structure:	All stock combination
Fixed Exchange Ratio:	0.1664 shares of CenturyLink stock per share of Qwest stock
Pro Forma Ownership:	50.5% CenturyLink shareholders / 49.5% Qwest shareholders
Enterprise Value:	$22.4 billion
Financing:	No new financing or refinancing required
Closing Conditions:	HSR, FCC, certain state regulatory approvals; CenturyLink and Qwest shareholder approvals; and other customary closing conditions

CenturyLink™

Qwest

Management Team

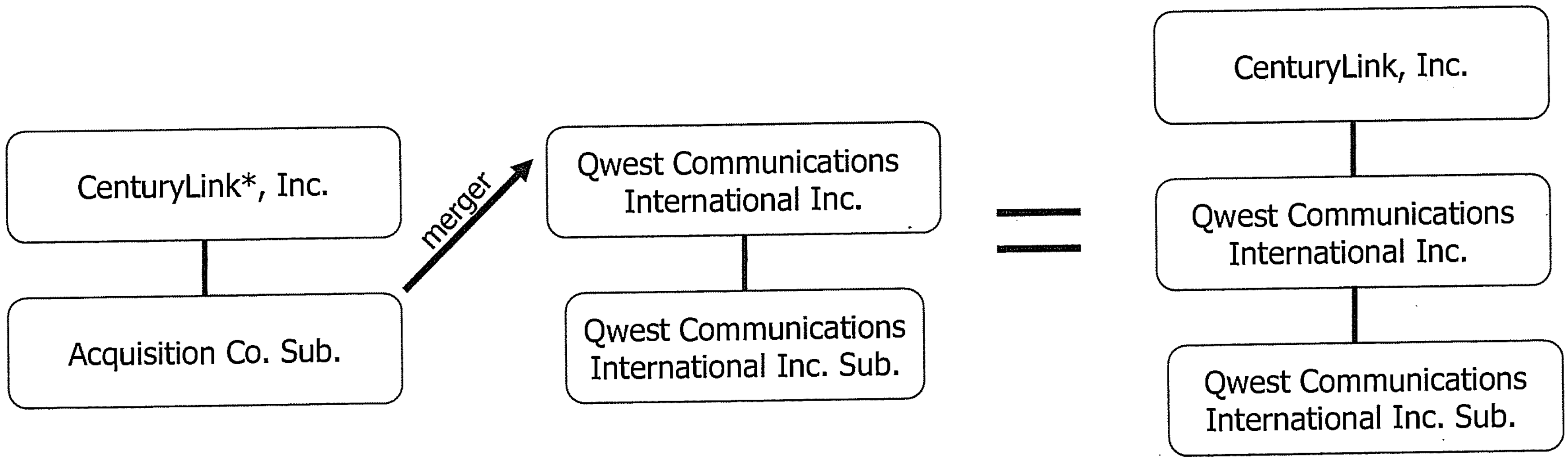
Experienced management team with strong integration track record:

- Chairman of the Board: William A. Owens
- Chief Executive Officer & President: Glen F. Post III
- Chief Financial Officer: R. Stewart Ewing Jr.
- Chief Operating Officer: Karen A. Puckett
- President of Business Markets Group: Christopher K. Ancell
- Board Members: 4 members from the current Qwest Board, including Edward A. Mueller, Qwest's Chairman and Chief Executive Officer to be added to CenturyLink Board

CenturyLink™

Qwest.

How the merger will work; Simple and Straightforward

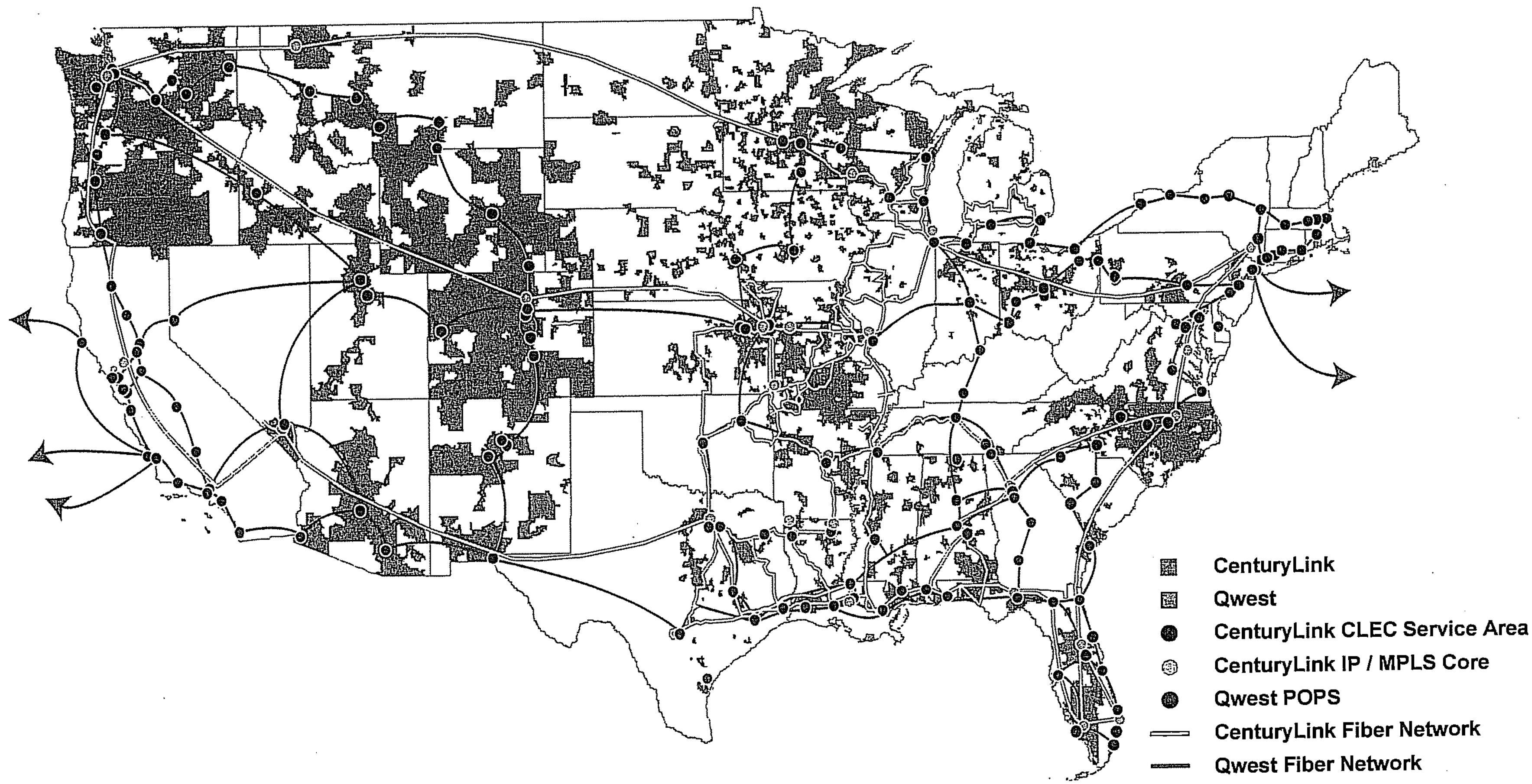


- Acquisition Co. Subsidiary will merge with and into Qwest Communications International Inc.
- Qwest Communications International Inc. becomes wholly-owned subsidiary of CenturyLink, Inc.
- *The CenturyTel name will change to CenturyLink with shareholder approval on May 20, 2010

CenturyLink™

Qwest.

A Local Operating Model with A Premier Nationwide Network



CenturyLink™

Qwest.

Key Transaction Attributes

Transformational transaction will create a nationwide, industry-leading communications company

- Extensive broadband footprint and capabilities
- 173,000-mile fiber network
- Enhanced ability to competitively roll out strategic products such as IPTV and other high-bandwidth services
- Strong financially sound company
- Strong competitor in enterprise markets
- Strong local and national operator serving 5 million broadband customers and 17 million access lines across 37 states

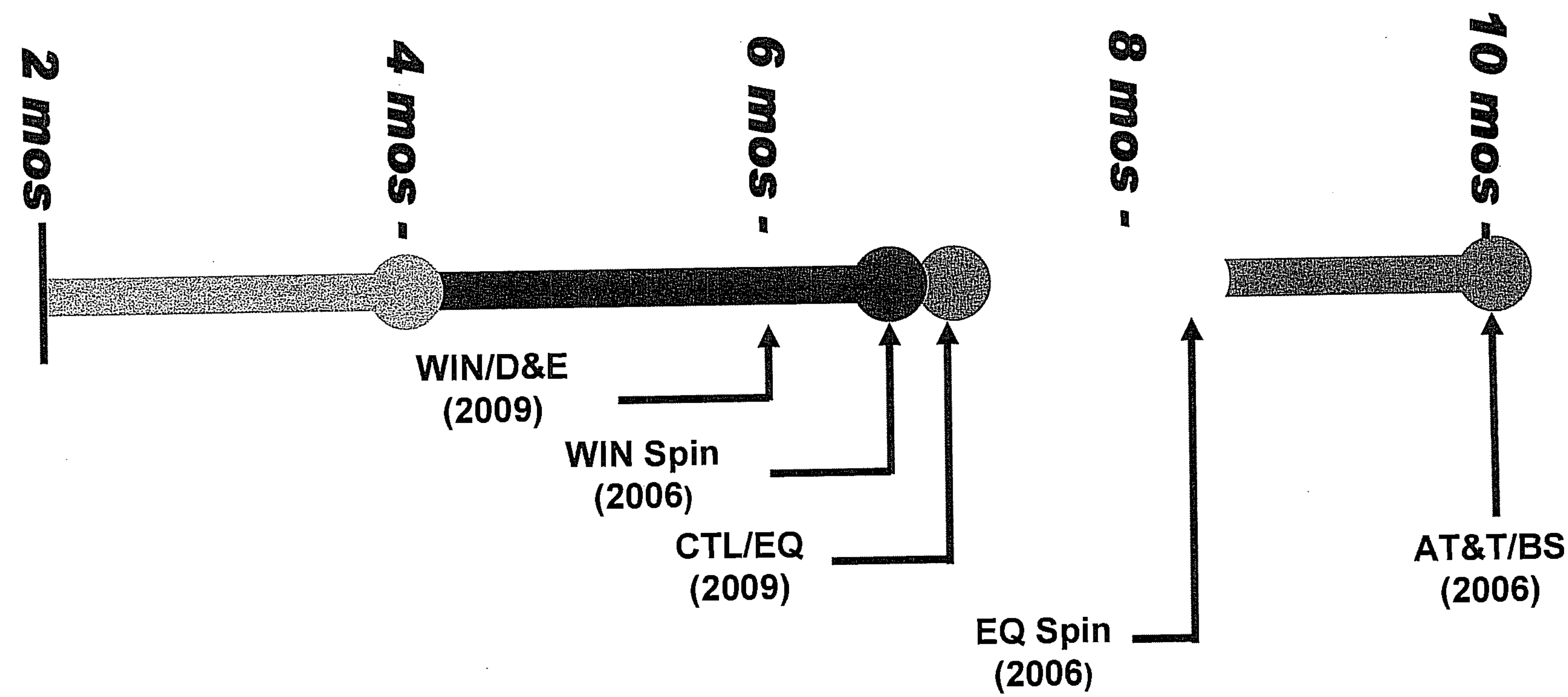
CenturyLink™

Qwest.

Customer Benefits

1. **Increased Capabilities**: Creates a stronger data/voice and long-haul competitor to the long haul efforts of the two largest integrated communications companies
2. **Expanded and Enhanced Consumer Offerings**: Increases the likelihood of faster, broader broadband service deployment enabling terrestrial based video competition via IPTV
3. **Customer Focus**: Creates a local go-to-market focus bringing decisions closer to the needs of local customers and communities
4. **Financial Strength and Flexibility**: The combined company's sound capital structure will support its ability to take advantage of opportunities that may arise, while continuing to invest in its business

TRANSACTION APPROVAL TIMELINE



In Summary: Transaction = Win for Customers

This transaction is a win for customers, communities, and government:

- Better positioned to make investments that benefit customers in the form of broadband expansion and services, IPTV, and other innovative products
- The communities we serve will benefit as our innovative services spur economic development
- Businesses, government, healthcare and educational institutions will greatly benefit from the coast-to-coast reach of the new company's telecom infrastructure

This transaction is a pure and simple stock-for-stock exchange

This transaction requires no additional debt and there are no financing or refinancing conditions:

- The financial benefits flowing from the combined strength of the two companies enhances our ability to serve customers, communities, and government

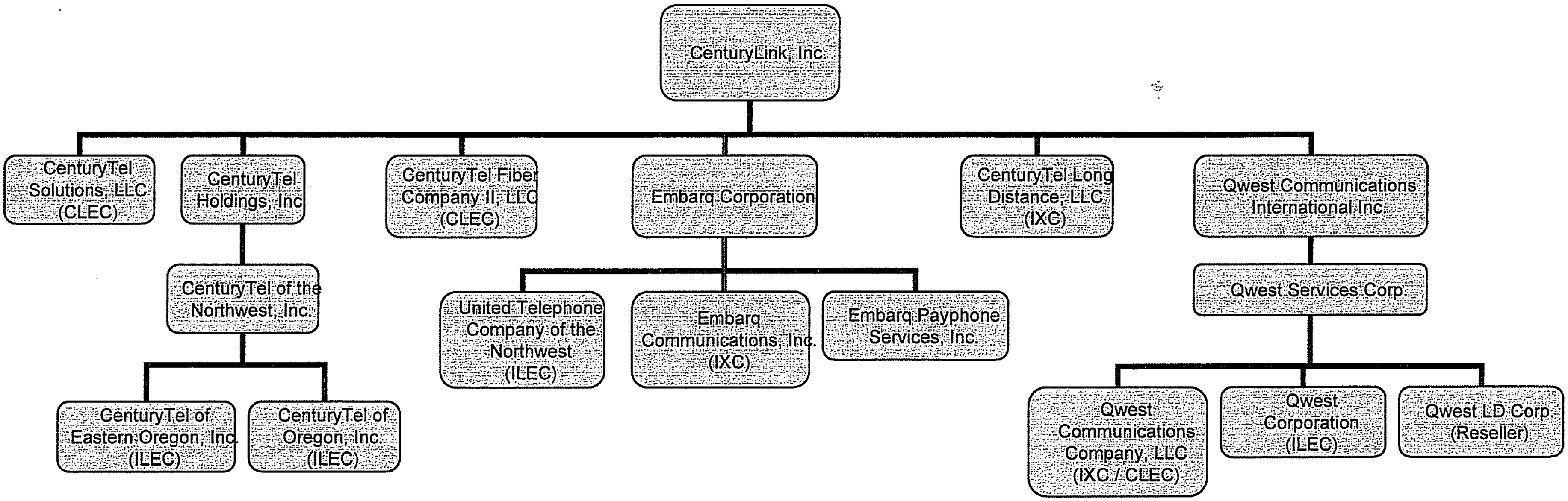
CenturyLink™

Qwest

OREGON

Organizational Structure Diagrams

Post - Merger



Staff/102
Dougherty/10

Oregon
Docket No. UM 1484
Response to Staff Data Request No. 24
Respondent: John Felz

STAFF - 24

In the following table (Excel) format, please provide the status of all federal and state regulatory agencies that have approval authority over the merger.

Regulatory Agency	**Approval Necessary (Yes/No)**	**Current Status if Approval is Pending**	**Scheduled Hearing Date (if applicable)**	**Projected Close Date**
List Federal				
List State				

RESPONSE:

Regulatory Agency	**Approval Necessary (Yes/No)**	**Current Status if Approval is Pending**	**Scheduled Hearing Date (if applicable)**	**Projected Close Date**
Federal Filings				
DOJ/FTC	Yes	Initial HSR filing on 5/12/2010; refiled on 6/15/10 to provide additional information	N/A	Pending
FCC	Yes	214 Application filed on 5/7/2010	Comments due 7/12/10; reply comments due 7/27/10	Pending
State filings – ILEC States				
Arizona	Yes	Application filed 5/28/10	Schedule Pending	Pending
California	Yes	Advice letter filed 5/14/10	N/A	Pending
Colorado	Yes	Application filed 5/27/10	Schedule Pending	Pending
Georgia	Yes	Application filed 5/2510	Schedule Pending	Pending
Iowa	Yes	Application filed 5/24/10	Schedule Pending	Pending
Louisiana	Yes	Application filed 5/19/10	Schedule Pending	Pending
Minnesota	Yes	Application filed 5/13/10	Schedule Pending	Pending

Regulatory Agency	Approval Necessary (Yes/No)	Current Status if Approval is Pending	Scheduled Hearing Date (if applicable)	Projected Close Date
Mississippi	Yes	Application filed 5/25/10	Schedule Pending	Pending
Montana	Yes	Application filed 5/28/10	Schedule Pending	Pending
Nebraska	Yes	Application filed 6/4/10	Schedule Pending	Pending
New Jersey	Yes	Application filed 5/19/10	Schedule Pending	Pending
Ohio	Yes	Application filed 5/28/10	Schedule Pending	Pending
Oregon	Yes	Application filed 5/21/10	October 20-21	Pending
Pennsylvania	Yes	Application filed 5/14/10	Schedule Pending	Pending
Utah	Yes	Application filed 5/28/10	October 26-27	Pending
Virginia	Yes	Application filed 5/25/10	Schedule Pending	Pending
Washington	Yes	Application filed 5/13/10	January 5-7, 2011	Pending
State Filings – Non-ILEC States				
Alaska	Yes	Application filed 6/3/120	Schedule Pending	Pending
District of Columbia	Yes	Application filed 6/4/10	Schedule Pending	Pending
Hawaii	Yes	Application filed 6/3/10	N/A	Approved 6/15
Maryland	Yes	Application filed 6/8/10	Schedule Pending	Pending
New York	Yes	Application filed 6/4/10	Schedule Pending	Pending
West Virginia	Yes	Application filed 6/4/10	Schedule Pending	Pending

Estimated Synergies & Integration Costs

Operating Cost Synergies	• Corporate Overhead • Network and Operational Efficiencies • IT Support • Increased Purchasing Power • Advertising / Marketing	~$575 million annually
Capex Synergies		~$50 million annually
Integration Costs	• One-time operating costs to achieve synergies • One-time capital costs to achieve synergies	$650 - $800 million $150 - $200 million

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RISK FACTORS

In addition to the other information included and incorporated by reference into this joint proxy statement–prospectus, including the matters addressed in the section entitled "Cautionary Statement Regarding Forward–Looking Statements," you should carefully consider the following risks before deciding whether to vote for adoption of the merger agreement, in the case of Qwest stockholders, or for the issuance of shares of CenturyLink common stock in the merger, in the case of CenturyLink shareholders. In addition, you should read and consider the risks associated with each of the businesses of CenturyLink and Qwest because these risks will also affect the combined company. These risks can be found in CenturyLink's and Qwest's respective Annual Reports on Form 10–K for fiscal year 2009, as updated by subsequent Quarterly Reports on Form 10–Q, all of which are filed with the SEC and incorporated by reference into this joint proxy statement–prospectus. You should also read and consider the other information in this joint proxy statement–prospectus and the other documents incorporated by reference into this joint proxy statement–prospectus. See the section entitled "Where You Can Find More Information" beginning on page 131.

Risk Factors Relating to the Merger

The exchange ratio is fixed and will not be adjusted in the event of any change in either CenturyLink's or Qwest's stock price.

Upon the closing of the merger, each share of Qwest common stock will be converted into the right to receive 0.1664 shares of CenturyLink common stock with cash paid in lieu of fractional shares. This exchange ratio was fixed in the merger agreement and will not be adjusted for changes in the market price of either CenturyLink common stock or Qwest common stock. Changes in the price of CenturyLink common stock prior to the merger will affect the market value of the merger consideration that Qwest stockholders will receive on the date of the merger. Stock price changes may result from a variety of factors (many of which are beyond our control), including the following factors:

- changes in our respective businesses, operations, assets, liabilities and prospects;
- changes in market assessments of the business, operations, financial position and prospects of either company;
- market assessments of the likelihood that the merger will be completed, including related considerations regarding regulatory approvals of the merger;
- interest rates, general market and economic conditions and other factors generally affecting the price of CenturyLink's and Qwest's common stock; and
- federal, state and local legislation, governmental regulation and legal developments in the businesses in which Qwest and CenturyLink operate.

The price of CenturyLink common stock at the closing of the merger may vary from its price on the date the merger agreement was executed, on the date of this joint proxy statement–prospectus and on the date of the special meetings of CenturyLink and Qwest. As a result, the market value of the merger consideration represented by the exchange ratio will also vary. For example, based on the range of closing prices of CenturyLink common stock during the period from April 21, 2010, the last trading day before public announcement of the merger, through July 15, 2010, the latest practicable date before the date of this joint proxy statement–prospectus, the exchange ratio of 0.1664 shares of CenturyLink common stock represented a market value ranging from a low of $5.48 to a high of $6.02.

Because the merger will be completed after the date of the special meetings, at the time of your special meeting, you will not know the exact market value of the CenturyLink common stock that Qwest stockholders will receive upon completion of the merger. You should consider the following two risks:

- If the price of CenturyLink common stock increases between the date the merger agreement was signed or the date of the CenturyLink special meeting and the effective time of the merger, Qwest stockholders will receive shares of CenturyLink common stock that have a market value upon completion of the merger that is greater than the market value of such shares calculated pursuant to the exchange ratio when the merger agreement was signed or the date of the CenturyLink special meeting, respectively. Therefore, while the number of CenturyLink common shares to be issued per Qwest common share is fixed, CenturyLink shareholders cannot be sure of the market value of the consideration that will be paid to Qwest stockholders upon completion of the merger.

- If the price of CenturyLink common stock declines between the date the merger agreement was signed or the date of the Qwest special meeting and the effective time of the merger, including for any of the reasons described above, Qwest stockholders will receive shares of CenturyLink common stock that have a market value upon completion of the merger that is less than the market value of such shares calculated pursuant to the exchange ratio on the date the merger agreement was signed or on the date of the Qwest special meeting, respectively. Therefore, while the number of CenturyLink shares to be issued per Qwest common share is fixed, Qwest stockholders cannot be sure of the market value of the CenturyLink common stock they will receive upon completion of the merger or the market value of CenturyLink common stock at any time after the completion of the merger.

The completion of the merger is subject to the receipt of consents and approvals from government entities, which may impose conditions that could have an adverse effect on CenturyLink or Qwest or could cause either CenturyLink or Qwest to abandon the merger.

We are unable to complete the merger until after the applicable waiting period under the HSR Act expires or terminates and we receive approvals from the FCC and various state governmental entities. In deciding whether to grant some of these approvals, the relevant governmental entity will make a determination of whether, among other things, the merger is in the public interest. Regulatory entities may impose certain requirements or obligations as conditions for their approval or in connection with their review.

The merger agreement may require us to accept conditions from these regulators that could adversely impact the combined company without either of us having the right to refuse to close the merger on the basis of those regulatory conditions. Neither CenturyLink nor Qwest can provide any assurance that we will obtain the necessary approvals or that any required conditions will not have a material adverse effect on the combined company following the merger. In addition, we can provide no assurance that these conditions will not result in the abandonment of the merger. See "The Issuance of CenturyLink Shares and the Merger — Regulatory Approvals Required for the Merger" beginning on page 92 and "The Issuance of CenturyLink Shares and the Merger — The Merger Agreement — Conditions to Completion of the Merger" beginning on page 99.

Failure to complete the merger could negatively impact the stock prices and the future business and financial results of Qwest and CenturyLink.

If the merger is not completed, the ongoing businesses of Qwest or CenturyLink may be adversely affected and Qwest and CenturyLink will be subject to several risks, including the following:

- being required, under certain circumstances, to pay a termination fee of $350 million;
- having to pay certain costs relating to the proposed merger, such as legal, accounting, financial advisor, filing, printing and mailing fees; and
- focusing of management of each of the companies on the merger instead of on pursuing other opportunities that could be beneficial to the companies, in each case, without realizing any of the benefits of having the merger completed.

If the merger is not completed, Qwest and CenturyLink cannot assure their shareholders that these risks will not materialize and will not materially affect the business, financial results and stock prices of Qwest or CenturyLink.

The merger agreement contains provisions that could discourage a potential competing acquirer of either Qwest or CenturyLink or could result in any competing proposal being at a lower price than it might otherwise be.

The merger agreement contains "no shop" provisions that, subject to limited exceptions, restrict Qwest's and CenturyLink's ability to solicit, encourage, facilitate or discuss competing third–party proposals to acquire all or a significant part of Qwest or CenturyLink. Further, even if the Qwest board of directors or CenturyLink board of directors withdraws or qualifies its recommendation for the adoption of the merger agreement or the issuance of CenturyLink stock in the merger, respectively, they will still be required to submit the matter to a vote of their respective shareholders at the special meetings. In addition, the other party generally has an opportunity to offer to modify the terms of the proposed merger in response to any competing acquisition proposals that may be made before such board of directors may withdraw or qualify its recommendation. In some circumstances on termination of the merger agreement, one of the parties may be required to pay a termination fee to the other party. See "The Issuance of CenturyLink Shares and the Merger — The Merger Agreement — No Solicitation of Alternative Proposals" beginning on page 100, "— Termination of the Merger Agreement" beginning on page 101 and "— Expenses and Termination Fees" beginning on page 102.

These provisions could discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of Qwest or CenturyLink from considering or proposing that acquisition, even if it were prepared to pay consideration with a higher per share cash or market value than that market value proposed to be received or realized in the merger, or might result in a potential competing acquirer proposing to pay a lower price than it might otherwise have proposed to pay because of the added expense of the termination fee that may become payable in certain circumstances.

The pendency of the merger could adversely affect the business and operations of CenturyLink and Qwest.

In connection with the pending merger, some customers or vendors of each of CenturyLink and Qwest may delay or defer decisions, which could negatively impact the revenues, earnings, cash flows and expenses of CenturyLink and Qwest, regardless of whether the merger is completed. Similarly, current and prospective employees of CenturyLink and Qwest may experience uncertainty about their future roles with the combined company following the merger, which may materially adversely affect the ability of each of CenturyLink and Qwest to attract and retain key personnel during the pendency of the merger. In addition, due to operating covenants in the merger agreement, each of CenturyLink and Qwest may be unable, during the pendency of the merger, to pursue strategic transactions, undertake significant capital projects, undertake certain significant financing transactions and otherwise pursue other actions that are not in the ordinary course of business, even if such actions would prove beneficial.

Risk Factors Relating to CenturyLink Following the Merger

Operational Risks

CenturyLink expects to incur substantial expenses related to the merger.

CenturyLink expects to incur substantial expenses in connection with completing the merger and integrating the business, operations, networks, systems, technologies, policies and procedures of Qwest with those of CenturyLink. There are a large number of systems that must be integrated, including billing, management information, purchasing, accounting and finance, sales, payroll and benefits, fixed asset, lease administration and regulatory compliance. While CenturyLink has assumed that a certain level of transaction and integration expenses would be incurred, there are a number of factors beyond its control that could affect the total amount or the timing of its integration expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. Moreover, CenturyLink expects to commence these integration initiatives before it has completed a similar integration of its business with the business of Embarq, acquired in 2009, which could cause both of these integration initiatives to be delayed or rendered more costly or disruptive than would otherwise be the case. Due to these factors, the transaction and integration expenses associated with the Qwest merger could, particularly in the near term, exceed the savings that CenturyLink expects to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings related to the integration of the businesses following the completion of the merger. As a result of these expenses, CenturyLink expects to take charges against its earnings before and after the completion of the merger. The charges taken after the merger are expected to be significant, although the aggregate amount and timing of such charges are uncertain at present.

Following the merger, the combined company may be unable to integrate successfully the businesses of CenturyLink and Qwest and realize the anticipated benefits of the merger.

The merger involves the combination of two companies which currently operate as independent public companies. The combined company will be required to devote significant management attention and resources to integrating the business practices and operations of CenturyLink and Qwest. Potential difficulties the combined company may encounter in the integration process include the following:

- the inability to successfully combine the businesses of CenturyLink and Qwest in a manner that permits the combined company to achieve the cost savings anticipated to result from the merger, which would result in the anticipated benefits of the merger not being realized in the time frame currently anticipated or at all;
- lost sales and customers as a result of certain customers of either of the two companies deciding not to do business with the combined company;
- the complexities associated with managing the combined businesses out of several different locations and integrating personnel from the two companies, while at the same time attempting to provide consistent, high quality products and services under a unified culture;
- the additional complexities of combining two companies with different histories, regulatory restrictions, markets and customer bases, and initiating this process before CenturyLink has fully completed the integration of its operations with those of Embarq;
- the failure to retain key employees of either of the two companies;
- potential unknown liabilities and unforeseen increased expenses, delays or regulatory conditions associated with the merger; and
- performance shortfalls at one or both of the two companies as a result of the diversion of management's attention caused by completing the merger and integrating the companies' operations.

For all these reasons, you should be aware that it is possible that the integration process could result in the distraction of the combined company's management, the disruption of the combined company's ongoing business or inconsistencies in the combined company's products, services, standards, controls, procedures and policies, any of which could adversely affect the ability of the combined company to maintain relationships with customers, vendors and employees or to achieve the anticipated benefits of the merger, or could otherwise adversely affect the business and financial results of the combined company.

The merger will change the profile of CenturyLink's local exchange markets to include more large urban areas, with which CenturyLink has limited operating experience.

Prior to the Embarq acquisition, CenturyLink provided local exchange telephone services to predominantly rural areas and small to mid–size cities. Although Embarq's local exchange markets include Las Vegas, Nevada and suburbs of Orlando and several other large U.S. cities, CenturyLink has operated these more dense markets only since mid–2009. Qwest's markets include Phoenix, Arizona, Denver, Colorado, Minneapolis — St. Paul, Minnesota, Seattle, Washington, Salt Lake City, Utah, and Portland, Oregon, and, on average, are substantially denser than those traditionally served by CenturyLink. While CenturyLink believes its strategies and operating models developed serving rural and smaller markets can successfully be applied to larger markets, it can not assure you of this. CenturyLink's business, financial performance and prospects could be harmed if its current strategies or operating models cannot be successfully applied to larger markets following the merger, or are required to be changed or abandoned to adjust to differences in these larger markets.

Following the merger, the combined company may be unable to retain key employees.

The success of CenturyLink after the merger will depend in part upon its ability to retain key Qwest and CenturyLink employees. Key employees may depart either before or after the merger because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with CenturyLink following the merger. Accordingly, no assurance can be given that CenturyLink, Qwest and, following the merger, the combined company will be able to retain key employees to the same extent as in the past.

If CenturyLink and Qwest continue to experience access line losses similar to the past several years, following the merger, the combined company's revenues, earnings and cash flows may be adversely impacted.

CenturyLink's and Qwest's businesses generate a substantial portion of their revenues by delivering voice and data services over access lines. CenturyLink and Qwest have experienced access line losses over the past several years due to a number of factors, including increased competition and wireless and broadband substitution. This trend has been more pronounced in the larger, more urban markets that constitute the core of Qwest's local exchange telephone markets. CenturyLink and Qwest expect the combined company to continue to experience access line losses following the merger. The combined company's inability to retain access lines could adversely impact its revenues, earnings and cash flow from operations.

CenturyLink and Qwest face competition, which is expected to intensify and place further pressure on the market share of the combined company.

As a result of various technological, regulatory and other changes, the telecommunications industry has become increasingly competitive. CenturyLink and Qwest face competition from (i) wireless telephone services, which is expected to increase as wireless providers continue to expand and improve their network coverage and offer enhanced services, (ii) cable television operators, competitive local exchange carriers and VoIP providers and (iii) resellers, sales agents and facilities–based providers that either use their own networks or lease parts of the networks of CenturyLink or Qwest. Over time, CenturyLink and Qwest expect to face additional local exchange competition from electric utility and satellite communications providers, municipalities and alternative networks or non–carrier systems designed to reduce demand for their switching or access services. The recent proliferation of companies offering integrated service offerings has intensified competition in Internet, long distance and data services markets, and CenturyLink and Qwest expect that competition will further intensify in these markets.

While CenturyLink expects to achieve benefits from the merger, the combined company's competitive position could be weakened in the future by strategic alliances or consolidation within the communications industry or the development of new technologies. CenturyLink's ability to compete successfully will depend on how well the combined company markets its products and services and on CenturyLink's ability to anticipate and respond to various competitive and technological factors affecting the industry, including changes in regulation (which may affect the combined company differently from its competitors), changes in consumer preferences or demographics, and changes in the product offerings or pricing strategies of the combined company's competitors.

Following the merger, some of CenturyLink's current and potential competitors are expected to (i) offer a more comprehensive range of communications products and services, (ii) have market presence, engineering, technical and marketing capabilities and financial, personnel and other resources greater than those of the combined company, (iii) own larger and more diverse networks, (iv) conduct operations or raise capital at a lower cost than the combined company, (v) be subject to less regulation, (vi) offer greater online content services or (vii) have substantially stronger brand names. Consequently, these competitors may be better equipped to charge lower prices for their products and services, to provide more attractive offerings, to develop and expand their communications and network infrastructures more quickly, to adapt more swiftly to new or emerging technologies and changes in customer requirements, and to devote greater resources to the marketing and sale of their products and services.

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Competition could adversely impact CenturyLink following the merger in several ways, including (i) the loss of customers and market share, (ii) the possibility of customers reducing their usage of the combined company's services or shifting to less profitable services, (iii) reduced traffic on the combined company's networks, (iv) the combined company's need to expend substantial time or money on new capital improvement projects, (v) the combined company's need to lower prices or increase marketing expenses to remain competitive and (vi) the combined company's inability to diversify by successfully offering new products or services.

CenturyLink could be harmed by rapid changes in technology.

The communications industry is experiencing significant technological changes, particularly in the areas of VoIP, data transmission and electronic and wireless communications. The growing prevalence of electronic mail and similar digital communications continues to reduce demand for many of the products and services currently offered by CenturyLink and Qwest. Other changes in technology could result in the development of additional products or services that compete with or displace those offered by CenturyLink and Qwest, or that enable current customers to reduce or bypass use of their networks. Several large electric utilities have announced plans to offer communications services that will compete with local exchange companies. Following the merger, some of CenturyLink's competitors may enjoy network advantages that will enable them to provide services that have a greater market acceptance than the combined company's services. Technological change could also require CenturyLink to expend capital or other resources in excess of currently contemplated levels. CenturyLink cannot predict with certainty which technological changes will provide the greatest threat to the combined company's competitive position. CenturyLink may not be able to obtain timely access to new technology on satisfactory terms or incorporate new technology into its systems in a cost effective manner, or at all. If CenturyLink cannot develop new products to keep pace with technological advances, or if such products are not widely embraced by its customers, it could be adversely impacted.

The industry in which CenturyLink operates is changing; CenturyLink cannot assure you that its diversification efforts will be successful.

The telephone industry has recently experienced a decline in access lines and intrastate minutes of use, which, coupled with the other changes resulting from competitive, technological and regulatory developments, could materially adversely affect the core business and future prospects of CenturyLink following the merger. As explained in greater detail in the reports that CenturyLink and Qwest have filed with the SEC, the number of access lines operated by traditional phone companies have decreased over the last several years, and CenturyLink and Qwest each expects this trend to continue. CenturyLink and Qwest have also earned less intrastate revenues in recent years due to reductions in intrastate minutes of use (partially due to the displacement of minutes of use by wireless, electronic mail, text messaging, arbitrage and other optional calling services). CenturyLink believes that the combined company's intrastate minutes of use after the merger will continue to decline, although the magnitude of such decrease is uncertain. Likewise, similar reductions are occurring for interstate minutes of use and are expected to continue after the merger.

Recently, CenturyLink and Qwest have broadened their products and services by reselling, as part of their bundled product and service offerings, the products or services of other third–party providers. CenturyLink's reliance after the merger on other companies and their networks to provide these services could constrain its flexibility and limit the profitability of these new offerings. CenturyLink provides facilities–based digital video services to select markets and may initiate other new service or product offerings in the future. CenturyLink anticipates that these new offerings will generate lower profit margins than many of its traditional services. Moreover, CenturyLink's new product or service offerings could be constrained by intellectual property rights held by others, or could subject it to the risk of infringement claims brought by others. For these and other reasons, CenturyLink cannot assure you that its recent or future diversification efforts will be successful.

CenturyLink may not be able to continue to grow through acquisitions.

CenturyLink has traditionally sought growth largely through acquisitions of properties similar to those currently operated by it. However, following the merger, CenturyLink cannot assure you that properties will be available for purchase on terms attractive to it, particularly if they are burdened by regulations, pricing plans or competitive pressures that are new or different from those historically applicable to the incumbent properties of CenturyLink and Qwest. Moreover, CenturyLink cannot assure you that it will be able to arrange financing on terms acceptable to it or to obtain timely federal and state governmental approvals on terms acceptable to it, or at all.

CenturyLink's future results will suffer if CenturyLink does not effectively manage its expanded operations following the merger.

Following the merger, CenturyLink may continue to expand its operations through additional acquisitions, other strategic transactions, and new product and service offerings, some of which involve complex technical, engineering, and operational challenges. CenturyLink's future success depends, in part, upon CenturyLink's ability to manage its expansion opportunities, which pose substantial challenges for CenturyLink to integrate new operations into its existing business in an efficient and timely manner, to successfully monitor CenturyLink's operations, costs, regulatory compliance and service quality, and to maintain other necessary internal controls. CenturyLink cannot assure you that its expansion or acquisition opportunities will be successful, or that CenturyLink will realize its expected operating efficiencies, cost savings, revenue enhancements, synergies or other benefits.

Following the merger, CenturyLink may need to conduct branding or rebranding initiatives that are likely to involve substantial costs and may not be favorably received by customers.

CenturyLink plans to consult with Qwest about how and under what brand names to market the various legacy communications services of CenturyLink and Qwest. Prior to the merger, CenturyLink and Qwest will each continue to market their respective products and services using the "CenturyLink" and "Qwest" brand names and logos. Following the merger, CenturyLink may discontinue use of either or both of the "CenturyLink" or "Qwest" brand names and logos in some or all of the markets of the combined company and will incur substantial capital and other costs in rebranding the combined company's products and services in those markets that previously used a different name and may result in substantial write–offs associated with the discontinued use of a brand name. The failure of any of these initiatives could adversely affect CenturyLink's ability to attract and retain customers after the merger, resulting in reduced revenues.

Following the merger, CenturyLink's relationships with other communications companies will continue to be material to its operations and will expose it to a number of risks.

Following the merger, CenturyLink will continue to originate and terminate calls for long distance carriers and other interexchange carriers over the combined company's networks in exchange for access charges that will continue to represent a significant portion of CenturyLink's revenues. If these carriers go bankrupt or experience substantial financial difficulties, CenturyLink's inability to timely collect access charges from them could have a negative effect on CenturyLink's business and results of operations.

In addition, certain of CenturyLink's operations will continue to carry a significant amount of voice and data traffic for larger communications companies. As these larger communications companies consolidate or expand their networks, it is possible that they could transfer a significant portion of this traffic from the combined company's fiber network to their networks, which could have a negative effect on CenturyLink's business and results of operations.

Following completion of the merger, it is expected that CenturyLink will continue to rely on certain reseller and sales agency arrangements with other companies to provide some of the services that it will sell to its customers. If CenturyLink fails to extend or renegotiate these arrangements as they expire from time to time or if these other companies fail to fulfill their contractual obligations, CenturyLink may have difficulty finding alternative arrangements. In addition, as a reseller or sales agent, CenturyLink will not control the availability, retail price, design, function, quality, reliability, customer service or branding of these products and services, nor will it directly control all of the marketing and promotion of these products and services. To the extent that these other companies make decisions that negatively impact the ability of CenturyLink to market and sell its products and services, its business plans and reputation could be negatively impacted.

Network disruptions or system failures could adversely affect CenturyLink's operating results and financial condition.

To be successful following the merger, CenturyLink will need to continue providing the combined company's customers with high capacity, reliable and secure networks. Disruptions or system failures may cause interruptions in service or reduced capacity for customers. If service is not restored in a timely manner, agreements with the combined company's customers or service standards set by state regulatory commissions could obligate it to provide credits or other remedies. If network security is breached, confidential information of the combined company's customers or others could be lost or misappropriated, and CenturyLink may be required to expend additional resources modifying network security to remediate vulnerabilities. The occurrence of any disruption or system failure may result in a loss of business, increase expenses, damage CenturyLink's reputation, subject CenturyLink to additional regulatory scrutiny or expose it to civil litigation and possible financial losses that may not be fully covered through insurance, any of which could have a material adverse effect on CenturyLink's results of operations and financial condition.

Regulatory and Legal Risks

CenturyLink's revenues could be materially reduced or its expenses materially increased by changes in regulations, including those recently proposed by the FCC.

Much of CenturyLink's and Qwest's revenues are, and following the merger will remain, dependent upon laws and regulations which, if changed, could result in material revenue reductions. Laws and regulations applicable to CenturyLink, Qwest and their competitors have been and are likely to continue to be challenged in the courts, which, following the merger, could also affect the combined company's revenues.

Risk of loss or reduction of network access charge revenues or support fund payments. CenturyLink and Qwest are subject to substantial regulation by the FCC. FCC rules and regulations are subject to change in response to industry developments, changes in law, technological changes and political considerations. The FCC regulates tariffs for interstate access and subscriber line charges, both of which are components of CenturyLink's and Qwest's revenues. The FCC has been considering comprehensive reform of its inter–carrier compensation rules for several years.

Following the merger, the combined company will continue to receive substantial revenues from the federal Universal Service Fund, which we refer to as the USF, and, to a lesser extent, intrastate support funds. These governmental programs are reviewed and amended from time to time, and CenturyLink cannot assure you that they will not be changed or impacted in a manner adverse to CenturyLink. For several years, the FCC and a federal–state joint board established by Congress have considered comprehensive reforms of the federal USF contribution and distribution rules. During this period, various parties have objected to the size of the USF or questioned the continued need to maintain the program in its current form. Pending judicial appeals and congressional proposals create additional uncertainty regarding our future receipt of support payments. In addition, the number of eligible telecommunications carriers receiving support payments from this program has increased substantially in recent years, which, coupled with other factors, has placed additional financial pressure on the amount of money that is available to provide support payments to all eligible recipients, including CenturyLink and Qwest.

The FCC's 10–year National Broadband Plan released on March 16, 2010 seeks comprehensive changes in federal communications regulations and programs that could, among other things, result in lower universal service funding and access revenues for several of CenturyLink's and Qwest's local exchange companies. At this stage, neither company can predict the ultimate outcome of this plan or provide any assurances that its implementation will not have a material adverse effect on their business, operating results or financial condition.

Risks posed by state regulations. CenturyLink and Qwest are also subject to the authority of state regulatory commissions which have the power to regulate intrastate rates and services, including local, in–state long–distance and network access services. CenturyLink's and Qwest's businesses could be materially adversely affected by the adoption of new laws, policies and regulations or changes to existing state regulations. In particular, CenturyLink cannot assure you that it will succeed in obtaining or maintaining all requisite state regulatory approvals for its current operations or, following the merger, the operations of the combined company without the imposition of restrictions on its business, which could have the effect of imposing material additional costs on CenturyLink or limiting its revenues.

Risks posed by costs of regulatory compliance. Regulations continue to create significant compliance costs for CenturyLink and Qwest. Following the merger, challenges to CenturyLink's tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause it to incur substantial legal and administrative expenses, and, if successful, such challenges could adversely affect the rates, terms and conditions of the service offerings. CenturyLink's and Qwest's businesses also may be impacted by legislation and regulation imposing new or greater obligations related to assisting law enforcement, bolstering homeland security, increasing disaster recovery requirements, minimizing environmental impacts, enhancing privacy or addressing other issues that impact CenturyLink's or Qwest's businesses. CenturyLink expects its compliance costs to increase if future laws or regulations continue to increase its obligations to assist other governmental agencies.

Any adverse outcome of the KPNQwest litigation or other material litigation of Qwest or CenturyLink could have a material adverse impact on the financial condition and operating results of CenturyLink following the merger.

As described in further detail in Qwest's reports filed with the SEC, the pending KPNQwest litigation presents material and significant risks to Qwest, and, following the merger, to the combined company. In the aggregate, the plaintiffs in these matters have sought billions of dollars in damages.

There are other material proceedings pending against Qwest and CenturyLink, as described in their respective reports filed with the SEC. Depending on their outcome, any of these matters could have a material adverse effect on the financial position or operating results of Qwest, CenturyLink or, following the merger, the combined company. Neither Qwest nor CenturyLink can give any assurances as to the impacts on their operating results or financial conditions as a result of these matters.

Counterparties to certain significant agreements with Qwest may exercise contractual rights to terminate such agreements following the merger.

Qwest is a party to certain agreements that give the counterparty a right to terminate the agreement following a "change in control" of Qwest. Under most such agreements, the merger will constitute a change in control and therefore the counterparty may terminate the agreement upon the closing of the merger. Qwest has agreements subject to such termination provisions with significant customers, major suppliers and providers of services where Qwest has acted as reseller or sales agent. In addition, certain Qwest customer contracts, including those with state or federal government agencies, allow the customer to terminate the contract at any time for convenience, which would allow the customer to terminate its contract before, at or after the closing of the merger. Any such counterparty may request modifications of their respective agreements as a condition to their agreement not to terminate. There is no assurance that such agreements will not be terminated, that any such terminations will not result in a material adverse effect, or that any modifications of such agreements to avoid termination will not result in a material adverse effect.

CenturyLink may be unable to obtain security clearances necessary to perform certain Qwest government contracts.

Certain Qwest legal entities and officers have security clearances required for Qwest's performance of customer contracts with various government entities. Following the merger, it may be necessary for

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CENTURYLINK, INC.

PRO FORMA COMBINED CONDENSED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2009

	CenturyLink	Embarq*	Qwest**	Pro Forma Adjustments	Pro Forma Combined
	In millions, except per share amounts (Unaudited)				
OPERATING REVENUES	$ 4,974	2,671	12,311	(198)(H)	19,758
OPERATING EXPENSES					
Cost of services and products	1,752	721	4,088	(138)(H)	6,423
Selling, general and administrative	1,014	632	3,937		5,583
Depreciation and amortization	975	488	2,311	327(I)	4,101
	3,741	1,841	10,336	189	16,107
OPERATING INCOME	1,233	830	1,975	(387)	3,651
OTHER INCOME (EXPENSE)					
Interest expense	(370)	(186)	(1,089)	102(J)	(1,543)
Other income	(48)	—	17		(31)
Income tax expense	(302)	(240)	(241)	110(K)	(673)
Noncontrolling interests	(2)	—	—		(2)
NET INCOME BEFORE EXTRAORDINARY ITEM AND DISCONTINUED OPERATIONS	$ 511	404	662	(175)	1,402
BASIC EARNINGS PER COMMON SHARE BEFORE EXTRAORDINARY ITEM AND DISCONTINUED OPERATIONS	$ 2.55	2.81	0.38		2.40
DILUTED EARNINGS PER COMMON SHARE BEFORE EXTRAORDINARY ITEM AND DISCONTINUED OPERATIONS	$ 2.55	2.81	0.38		2.39
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING					
Basic	198.8	143.6	1,709.3	(1,470.1)(L)	581.6
Diluted	199.1	143.9	1,713.5	(1,473.7)(L)	582.8

* Reflects Embarq's results of operations for the six months ended June 30, 2009. Embarq's results of operations subsequent to CenturyLink's July 1, 2009 acquisition of Embarq are included in the CenturyLink column.

** Cost of services and products and selling, general and administrative expenses for Qwest for 2009 have been reclassified to conform with Qwest's 2010 presentation.

See accompanying notes to unaudited pro forma combined condensed financial information.

Oregon
Docket No. UM 1484
Response to Staff Data Request No. 3
Respondent: Clay Bailey

STAFF – 3

Please provide the pre-merger weighted cost of capital for both Qwest and CenturyLink and the post-merger weighted cost of capital for CenturyLink in the following table format.

COST OF CAPITAL -	% of CAPITAL	COST	WEIGHTED COST
Long Term Debt	0.00%	0.000%	0.000%
Preferred Stock	0.00%	0.000%	0.000%
Common Equity	0.00%	0.000%	0.000%
Total	0.00%		**0.000%**

RESPONSE:

The table below provides the pre-merger cost of capital for CenturyLink. Please see Qwest's response for the Qwest pre-merger cost of capital.

COST OF CAPITAL – CenturyLink	% of CAPITAL	COST	WEIGHTED COST
Long Term Debt	42.60%	7.65%	3.26%
Preferred Stock	N/A	N/A	0.000%
Common Equity	57.40%	10.40%	5.97%
Total	100.00%		**9.23%**

The table below provides the pro-forma cost of capital for the combined CenturyLink/Qwest company.

COST OF CAPITAL - ProForma	% of CAPITAL	COST	WEIGHTED COST
Long Term Debt	52.10%	8.15%	4.25%
Preferred Stock	N/A	N/A	0.000%
Common Equity	47.90%	13.40%	6.42%
Total	100.00%		**10.67%**

Initially, goodwill is recognized as the excess of the cost of an acquired entity over the net of the amounts assigned to identifiable assets acquired (including identifiable intangibles) and liabilities assumed.

Goodwill is not to be amortized. Goodwill is, however, subject to unique impairment testing techniques. Therefore, FAS 144 is not applied to goodwill and goodwill associated with acquisitions of tangible property and equipment is not tested for impairment in tandem with that property and equipment.

The impairment test for goodwill is performed at the level of the reporting unit. A reporting unit is an operating segment or one level below an operating segment. The diagram in the appendix to Chapter 2 illustrates how different groupings in a business can be characterized as reporting units and is accompanied by definitions of reporting units, operating segments, and other organizational groupings. The enterprise may internally refer to reporting units by such terms as business units, operating units, or divisions. Determination of reporting units is largely dependent on how the business is managed and its structure for reporting and management accountability. The Statement acknowledges that an entity may have only one reporting unit which would, of course, result in the goodwill impairment test being performed at the entity level. This can occur when the entity has acquired a business that it has integrated with its existing business in such a manner that the acquired business is not separately distinguishable as a reporting unit.

On the date an asset is acquired or a liability is assumed, it is to be assigned to a reporting unit if it meets **both** of the following conditions:

1. The asset will be used in or the liability is related to the operations of a reporting unit
2. The asset or liability will be considered in determining the fair value of the reporting unit

The methodology used is to be reasonable and supportable and is to be applied similarly to how aggregate goodwill is determined in a purchase business combination. Net assets include assets and liabilities that are recognized as "corporate" items if they, in fact, relate to the operations of the reporting unit (e.g., environmental liabilities associated with land owned by a reporting unit, and pension assets and liabilities attributable to employees of a reporting unit). Executory contracts (e.g., operating leases, contracts for purchase or sale, construction contracts) are considered part of net assets only if the amount reflected in the acquirer's financial statements is based on a fair value measurement subsequent to entering into the contract. To illustrate, if an acquiree had a preexisting operating lease on either favorable or unfavorable terms as compared to its fair value on the date of acquisition, the acquirer would recognize, in its purchase price allocations, an asset or liability for the fair value of the favorable or unfavorable terms, respectively. FAS 142 distinguishes between accounting for this fair value of an otherwise unrecognized executory contract and prepaid rent or rent payable which generally have carrying values that approximate their fair values.

The annual goodwill impairment test may be performed at any time during the fiscal year as long as it is done consistently at the same time each year. Each reporting unit is permitted to establish its own annual testing date. Additional impairment tests are required between annual impairment tests if: (1) warranted by a change in events and circumstances, *and* (2) it is more likely than not that the fair value of the reporting unit is below its carrying amount. If indicators exist requiring impairment testing of goodwill, impairment testing of nonamortizable intangibles, and/or recoverability evaluation of tangible long-lived assets or amortizable intangibles, the other assets are tested/evaluated first and any impairment loss recognized prior to testing goodwill for impairment.

Table of Contents

CENTURYLINK, INC.

PRO FORMA COMBINED CONDENSED BALANCE SHEET
MARCH 31, 2010

	CenturyLink	Qwest	Pro Forma Adjustments	Pro Forma Combined
	In millions (Unaudited)			
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 206	1,196		1,402
Accounts receivable	671	1,245		1,916
Other current assets	164	1,564	(110)(A)	1,618
Total current assets	1,041	4,005	(110)	4,936
NET PROPERTY, PLANT AND EQUIPMENT	8,970	12,078		21,048
GOODWILL AND OTHER ASSETS				
Goodwill	10,252	—	10,429(B)	20,681
Other	2,058	3,279	421(C)	5,758
Total goodwill and other assets	12,310	3,279	10,850	26,439
TOTAL ASSETS	$ 22,321	19,362	10,740	52,423
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current maturities of long-term debt	$ 500	2,046		2,546
Accounts payable	335	658		993
Accrued expenses and other liabilities	926	1,886	(148)(D)	2,664
Total current liabilities	1,761	4,590	(148)	6,203
LONG-TERM DEBT	7,221	11,500	819(E)	19,540
DEFERRED CREDITS AND OTHER LIABILITIES	3,838	4,392	(1,506)(F)	6,724
SHAREHOLDERS' EQUITY (DEFICIT)				
Common stock	300	17	272(G)	589
Paid-in capital	6,022	42,294	(32,128)(G)	16,188
Accumulated other comprehensive loss, net of tax	(94)	(487)	487(G)	(94)
Retained earnings (deficit)	3,267	(42,915)	42,915(G)	3,267
Noncontrolling interests	6	—		6
Treasury stock	—	(29)	29(G)	—
Total shareholders' equity (deficit)	9,501	(1,120)	11,575	19,956
TOTAL LIABILITIES AND EQUITY	$ 22,321	19,362	10,740	52,423

See accompanying notes to unaudited pro forma combined condensed financial information.

Oregon
Theodore R. Kulongoski, Governor

Military Department
Oregon Emergency Management
PO Box 14370
Salem, OR 97309-5062
Phone: (503) 378-2911
Fax: (503) 373-7833
TTY: (503) 373-7857

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P.U.C.

August 9, 2010

Michael Dougherty
Public Utility Commission of Oregon
PO Box 2148
Salem, Oregon 97308-2148

RE: UM1484

Dear Mr. Dougherty:

Oregon Emergency Management is in support of any enhanced infrastructure requirements that may be imposed on CenturyLink/Qwest as part of their proposed merger. We are in full support of the City of Newport, City of Lincoln City, and County of Lincoln in their petition to intervene in the public's interest to ensure reliable communications services as part of the proposed merger. Historically, this area has experienced numerous outages and community isolation; something that could be greatly improved by requiring network redundancy (a physical communication link between the Cities of Lincoln City and Newport).

If you have any questions regarding our support, please don't hesitate to contact Dave Stuckey, OEM Deputy Director, at 503-378-2911 Ext: 22292 or me at 503-584-3985.

Respectfully,

J. Michael Caldwell
Brigadier General
Deputy Director, Oregon Military Department
Interim Director, Office of Emergency Management

Oregon
Docket No. UM-1484
Response to Staff Data Request No. 32
Respondent: John Felz

STAFF-32

Does CenturyLink intend to transition Qwest Oregon's operations to CenturyLink's legacy Operating Support System (OSS) within the next three to five years? Please explain and provide any relevant time lines concerning the OSS transition.

RESPONSE:

At this time, system integration plans for the proposed transaction with Qwest have not been fully developed. In fact, complete integration plans cannot be developed until the merger is concluded. However, because the transaction results in the entirety of Qwest, including operations and systems, merging into and operating as a subsidiary of CenturyLink, it will allow a disciplined approach to systems and practices integration decisions to proceed in a disciplined manner.

Oregon
Docket No. UM-1484
Response to Staff Data Request No. 60
Respondent: Mike Hunsucker
Response Date: July 2, 2010

STAFF-60

What is CenturyLink's plan regarding post-merger transition of the Qwest wholesale OSS systems? In what manner and to what extent will they be integrated with CenturyLink wholesale OSS to serve Oregon customers? Please be specific.

RESPONSE:

Integration planning is in the early stages and decisions on wholesale OSS systems have not been made at this time. Upon merger closing, there will be no immediate changes to Qwest's or CenturyLink's OSS. Any changes will occur only after a thorough and methodical review of both companies' systems and processes to determine the best system to be used on a go-forward basis. Decisions will be made from both a combined company and a wholesale customer perspective and consistent with the continued provision of quality service to our wholesale customers.

Oregon
Docket No. UM 1484
Response to Staff Data Request No. 25
Respondent: Clay Bailey

STAFF – 25

For the years 2007, 2008, 2009, and 2010 pro forma, please provide information on CenturyLink's Oregon wire line capital investments in the following table (Excel) format.

	Amount ($) of Investment	**Amount per line**	**Total Capex / Depreciation Expense**
2007			
2008			
2009			
2010			

RESPONSE:

	Amount ($000) of Investment	**Amount per line**	**Total Capex / Depreciation Expense**
2007	$567,296	$4,347	52.7%
2008	$572,744	$4,728	45.7%
2009	$584,803	$5,208	47.8%
2010	Not Available		

Oregon
Docket No. UM 1484
Response to Staff Data Request No. 23
Respondent: Clay Bailey

STAFF – 23

Does CenturyLink anticipate any changes in current affiliated interest service and other agreements post-merger? Please explain.

RESPONSE:

CenturyLink does not currently anticipate changes in the type of affiliated services provided to or from the Oregon operating companies as a result of the transaction. To the extent affiliated interest changes do occur, new or updated agreements will be filed with the Commission as appropriate.

CASE: UM 1484
WITNESS: Jorge Ordonez

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 200

Reply Testimony

September 3, 2010

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Jorge Ordonez. I am employed by the Public Utility Commission of Oregon (Commission) as the Senior Financial Economist in the Economic and Policy Analysis Section. My business address is 550 Capitol Street NE, Suite 215, Salem, Oregon 97301-2551.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. My Witness Qualification Statement is found in Exhibit Staff/201, Ordonez /1.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to review the impact of the proposed merger[1] between CenturyLink, Inc. (CenturyLink) and Qwest Communications International, Inc. (Qwest) on the customers of CenturyLink and Qwest's local exchange carriers operating in Oregon. My analysis covers the financial aspects of the proposed merger.

Q. DID YOU PREPARE EXHIBITS FOR THIS DOCKET?

A. Yes, I have prepared Exhibit Staff 201, consisting of one page; Exhibit Staff 202, consisting of three pages; Exhibit Staff 203, consisting of two pages; Exhibit Staff 204, consisting of one page; Exhibit Staff 205, consisting of two pages; Exhibit Staff 206, consisting of 22 pages; highly confidential Exhibit

[1] On May 24, 2010, CenturyLink submitted an application ("Application" or "Application of CenturyLink") to the Public Utility Commission of Oregon for approval of the proposed merger between CenturyLink and Qwest.

Staff 207, consisting of 2 pages; and highly confidential Exhibit Staff 208 consisting of 1 page.

SUMMARY RECOMMENDATION

Q. PLEASE PROVIDE YOUR SUMMARY RECOMMENDATION?

A. I recommend that the Commission not approve the merger between CenturyLink and Qwest unless CenturyLink agrees to accept the financial conditions proposed in Exhibit Staff/100, where Mr. Dougherty addresses the conclusion I present in this testimony.

ORGANIZATION OF THE TESTIMONY

Q. HOW HAVE YOU ORGANIZED YOUR TESTIMONY?

A. My testimony is organized into four parts as follows:

1. I describe the ***organizational structure*** of CenturyLink and Qwest's subsidiaries that operate in Oregon and are involved in the transaction.
2. I describe the ***financial aspects*** of the proposed merger between CenturyLink and Qwest and its impact on CenturyLink and Qwest subsidiary companies that operate in Oregon.
3. I describe the ***credit rating*** implications of the proposed merger between CenturyLink and Qwest and their impact on CenturyLink and Qwest subsidiary companies that operate in Oregon.
4. I provide the ***conclusion*** resulting from my analysis.

1. ORGANIZATIONAL STRUCTURE

Q. WHICH OF CENTURYLINK'S OPERATING COMPANIES ARE REGULATED BY THE PUBLIC UTILITY COMMISSION OF OREGON?

A. CenturyLink operates in Oregon through three indirect subsidiaries: CenturyTel of Oregon, Inc.; CenturyTel of Eastern Oregon, Inc.; and United Telephone Company of the Northwest d/b/a CenturyLink. These operating subsidiaries are collectively referred to as CTL Oregon ILECs and serve approximately 109,000 access lines in Oregon. [2]

Q. WHICH OF QWEST'S OPERATING COMPANIES ARE REGULATED BY THE PUBLIC UTILITY COMMISSION OF OREGON?

A. Qwest's regulated operations in Oregon are through one indirect operating subsidiary, Qwest Corp,[3] which serves approximately 802,000 access lines in Oregon. [4]

Q. WHAT WILL BE THE OPERATING COMPANIES' ORGANIZATIONAL STRUCTURE IN OREGON AFTER THE MERGER?

A. The operating companies of CTL Oregon ILECs and Qwest Corp. will be indirect subsidiaries of post-merger CenturyLink. The post-merger structure has been provided in CTL/101 Jones/1-3 and is attached in Exhibit Staff/202 Ordonez/1-3.

2. FINANCIAL ASPECTS

Q. PLEASE PROVIDE THE FINANCIAL PROFILE OF THE COMPANIES INVOLVED IN THE MERGER TRANSACTION.

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[2] See Exhibit CTL/100 Jones/7
[3] See Exhibit Qwest/1Peppler/5
[4] See Exhibit Qwest/1Peppler/10

A. Table 1 summarizes actual financial data for CenturyLink and Qwest for 2009; Table 1 also provides 2009 *pro forma* financial data post-merger for CenturyLink as of December 31, 2009.

Except as noted, the information in Table 1 has been compiled and derived from Exhibit CTL/300 Bailey/8-10, "I. Financial Profile of the Two Individual Companies," and Exhibit CTL/300 Bailey/23-29, "Specific Financial Characteristics of the Merged Company."

Table 1

2009 Metrics	Units	pre-merger CenturyLink	Qwest	post-merger *pro forma* CenturyLink
Access lines	*Millions*	7.0	10.3	17.3
Access lines losses[1]	*%*	6.6%	11.0%	-
Revenues	*$ Billions*	7.5	12.3	19.8
EBITDA	*$ Billions*	3.8	4.4	8.2
EBITDA Margin	*%*	50%	36%	41%
Net Debt	*$ Billions*	7.6	11.8	19.4
Net Debt / trailing EBITDA		2.0	2.7	2.4
Market Capitalization	*$ Billions*	10.8	7.2	-

[1] From CenturyLink and Qwest's 2009 10-K reports filed with the Securities and Exchange Commission

Q. PLEASE COMPARE CENTURYLINK AND QWEST PRE-MERGER?

A. Qwest has approximately 46 percent more access lines than CenturyLink and has been experiencing accelerated access line losses. For example, in 2009, Qwest lost 11 percent of its access lines, as compared with CenturyLink's losses of 6.6 percent in the same year.

Qwest has 63 percent more revenue than CenturyLink; Qwest also has

16 percent more Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) than CenturyLink. However, Qwest has a 2009 EBITDA margin[5] of 36 percent, which is lower than CenturyLink's 2009 EBITDA margin of 50 percent.

Qwest has approximately 55 percent more debt than CenturyLink. Qwest also has a 2.7x Net Debt/EBITDA ratio, which is greater than CenturyLink's 2.0x ratio. Finally, Qwest's market capitalization is $7.2 billion as of December 31, 2009, which is 66 percent of CenturyLink's $10.8 billion.

Q. PLEASE SUMMARIZE THE COMPARISON BETWEEN PRE-MERGER CENTURYLINK AND QWEST?

A. Qwest is a larger company than CenturyLink as measured by access lines and revenues. However, Qwest has been experiencing greater losses in access line losses, is relatively less profitable, and has a higher relative debt burden than CenturyLink.

Q. WHAT IS THE FINANCIAL PROFILE OF POST-MERGER CENTURYLINK?

A. As shown in Table 1, post-merger CenturyLink is naturally bigger than the sum of two individual pre-merger companies (i.e., pre-merger CenturyLink and Qwest.) as measured by access lines, revenues, EBITDA and net debt. Post-merger CenturyLink is less profitable than pre-merger CenturyLink and more profitable than Qwest as represented by the 2009 EBITDA margin; i.e.,

[5] Investopedia: [EBITDA Margin is] a financial metric used to assess a company's profitability by comparing its revenue with earnings. More specifically, since EBITDA is derived from revenue, this metric would indicate the percentage of a company is remaining after operating expenses.

on a relative basis. Post-merger CenturyLink is also more leveraged than pre-merger CenturyLink and less leveraged than Qwest as represented by its 2009 Net Debt/EBITDA ratio on a relative basis.

Q. PLEASE EXPLAIN HOW CENTURYLINK'S POST-MERGER FINANCIAL PROFILE MAY IMPACT THE OREGON CUSTOMERS OF PRE-MERGER CENTURYLINK AND QWEST?

A. My explanation focuses on the "profitability" and "leverage" aspects of the merger transaction and its impact on Oregon customers of pre-merger CenturyLink and pre-merger Qwest.

PROFITABILITY AND LEVERAGE

Q. WHAT IS PROFITABILITY?

A. Profitability is a company's ability to generate revenues in excess of its costs. Calculating the EBITDA margin is a way to measure profitability.

Q. WHAT IS FINANCIAL LEVERAGE?

A. "Financial leverage is the extent to which a company relies on debt rather than equity. Measures of financial leverage are tools in determining the probability that the firm will default on its debt contracts."[6]

Q. HOW MIGHT THE MERGER IMPACT CURRENT OREGON CUSTOMERS OF CENTURYLINK'S CTL OREGON ILECS AND QWEST CORP.?

A. From the point of view of relative profitability and leverage, the current Oregon customers of pre-merger CenturyLink's CTL Oregon ILECS may be harmed in that they will be served by a more leveraged and less profitable company than

[6] Ross, Westerfield and Jaffe, Corporate Finance 36 (McGraw-Hill Irwin, 2005).

pre-merger CenturyLink. As shown in Table 2, the relative profitability and leverage metrics of post-merger CenturyLink are inferior to those of pre-merger CenturyLink. On the other hand, the Oregon customers of Qwest Corp. may benefit from the merger, because post-merger CenturyLink's relative profitability and financial leverage metrics are superior to those of Qwest.

Table 2

	pre-merger CenturyLink	Qwest	post-merger CenturyLink
PROFITABILITY			
2009 EBITDA Margin	50%	36%	41%
LEVERAGE			
2009 Net Debt / trailing EBITDA	2.0	2.7	2.4

Q DID YOU PERFORM A PRO FORMA STRESS TEST OF POST-MERGER CENTURYLINK?

A. Yes. I used the models provided by CenturyLink in response to Staff Data Request 66 to develop certain scenarios related to the Company's operations, in addition to what I requested in Staff Data Request 99. In Staff Data Request 99[7], I requested information similar to the information requested in the UM 1431[8] Bench Request.[9]

Q WHAT SCENARIOS DID YOU DEVELOP?

A. The scenarios I developed are the following:

- Scenario 1: A five percent decrease in revenues per year between 2011 and 2015;

[7] See Highly Confidential Exhibit Staff/207 Ordonez/1-2.
[8] Docket No. 1431 refers to merger between Frontier Communications Corporation and New Communications Holdings, Inc., the latter being a subsidiary of Verizon Communications, Inc.
[9] See http://edocs.puc.state.or.us/efdocs/HDA/um1431hda14341.pdf

- Scenario 2: A ten percent decrease in revenues per year between 2011 and 2015;
- Scenario 3: A five percent decrease in revenues per year between 2011 and 2015, and removing one-half of synergy effects; and
- Scenario 4: A ten percent decrease in revenues per year between 2011 and 2015, and removing one-half of synergy effects.

I only removed one-half on the synergy effect because as Staff Dougherty states in Staff/100, Dougherty/24 that CenturyLink has “demonstrated significant strides in achieving the synergy savings stated in UM 1416.” Highly Confidential Exhibit Staff/208 Ordonez/1 provides the results of my analysis. The results of the four scenarios show high levels of dividend payout ratios, high levels of leverage, and in some scenarios, negative free cash flows, which may adversely affect the financial viability of post-merger CenturyLink.

Q. PLEASE PROVIDE A SPECIFIC EXAMPLE OF HOW THE OREGON CUSTOMERS OF CENTURYLINK’S CTL OREGON MIGHT BE IMPACTED BY THE MERGER TRANSACTION?

A. A less profitable and more leveraged company may experience more difficulties and higher costs in procuring capital in the capital markets. In this testimony, I focus on the bond markets and how credit rating agencies rate the quality of corporate bonds in general.

3. CREDIT RATINGS

Q. WHAT IS A BOND RATING?

A. “Bond Rating is a ranking of a bond's quality, based on its value as a sound investment. Bonds are rated from a high of "AAA" (highly unlikely to default) through a low of "D" (companies already in default). The rating is based on such factors as the issuer's reputation, management, debts , and its record in paying interest."[10]

Q. WHY IS A BOND RATING IMPORTANT?

A. "The ratings assigned to bond issues are important in terms of the marketability and effective cost to the [utility's] ratepayer[s]. Bond issues having the top four letter ratings, AAA down to BBB[-], are considered to be investment grade securities, meaning that financial institutions can purchase such bonds without violating the laws of prudent investment. Not only are investment grade bond ratings crucial for a utility to maintain continued access to capital, but the rating determines the cost and terms of the issue. Corporate bonds are discounted at progressively higher discount rates as their ratings deteriorate."[11]

Q. PLEASE PROVIDE A COMPARISON OF THE LONG-TERM CREDIT RATING SCALES FROM THE THREE MAJOR CREDIT AGENCIES?

A. Table 3 shows the scales from the three major credit rating agencies: Moody's Investor Services (Moody's), Standard & Poor's (S&P) and Fitch Ratings (Fitch). Additionally, Exhibit Staff/203 Ordonez/1-2 includes the rating scale comparison for other rating organizations as provided by Bloomberg L.P.

[10] Source: Bloomberg L.P.
[11] Roger Morin, New Regulatory Finance 91-92 (Public Utilities Reports, Inc., 2006)

Table 3

Moody's	S&P	Fitch	
Aaa	AAA	AAA	Investment grade
Aa1	AA+	AA+	
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Speculative grade
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC+	
Caa2	CCC	CCC	
Caa3	CCC-	CCC-	
Ca	CC	CC	
C	C	C	
C	D	D	In default

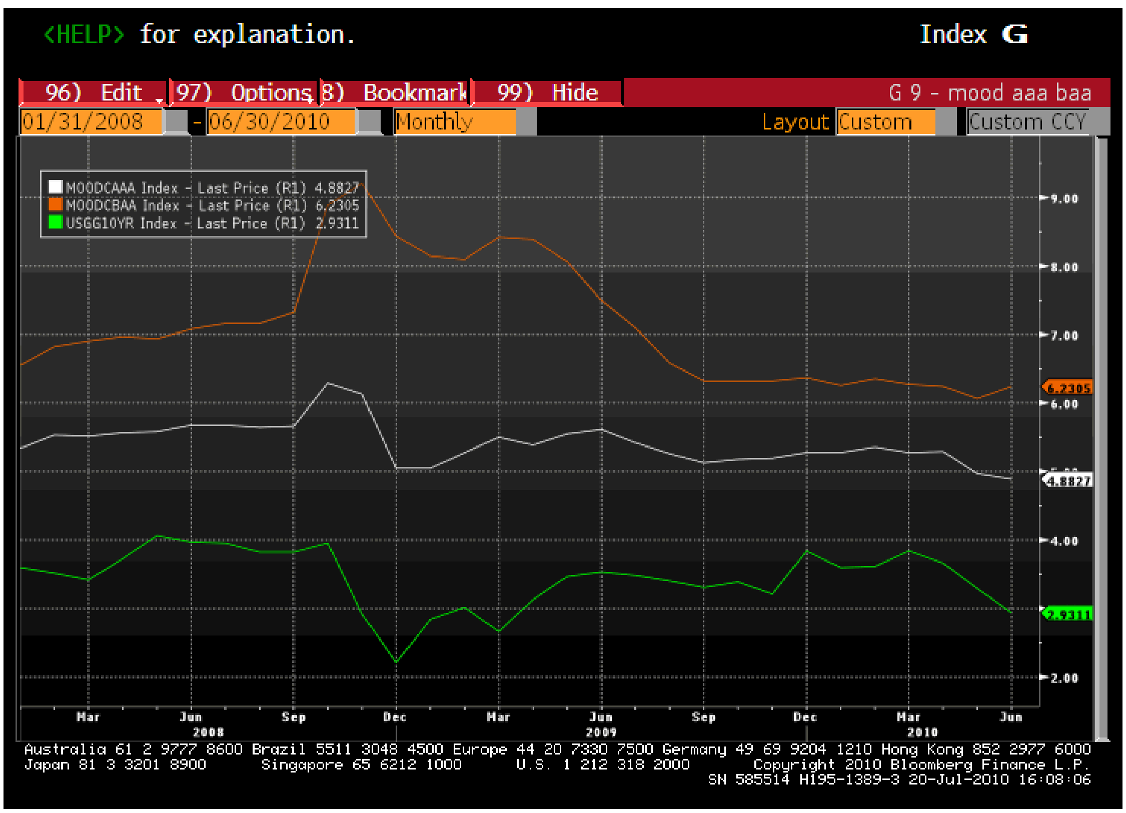
* Source: Edison Electric Institute; Q2-2009 Financial Update, Quarterly Report of the U.S. Shareholder-owned Electric Utility Industry

Q. PLEASE PROVIDE AN EXAMPLE OF HOW BONDS WITH DIFFERENT RATINGS HAVE DIFFERENT INTEREST RATES?[12]

[12] Within this testimony, I use the terms "interest rates" and "yields" interchangeably.

A. Figure 1[13] shows the yields of Moody's Baa (top line) and Aaa (middle line) corporate bond indices and Bloomberg's 10-year Treasury index (bottom line) over a recent 30 month period. The spread between Baa and Treasury bond yields is greater than the spread between Aaa and Treasury bond yields. Note that bonds with Moody's Aaa or Baa ratings are each within the investment-grade category. Spreads over Treasury bond yields increase for bonds rated in the speculative-grade category, as these bonds have correspondingly greater yields.

Figure 1



[13] A larger version of Figure 1 is included as Exhibit Staff/204 Ordonez/1. Source: Bloomberg L.P.

Q DID YOU CALCULATE THE DIFFERENCE IN INTEREST RATES FOR PROSPECTIVE DEBT BETWEEN CENTURYLINK AND QWEST?

A. Yes. Based on Qwest's confidential response to Staff's DR-72, in which I requested indicative quotes from multiple investment banks for an issuance of debt securities, Qwest has a higher prospective interest rate than does CenturyLink.

Q WHAT ARE THE CURRENT RATINGS FOR THE COMPANIES INVOLVED IN THIS MERGER?

A. Table 4 shows the current ratings of pre-merger CenturyLink and Qwest.[14] CenturyLink's rating is two notches higher (better) than that of Qwest from each of the three rating agencies to which I refer in this testimony.

Table 4

Rating Agency	CenturyLink	Qwest	Notch difference
Moody's Long-term Rating	Baa3	Ba2	2
S&P's Long-term Local Issuer Credit	BBB-	BB	2
Fitch's Long-term Default Rating	BBB-	BB	2

Q. DID YOU REVIEW CREDIT RATING AGENCIES' REPORTS ABOUT THIS MERGER?

A. Yes. CenturyLink and Qwest's responses to Staff Data Requests 79 and 80 contain reports on the merger transaction from Fitch, Moody's and S&P.

[14] See Exhibit Staff/205 Ordonez/1-2.

Q. DID CREDIT RATING AGENCIES TAKE ANY ACTION IN CONNECTION WITH THE MERGER TRANSACTION?

A. Yes. Fitch stated:

> "Fitch Ratings has placed the Issuer Default Ratings (IDRs) of CenturyLink Inc. (CenturyLink) and Embarq Corporation (Embarq) on Rating Watch Negative. Simultaneously, Fitch has placed the IDRs of Qwest Communications International Inc. (Qwest) and its subsidiaries on Rating Watch Positive…"[15]

Standard &Poor's Research Update, published on April 22, 2010, stated:

> "On April 22, 2010, Standard & Poor's Ratings services placed its ratings on Monroe, La.-based incumbent local exchange carrier (ILEC) CenturyTel Inc. on CreditWatch with negative implications, including the 'BBB-' corporate credit, 'A-3' commercial paper, and all other issue ratings. At the same time, we placed the 'BB' corporate credit rating on Denver-based ILEC Qwest Communications International Inc. on CreditWatch with positive implications." [16]

> "We currently expect that if the transaction is completed as planned, the corporate credit rating on the combined entity is likely to be 'BB+' or 'BB'." [17]

Finally, Moody's stated:

> "Moody's Investors Service has affirmed the Baa3 long-term and Prime-3 short-term debt rating of CenturyTel, Inc. ("CenturyTel or the "Company") and changed the rating outlook to negative following the announcement that CenturyTel plans to acquire Qwest in a stock-for-stock transaction. In connection with the announcement, Moody's also placed the ratings of Qwest

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[15] See Exhibit Staff/206 Ordonez/2, Fitch Ratings report published on April 22, 2010, "Fitch Places CenturyTel's Ratings on Watch Negative; Qwest's Rating on Watch Positive"

[16] See Exhibit Staff/206 Ordonez/5, Standard & Poor's Research Update published on April 22, "CenturyTel 'BBB-' Rating On Watch Negative On Deal To Acquire Qwest Communications; Qwest 'BB' Rating On Watch Positive"

[17] See Exhibit Staff/206 Ordonez/6, Standard & Poor's Research Update published on April 22, "CenturyTel 'BBB-' Rating On Watch Negative On Deal To Acquire Qwest Communications; Qwest 'BB' Rating On Watch Positive"

Communications International Inc. ("QCII") and its subsidiaries under review for upgrade" [18]

Q. PLEASE SUMMARIZE THE THREE CREDIT AGENCIES' ANALYSES OF THE TRANSACTION.

A. The three major credit rating agencies currently have a negative outlook on CenturyLink and a positive outlook on Qwest.

Standard and Poor's goes a step further and expects pre-merger CenturyLink will lose its current investment-grade rating, becoming post-merger CenturyLink with a speculative-grade rating.

Q. HOW COULD OREGON CUSTOMERS OF CENTURYLINK AND QWEST BE AFFECTED BY THESE ACTIONS?

A. The Oregon customers of CenturyLink may be harmed, as pre-merger CenturyLink has credit ratings superior to those of post-merger CenturyLink. This may be exacerbated by the likelihood of a post-merger CenturyLink rating downgrade from an investment-grade rating to a speculative-grade rating. This implies the current Oregon customers of pre-merger CenturyLink's CTL Oregon ILECS may experience increased rates due to a higher post-merger cost of debt financing.

[18] See Exhibit Staff/206 Ordonez/18, Moody's Global Credit Research published on April 22, 2010, "Rating Action: Moody's changes CenturyTel's outlook to negative; reviews Qwest's ratings for upgrade"

4. CONCLUSION

Q. WHAT CONCERN DO YOU HAVE REGARDING THE PROPOSED MERGER?

A. Post-merger CenturyLink's financial profile is inferior to that of pre-merger CenturyLink. This may cause harm to the Oregon customers of pre-merger CenturyLink's CTL Oregon ILECS if the Application is approved without Staff's conditions.

Q. WHAT CONDITIONS DO YOU PROPOSE TO ADDRESS YOUR CONCERN?

A. In Exhibit Staff/100, Mr. Dougherty proposes several financial conditions that address my concern.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

CASE: UM 1484
WITNESS: Jorge Ordonez

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 201

Witness Qualification Statement

September 3, 2010

WITNESS QUALIFICATION STATEMENT

NAME	Jorge D. Ordonez
EMPLOYER	Public Utility Commission of Oregon
TITLE	Senior Financial Economist, Economic and Policy Analysis Section
ADDRESS	550 Capitol Street NE, Suite 215, Salem, Oregon 97301-2115
EDUCATION AND TRAINING	Utility Management Certificate Willamette University, Oregon, 2008 Certificate in Management of Hydropower Development Swedish International Development Cooperation Agency, Sweden, 2006 & South Africa, 2007 Fulbright Scholar, MBA, concentration in finance Willamette University, Oregon, 2005 Certificate in Project Appraisal and Management Maastricht School of Management, Netherlands, 2002 BS, Mechanical Engineering, thermal power efficiency Electrical & Mechanical Engineering School San Antonio Abad University, Peru, 1998
EXPERIENCE	I received a Bachelors of Science degree in Mechanical Engineering from San Antonio Abad University in Cusco, Peru in 1998. Subsequently, as a Fulbright Scholar, I received an MBA with an emphasis in finance from Willamette University in 2005. From 1999 to 2008, I worked for a Peruvian power generation company and was promoted many times, working as an Engineer, Resource Scheduler, Manager of Economic Planning and Vice-President of Generation, Commercial and Trading. Since January 2009, I have been employed by the Public Utility Commission of Oregon as a Senior Financial Economist in the Economic Research and Financial Analysis Division, evaluating utilities' issuance of securities, cost of capital, marginal cost studies and mergers and acquisitions.

CASE: UM 1484
WITNESS: Jorge Ordonez

PUBLIC UTILITY COMMISSION OF OREGON

STAFF EXHIBIT 202

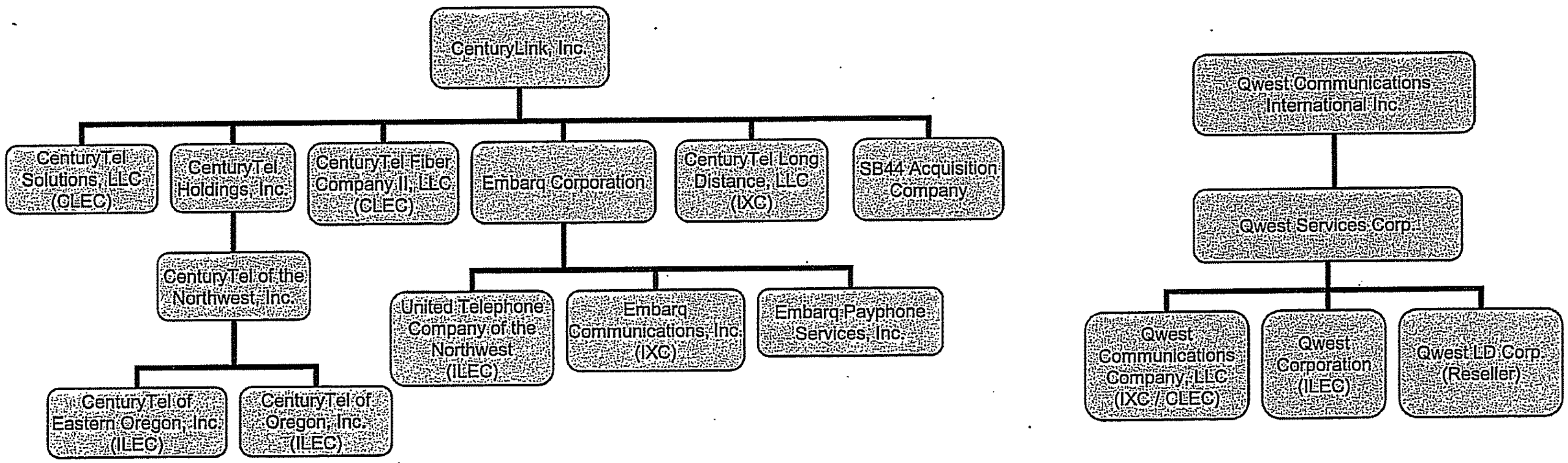
Exhibits in Support Of Reply Testimony

September 3, 2010

OREGON

Organizational Structure Diagrams

Pre-Merger



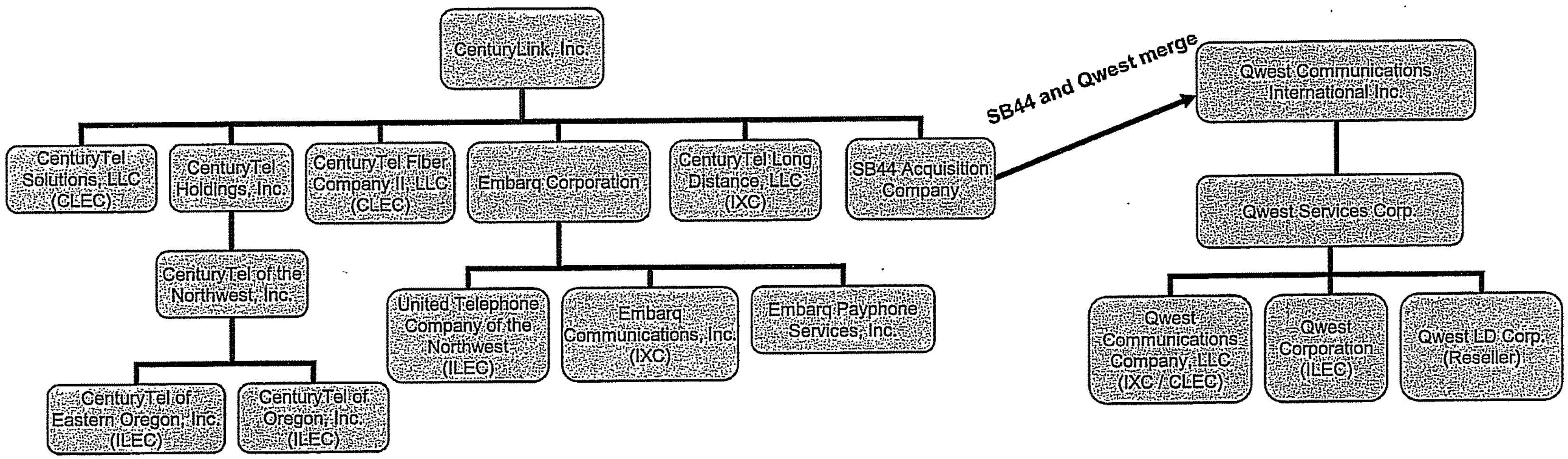
NOTE: CenturyTel, Inc. will change its name to CenturyLink, Inc. on May 20, 2010, assuming shareholder approval.

Staff/202
Ordonez/1

OREGON

Organizational Structure Diagrams

Merger



Qwest Communications Int'l Inc. is the surviving entity and adopts:

SB44 Certificate of Incorporation

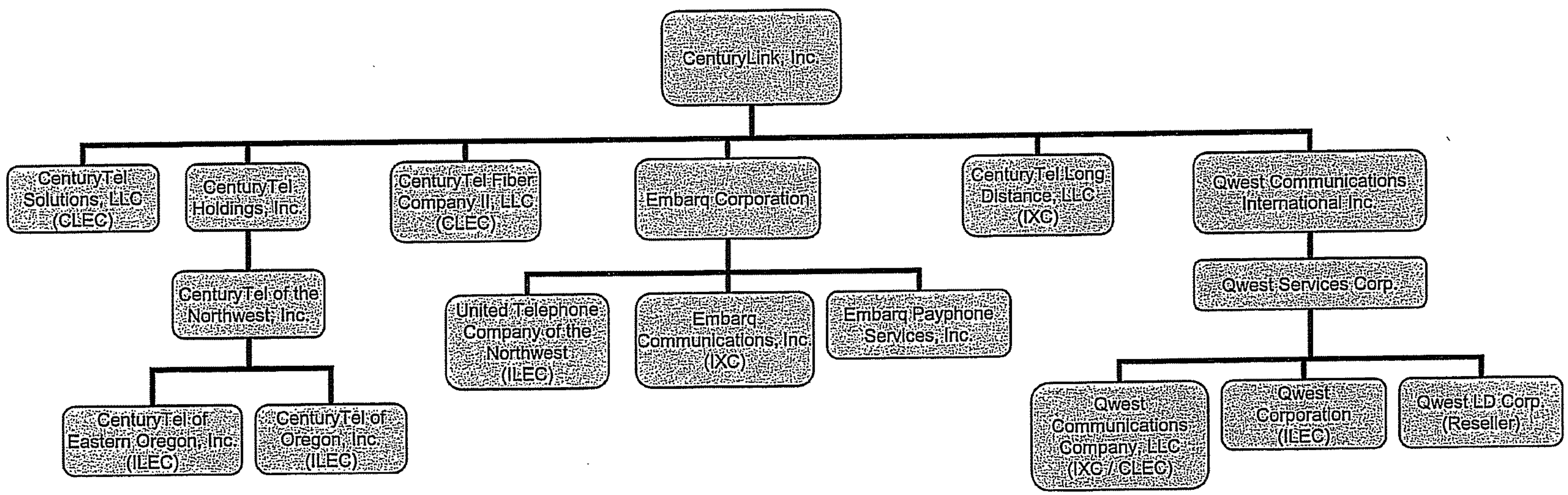
SB44 Bylaws

Qwest Communications Int'l Inc. becomes wholly-owned subsidiary of CenturyLink, Inc.

OREGON

Organizational Structure Diagrams

Post - Merger



CASE: UM 1484
WITNESS: Jorge Ordonez

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 203

Exhibits in Support
Of Reply Testimony

September 3, 2010

LONG-TERM RATING SCALES COMPARISON

Bloomberg	AAA	A2H	A2	A2L	A1H	A1	A1L	B3H	B3	B3L
MOODY'S	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
S&P	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
COMP	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
FITCH	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
DBRS	AAA	AAH	AA	AAL	AH	A	AL	BBBH	BBB	BBBL
R&I	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
JCR	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
AM Best	aaa	aa+	aa	aa-	a+	a	a-	bbb+	bbb	bbb-

Staff | 203
Ordonez | 1

Note: white = investment grade, yellow = non-investment grade

Page

EquityRATD

LONG-TERM RATING SCALES COMPARISON

Bloomberg	B2H	B2	B2L	B1H	B1	B1L	C3H	C3	C3L	C2	C1	DDD
MOODY'S	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3	Ca	C	
S&P	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-	CC	C	D
COMP	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-	CC	C	DDD
FITCH	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-	CC	C	D
DBRS	BBH	BB	BBL	BH	B	BL	CCCH	CCC	CCCL	CC	C	D
R&I	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-	CC+	CC	CC-
JCR	BB+	BB	BB-	B+	B	B-		CCC		CC	C	D
AM Best	bb+	bb	bb-	b+	b	b-	ccc+	ccc	ccc-	cc	c	d

Staff | 203
Ordonez | 2

Note: white = investment grade, yellow = non-investment grade

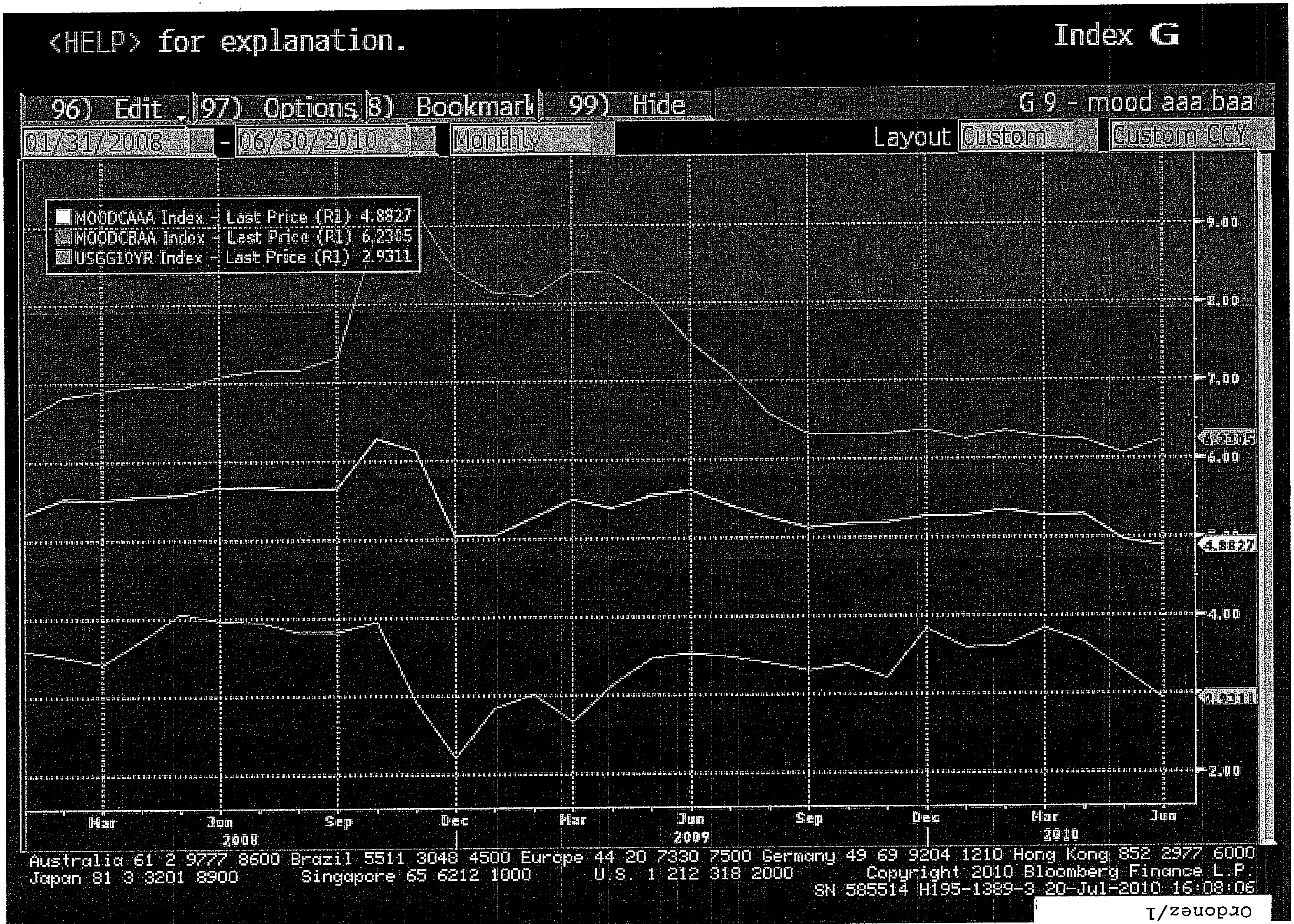
CASE: UM 1484
WITNESS: Jorge Ordonez

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 204

Exhibits in Support
Of Reply Testimony

September 3, 2010



Staff/204
Ordonez/1

CASE: UM 1484
WITNESS: Jorge Ordonez

PUBLIC UTILITY COMMISSION OF OREGON

STAFF EXHIBIT 205

Exhibits in Support Of Reply Testimony

September 3, 2010

<HELP> for explanation.
Enter # <GO> for historical ratings.

EquityCRPR

Related Functions | Company Tree Ratings | Alert | CREDIT PROFILE

CenturyLink Inc — Page 1/1

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Ordonez/1

MOODY'S

1)	Outlook	NEG
2)	Long Term Rating	Baa3
3)	Senior Unsecured Debt	Baa3
4)	Subordinated Debt	WR
5)	Short Term	P-3

STANDARD & POOR'S

6)	LT Foreign Issuer Credit	BBB- *-
7)	LT Local Issuer Credit	BBB- *-
8)	ST Foreign Issuer Credit	A-3 *-
9)	ST Local Issuer Credit	A-3 *-

FITCH

10)	LT Issuer Default Rating	BBB- *-
11)	Senior Unsecured Debt	BBB- *-
12)	Short Term	F3 *-
13)	ST Issuer Default Rating	F3 *-

Staff/205
Ordonez/2

<HELP> for explanation.
Enter # <GO> for historical ratings.

Equity**CRPR**

Related Functions | Company Tree Ratings | Alert | CREDIT PROFILE

Qwest Communications International Inc

MOODY'S

1)	Issuer Rating	WR
2)	Long Term Rating	Ba2
3)	LT Corp Family Rating	Ba2 *+
4)	Senior Unsecured Debt	Ba3 *+
5)	Probability of Default	Ba2 *+
6)	Spec Grade Liquidity Rtg	SGL-1

STANDARD & POOR'S

7)	LT Foreign Issuer Credit	BB *+
8)	LT Local Issuer Credit	BB *+
9)	ST Foreign Issuer Credit	NR
10)	ST Local Issuer Credit	NR

FITCH

11)	LT Issuer Default Rating	BB *+
12)	Senior Unsecured Debt	BB+ *+

DBRS

13)	Senior Secured Debt	WR
14)	Senior Unsecured Debt	WR

CASE: UM 1484
WITNESS: Jorge Ordonez

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 206

Exhibits in Support
Of Reply Testimony

September 3, 2010

Oregon
Docket No. UM-1484
Response to Staff Data Request No. 79
Respondent: Mark Gast
Response Date: July 9, 2010

STAFF-79

Please provide Moody's, Fitch's, and Standard & Poor's (S&P) credit rating and outlook for CenturyLink and Qwest. Please also provide S&P's current business profile and current financial profile for CenturyLink and Qwest. Please describe any changes expected in any rating.

RESPONSE:

Please see Attachment Staff 79.1 through 79.4.

Fitch Places CenturyTel's Ratings on Watch Negative; Qwest's Ratings on Watch Positive

Fitch Ratings-Chicago-22 April 2010: Fitch Ratings has placed the Issuer Default Ratings (IDRs) of CenturyTel, Inc. (CenturyTel) and Embarq Corporation (Embarq) on Rating Watch Negative. Simultaneously, Fitch has placed the IDRs of Qwest Communications International, Inc. (Qwest) and its subsidiaries on Rating Watch Positive. Certain security ratings of Qwest Corporation, Embarq, Embarq local telephone subsidiaries, and the senior secured credit facility at Qwest were affirmed with a Stable Outlook. Other actions pertaining to certain security classes are outlined at the end of this release.

The action reflects the proposed merger of CenturyTel (which does business as CenturyLink) and Qwest in an all stock transaction, as announced on April 22, 2010. The terms of the transaction call for CenturyTel to exchange 0.1664 shares of common stock for each outstanding share of Qwest, and represents a 15% premium over Qwest's closing stock price on April 21, 2010. The enterprise value of the transaction is approximately $22.4 billion, including the assumption of $11.8 billion of Qwest net debt outstanding as of Dec. 31, 2009. Fitch estimates the transaction multiple is approximately 5.0 times (x) based on Qwest's 2009 EBITDA before synergies, and 4.5x after synergies. CenturyTel estimates operating cost synergies approximating $575 million will be realized over a three to five year time period. Following the merger, CenturyTel's shareholders will own slightly over 50% of the company following the merger and four Qwest directors will join CenturyTel's existing board of directors. The transaction is expected to close in the first half of 2011, following the customary regulatory and shareholder approvals.

In evaluating the final ratings, Fitch will take into account the proposed synergies and integration costs incorporated into the transaction, the outcome of the regulatory approval process, expectations for the merged company's future financial performance and the underlying operating environment as it affects the company's wireline-based business. Pro forma 2009 net leverage for the two companies, excluding synergies, was relatively strong at approximately 2.4x. However, through the acquisition of Qwest (and as a key rating factor embodied in Qwest's current 'BB' IDRs), CenturyTel's service territory will take on an increasing urban character, and will thus be exposed to more intense competitive forces and higher levels of technology substitution.

CenturyTel's total debt was $7.754 billion at Dec. 31, 2009, an amount that included $500 million of maturing long-term debt. In addition, CenturyTel's balance sheet reflected approximately $162 million in cash and cash equivalents. Financial flexibility is provided through two revolving credit facilities: a $728 million revolving credit facility that matures in December 2011 at CenturyTel, which had approximately $291 million outstanding on Dec. 31, 2009, and an $800 million undrawn revolving credit facility due in May 2011 at Embarq. The principal financial covenants in CenturyTel's credit facility limit debt to EBITDA for the past four quarters to no more than 4.0x and EBITDA to interest plus preferred dividends (with the terms as defined in the agreement) to no less than 1.5x. The primary financial covenant in the Embarq facility limits its leverage to 3.25x. Fitch expects CenturyTel to put in place a new revolving credit facility at the close of the merger.

In Fitch's view, CenturyTel is expected to have the financial flexibility to manage upcoming maturities due to its free cash flow and credit facilities. In 2010, $500 million in debt matures and is expected to be retired from free cash flow and a modest level of borrowing on the revolver. In 2011, debt maturities total $303 million (including the $291 million on CenturyTel's credit facility).

Qwest had $14.2 billion in debt outstanding and approximately $2.4 billion in cash on Dec. 31, 2009. Qwest's leverage was somewhat elevated due to two note issuances during 2009, totaling approximately $1.4 billion, the proceeds from which are expected to refinance 2010 scheduled maturities. In 2010, Qwest's remaining maturities include approximately $65 million of maturities at Qwest Capital Funding, Qwest Corporation's $500 million term loan, and Qwest Communications International's $1.265 billion of senior unsecured convertible notes due in 2025 which can be put to the company in November 2010. In 2011, a total of approximately $1 billion in debt matures. Qwest's $1.035 billion senior secured revolver is scheduled to mature in September 2013; however, the facility has a change of control provision and is thus expected to be terminated upon the completion of the merger. The primary financial covenant in the amended facility limits Qwest's leverage to no more than 5.0x and Qwest Corporation's leverage to no more than 2.5x.

Fitch believes CenturyTel will have adequate financial flexibility after the close of the merger to manage upcoming maturities owing to the new credit facility to be put into place, and anticipated annual free cash flow approximating $1.4 billion.

The CenturyTel ratings placed on Rating Watch Negative are as follows:

CenturyTel
--Long-term Issuer Default Rating (IDR) 'BBB-';
--Senior unsecured revolving credit facility 'BBB-';
--Senior unsecured debt 'BBB-';
--Short-term IDR 'F3';
--Commercial paper 'F3'.

Embarq

--Long-term IDR 'BBB-'.

Carolina Telephone & Telegraph (CT&T)
--IDR 'BBB-'.

Embarq - Florida, Inc. (EFL)
--IDR 'BBB-'.

Ratings affirmed with a Stable Outlook are as follows:

Embarq
--Senior unsecured notes at 'BBB-';
--Bank facility at 'BBB-'.

Carolina Telephone & Telegraph (CT&T)
--Debentures at 'BBB-'.

Embarq - Florida, Inc. (EFL)
--First mortgage bonds at 'BBB'.

The Qwest ratings placed on Rating Watch Positive are as follows:

Qwest Communications International, Inc.
--IDR 'BB';
--Senior unsecured notes (guaranteed by QSC) 'BB+';
--Senior convertible senior notes 'BB'.

Qwest Corporation
--IDR 'BB'.

Qwest Services Corporation
--IDR 'BB'.

Qwest Capital Funding
--IDR 'BB';
--Senior unsecured notes 'BB'.

The Qwest ratings affirmed with a Stable Outlook are as follows:

Qwest Communications International, Inc.
--Senior secured credit facility at 'BBB-'.

Qwest Corporation
--Senior term loan at 'BBB-';
--Senior unsecured notes at 'BBB-'.

The rating reflects the application of Fitch's current criteria which are available at 'www.fitchratings.com' and specifically include the following reports:

--'Corporate Rating Methodology' (Nov. 24, 2009);
--'Liquidity Considerations for Corporate Issuers' (June 12, 2007).

Contact: John Culver, CFA +1-312-368-3216 or David Peterson +1-312-368-3177, Chicago.

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Staff/206
Ordonez/4

ATTACHMENT STAFF 79.2

STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

April 22, 2010

Research Update:

CenturyTel 'BBB-' Rating On Watch Negative On Deal To Acquire Qwest Communications; Qwest 'BB' Rating On Watch Positive

Primary Credit Analyst:
Allyn Arden, CFA, New York (1) 212-438-7832;allyn_arden@standardandpoors.com

Table Of Contents

Research Update:

CenturyTel 'BBB-' Rating On Watch Negative On Deal To Acquire Qwest Communications; Qwest 'BB' Rating On Watch Positive

Overview

- U.S. ILECs CenturyTel and Qwest Communications International Inc. have signed a definitive agreement under which CenturyTel will acquire Qwest in a tax-free, stock-for-stock transaction.
- We are placing our ratings on CenturyTel, including the 'BBB-' corporate credit rating, on CreditWatch with negative implications.
- We are also placing our 'BB' corporate credit rating on Qwest on CreditWatch with positive implications.
- We currently expect that if the transaction is completed as planned, the corporate credit rating of the combined entity is likely to be 'BB+' or 'BB'.

Rating Action

On April 22, 2010, Standard & Poor's Ratings Services placed its ratings on Monroe, La.-based incumbent local exchange carrier (ILEC) CenturyTel Inc. on CreditWatch with negative implications, including the 'BBB-' corporate credit, 'A-3' commercial paper, and all other issue ratings. At the same time, we placed the 'BB' corporate credit rating on Denver-based ILEC Qwest Communications International Inc. on CreditWatch with positive implications.

The CreditWatch placements follow the announcement that CenturyTel and Qwest have signed a definitive agreement under which CenturyTel will acquire Qwest in a tax-free, stock-for-stock transaction. CenturyTel shareholders will own approximately 50.5% and Qwest shareholders will own 49.5% of the combined company.

We also placed the senior secured and unsecured debt at Qwest Communications International Inc. and Qwest Capital Funding Inc. on CreditWatch with positive implications. Additionally, we placed the senior unsecured debt at Qwest subsidiary Qwest Corp. on CreditWatch with developing implications, meaning that we could raise or lower the ratings. Issue-level ratings at the Qwest entities will depend on the outcome of the overall corporate credit rating review, the ultimate capital structure of the combined entity, and our recovery analysis.

The CreditWatch listings are based on our preliminary view that if the merger is consummated under the proposed terms, we anticipate the corporate credit rating of the merged entity to likely be either 'BB+' or 'BB'. The transaction is subject to shareholder and regulatory approvals and we expect it to close in the first half of 2011.

Rationale

Based on preliminary information, we expect that CenturyTel's combined pro forma 2009 leverage will be about 3.2x (including unfunded pension and other postretirement obligations [OPEBs] and the present value of operating lease payments), or about 3.0x including potential operating synergies. Total debt to EBITDA would be significantly higher than CenturyTel's current leverage of 2.3x on a stand-alone basis, but lower than Qwest's 4.0x stand-alone leverage. Still, the pro forma leverage is probably not supportive of an investment-grade credit profile, despite prospects for potential deleveraging, given the integration challenges and continuing access-line losses across the industry.

While the transaction improves CenturyTel's scale, making it the third-largest wireline operator in the U.S., with about 17 million access lines and 5 million broadband customers, it also increases the company's exposure to higher density markets, which have significant competition from the cable providers. Access-line losses at legacy CenturyTel were about 8.8% in the fourth quarter of 2009 compared to 11.2% at Qwest. While estimated operating cost synergies of about $575 million, which represent about 3% of total revenue, appear achievable, integration efforts will be difficult given the size of the combined company and CenturyTel's integration of previously acquired Embarq will likely not be complete until the end of 2011. Additionally, one-time integration costs of $800 million to $1 billion will constrain the combined company's initial net free cash flow generation.

CreditWatch

In resolving the CreditWatch, we will meet with management to review its business and financial strategies, including evaluating the prospective financial policy of the combined entity. We currently expect that if the transaction is completed as planned, the corporate credit rating on the combined entity is likely to be 'BB+' or 'BB'.

Related Criteria And Research

"Key Credit Factors: Business And Financial Risks In The Global Telecommunication, Cable, And Satellite Broadcast Industry," published Jan. 27, 2009, on RatingsDirect.

Ratings List

Ratings Placed On CreditWatch Negative

	To	From
CenturyTel Inc.		

Corporate Credit Rating	BBB-/Watch Neg/A-3	BBB-/Stable/A-3
Ratings Placed On CreditWatch Positive		
Qwest Communications International Inc.		
Corporate Credit Rating	BB/Watch Pos/--	BB/Negative/--
Ratings Placed On CreditWatch Developing		
Qwest Corp.		
Corporate Credit Rating	BB/Watch Dev/--	BB/Negative/--
Qwest Corp.		
Senior Unsecured	BBB-/Watch Dev	BBB-
Recovery Rating	1	1
Ratings Placed On CreditWatch Negative		
CenturyTel Inc.		
Senior Unsecured	BBB-/Watch Neg	BBB-
Commercial Paper	A-3/Watch Neg	A-3
Carolina Telephone & Telegraph Co.		
Senior Unsecured	BBB-/Watch Neg	BBB-
Centel Capital Corp.		
Senior Unsecured	BBB-/Watch Neg	BBB-
Embarq Corp.		
Senior Unsecured	BBB-/Watch Neg	BBB-
Sprint - Florida, Inc.		
Senior Secured	BBB+/Watch Neg	BBB+
Ratings Placed On CreditWatch Positive		
	To	From
Qwest Communications International Inc.		
Senior Secured	BB/Watch Pos	BB
Recovery Rating	3	3
Senior Unsecured	B+/Watch Pos	B+
Recovery Rating	6	6
Qwest Capital Funding Inc.		
Senior Unsecured	B+/Watch Pos	B+
Recovery Rating	6	6
Qwest Services Corp.		
Senior Secured	B+/Watch Pos	B+

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

MOODY'S
INVESTORS SERVICE

Credit Opinion: CenturyTel, Inc

Global Credit Research - 23 Apr 2010

Monroe, Louisiana, United States

Ratings

Category	Moody's Rating
Outlook	Negative
Senior Unsecured	Baa3
Preferred Shelf	(P)Ba2
Commercial Paper	P-3
Embarq Corporation	
Outlook	Negative
Sr Unsec Bank Credit Facility	Baa3
Senior Unsecured	Baa3
Embarq Florida, Inc.	
Outlook	Negative
First Mortgage Bonds	Baa1
Centel Capital Corp.	
Outlook	Negative
Bkd Senior Unsecured	Baa2
Carolina Telephone & Telegraph Company	
Outlook	Negative
Senior Unsecured	Baa1
United Telephone Co. of Pennsylvania	
Outlook	Negative
First Mortgage Bonds	Baa1

Contacts

Analyst	Phone
Dennis Saputo/New York	212.553.1675
Alexandra S. Parker/New York	212.553.4889

Opinion

Rating Drivers

- CenturyTel's acquisition of Qwest creates large economies of scale and potential for strong free cash flow generation

- Organic cash flows from wireline business remain under pressure due to the secular decline and increasing competition

- Significant execution risks in integrating large companies in quick succession

- CenturyTel faces many challenges in preserving a strong balance sheet

- The combination mitigates regulatory risks

Corporate Profile

CenturyTel, Inc. ("CenturyTel" or the "Company"), headquartered in Monroe, Louisiana, is a regional communications company engaged primarily in providing telephone and broadband services in various, predominately rural, regions of the United States. The company served approximately 7.0 million total access lines in 33 states as of December 31, 2009.

On July 1, 2009, CenturyTel acquired Embarq, when the combined company began operating under the name of CenturyLink. Following the acquisition, Embarq became a wholly-owned subsidiary of CenturyTel. The stock-for-stock acquisition valued at about $11 billion, including $5.8 billion of assumed debt of Embarq. Pro forma for the acquisition of Embarq, CenturyTel generated $7.6 billion in revenue in 2009.

Recent Events

On April 22, 2010, Moody's affirmed CenturyTel's Baa3 long-term rating and the Prime-3 short-term debt rating, and changed the rating outlook to negative following the announcement that CenturyTel plans to acquire Qwest Communications in stock-for-stock transaction. The proposed acquisition will create a national telecommunications company with $19.8 billion in annual pro forma revenue in 2009. The footprint of the combined entity will extend to 37 states and it will service 17 million access lines and 5 million broadband subscribers.

Under the terms of the agreement of the proposed acquisition, Qwest shareholders will receive 0.1664 CenturyTel shares for each share of Qwest common stock they own. The transaction reflects an enterprise value of approximately $25 billion, including the planned assumption of about $14 billion of Qwest's debt. The companies anticipate closing this transaction in the first half of 2011. CenturyTel expects that after a few years it will be able to generate significant expense and capital savings from the merger, initially estimated at about $625 million annually. Non-recurring integration costs will likely be in the $1.0 billion range, spread over several years. While broadband deployment is likely to remain a strategic priority of the new company, some capital spending synergies are also possible.

SUMMARY RATING RATIONALE

CenturyTel's Baa3 rating reflects Moody's expectations that the combined company's pro forma leverage will remain between 2.8 and 3.0 times Debt to EBITDA (Moody's adjusted, before synergies) over the next two to three years and that its dividend payout ratio will decline modestly, although the absolute level of dividends will increase. While the acquisition of Qwest significantly increases CenturyTel's exposure to more competitive urban/suburban markets (about 80% of Qwest's access lines are in five metropolitan markets), the enhanced scale of the Company, combined with the addition of Qwest's national state-of-the-art fiber optic network, is expected to generate meaningful expense and capital efficiencies, especially those related to transport costs, network expansion and new product development. The new company should be able to capitalize on growth in enterprise services revenues, especially as the economy rebounds and given Qwest's selection as one of three carriers competing for the U.S. Government's Networx contract. The combined company is expected to generate significant free cash flow, especially after anticipated synergies. The rating also reflects CenturyTel management's commitment to an investment grade rating and its historically balanced use of free cash flow between debt reduction and shareholder returns.

Moody's believes that if realized, the synergies from the merger could offset the expected decline in cash flows over the rating horizon caused by access-line erosion and slowing broadband growth. In addition, enhanced operating scale and strong free cash flow generation affords the Company the ability to spend capital to improve its competitive position and develop product offerings, such as wireless services and IPTV.

The rating also considers the significant execution risks of integrating a much larger company (Qwest is roughly twice the size of CenturyTel) with an extensive geographical footprint, and sustaining revenue growth while continuing to realize synergies from headcount reductions and system conversions.

DETAILED RATING CONSIDERATIONS

CENTURYTEL'S ACQUISITION OF QWEST CREATES LARGE ECONOMIES OF SCALE AND POTENTIAL FOR STRONG FREE CASH FLOW GENERATION

CenturyTel's Baa3 rating benefits from the enhanced operating scale emerging from its acquisition of Qwest. The acquisition will create a company with operations in 37 states, 17 million access lines and over 5 million broadband customers. CenturyTel expects to realize approximately $575 million of annual cost savings and about $50 million of capital savings from the Qwest acquisition three to five years after closing the acquisition and expects to spend approximately $1 billion on integration, spread over nearly the same period. We believe that, if realized, synergies from the merger will more than offset, over the rating horizon, the decline in cash flows caused by access-line erosion and slowing broadband growth.

The enhanced operating scale of the combined company and its strong free cash flow generation will allow the

Company increased ability to spend capital to improve its competitive position by investing on its network and developing new products. The companies plan to leverage their scale to continue to build out the Fiber to the Node (FTTN) network to increase high-speed broadband availability over a larger footprint and develop new product offerings, such as wireless services, data hosting and IPTV video solution, and extend Qwest's enterprise product offering to CenturyTel markets.

Both companies recognize the ability to increase customer retention by bundling wireless service, which has been demonstrated by the success Qwest has had in bundling wireless service. The combined company could leverage its scale and extend Qwest's current partnership arrangement with Verizon and offer wireless service over a larger footprint. We believe that the coverage area under the 700 MHz spectrum licenses that CenturyTel acquired in 2008 will now represent a very small part of the combined company's footprint and the companies may need a more comprehensive national approach to compete effectively over their vast footprint.

Both CenturyTel and Qwest offer video solutions in partnerships with the two DBS pay TV providers. The increased scale of the combined companies will provide greater flexibility if CenturyTel decides to deploy IPTV services over a larger footprint to counter the triple-play bundled offering from cable operators. CenturyTel could leverage Qwest's FTTN deployment that is expected to pass 4.5 million households (about 40% of households in its service territory) by the end of 2010 which could provide the platform for delivering IP-based video product.

ORGANIC CASH FLOWS FROM WIRELINE BUSINESS REMAIN UNDER PRESSURE DUE TO THE SECULAR DECLINE AND INCREASING COMPETITION

Both CenturyTel and Qwest's revenues continue to decline due to access-line losses. In the year ended December, 2009, CenturyTel (pro forma for full year of Embarq) and Qwest lost 8.8% and 11.2% of their respective access lines, although the access-line loss rates appear to be improving coinciding with the rebound in the economy . The incumbent phone companies' access-line losses are due to a secular decline in their local exchange services business and increasing competition from cable operators and substituting technologies, such as wireless and VoIP.

The acquisition of Qwest, which had nearly 80% of its lines concentrated in five metropolitan markets, will increase CenturyTel's exposure to highly competitive markets. The acquisition comes close on the heels of the Embarq acquisition, which too had resulted in increased presence in the more competitive as Embarq operated roughly half of its access lines in metropolitan markets that faced strong competition from cable and wireless operators, unlike legacy CenturyTel's more rural operating territory. Although we expect CenturyTel to mitigate the impact of declining revenues by adding high-speed internet subscribers and in the case of Qwest, by reducing customer churn through bundled wireless services provided under resale agreement, we believe the combined company will continue to lose access lines and revenue will continue to decline for the foreseeable future. We also note that shifting revenue mix - as lower margin high-speed data revenues are replacing higher margin voice revenues - will add to the ongoing pressures on the combined company's operating cash flow margins. Furthermore, high-speed internet subscriber growth is expected to slow down with growing penetration, adding to the challenges for the two companies. We believe that the continuing trends of escalating competition and technology substitution will lead to revenue declines in high single-digits for CenturyTel standalone and by about 5%-to-7% rate annually for CenturyTel (pro forma for the Qwest acquisition) over the next couple of years, with commensurate pressure on operating cash flows unless the combined company operates more efficiently and drives remaining synergies from the Embarq merger and achieve synergies from the proposed Qwest merger after closing.

SIGNIFICANT EXECUTION RISKS IN INTEGRATING LARGE COMPANIES IN QUICK SUCCESSION

We estimate that the total expected synergies from the Qwest acquisition would represent about 40% of the combined company's free cash flow (CFO less capex and dividends) in two to three years, underscoring the significant contribution of synergies in preserving the Company's strong free cash flow generating profile that underpins its Baa3 rating. CenturyTel's rating and its rating outlook reflects the considerable execution risks in integrating a sizeable company so soon after another large acquisition (Embarq in July 2009) while confronting the challenges of a secular decline in the wireline industry. The two large acquisitions in quick succession will rapidly transform CenturyTel's scale and widen the scope of its operations. Within a period of three years, CenturyTel's revenues would increase from about $2.6 billion to nearly $19.8 billion; the profile of its service territory will shift from mostly rural to mostly urban markets; and the Company's customer base, which was dominated by residential and retail customers, would now include a segment servicing large enterprises and small and medium-sized businesses (SMB) customers, which will contribute nearly $5 billion or nearly 25% of pro forma revenue of the merged company. While the two acquisitions will create substantial opportunities, we believe that the execution risks in integrating a company twice its size, so soon after the acquisition of Embarq, which also doubled its size, are substantial.

The cost and capital synergies from the two acquisitions would exceed $1 billion, or over 5% of the pro forma revenues, when realized. While we believe that the planned synergies are achievable, the execution challenges in integrating the two acquisitions in quick succession, while the wireline sector faces intense and growing competition, are significant. The risks are partially mitigated by CenturyTel's track record of successfully integrating prior wireline companies, although much smaller in size compared to Embarq and Qwest. In addition, the Qwest acquisition is expected to close in the first half of 2011, by which time CenturyTel expects to make significant progress in integrating the operations of Embarq. As of the year-end 2009, CenturyTel was on track to realize planned synergies from the Embarq merger, and the Company expected to complete the conversion of billing and customer care systems for about 25% of the acquired operations by mid-2010. Despite the Company's prior successes, we believe that the integration of Qwest's large operations comprising local exchange services with nearly 10 million access lines spanning 14 states and the enterprise business with nearly 1 million customers, including government and Fortune 500 customers, represents a formidable challenge.

In addition to the operating cost savings and capital savings, we believe CenturyTel could also generate revenue synergies, especially by leveraging Qwest's enterprise business and its nationwide long-haul fiber network. The Qwest enterprise business could also provide key support as the economy rebounds after a deep recession.

CENTURYTEL FACES MANY CHALLENGES IN PRESERVING A STRONG BALANCE SHEET

CenturyTel's Baa3 rating reflects the Company's challenges in preserving a balance sheet consistent with an investment grade rating given downward pressure on revenues and cash flows and the Company's historical preference to return the majority of its free cash flow to shareholders.

We believe that if the Company executes successfully and is able to realize the full anticipated synergies from the two acquisitions, it could continue to offset the organic decline in free cash flow over the next 2-to-3 years, excluding the one-time integration costs, which will help preserve its capacity to return cash to shareholders without adversely affecting the rating. However, we believe that the combined company's core local exchange operations will continue to experience sustained pressure due to the aforementioned industry factors, and we do not expect the declining trends in revenue and access lines to reverse over the rating horizon. Nonetheless, the affirmation of CenturyTel's ratings reflect our expectations that both CenturyTel and Qwest will be able to stabilize EBITDA in the near term -- the former through merger synergies and the latter through continuing cost cutting. Coupled with Qwest's plans to reduce debt by nearly $2.7 billion (net of $800 million of new debt issuance in January 2010), we believe that CenturyTel's pro forma leverage upon closing the acquisition will be in the 2.8x-to-3.0x range. Furthermore, if the two companies are able to execute their business plan, we believe that the pro forma leverage will likely continue in that range (Moody's adjustments increased the pro forma reported leverage by about 0.3x based on 2009 data). We note that the projected leverage is uncomfortably close to the downgrade triggers being reiterated now, which heightens our concerns due to the execution risks facing the two companies and the declining revenues for the fixed line telecommunications industry.

The Company also faces diminishing opportunities to drive higher returns to shareholder from large mergers that could generate meaningful economies of scale. As a result, we believe that CenturyTel faces many challenges in maintaining a strong credit profile in a tough operating environment while balancing the demands of its shareholders.

THE COMBINATION MITIGATES REGULATORY RISKS

The combination of CenturyTel with Qwest will reduce the regulatory risk arising from changes to the USF program. Moody's estimates that the combined company's exposure to USF revenues is expected to reduce by half from about 6% of total pro forma revenue. In addition, CenturyTel's switched access revenue as a percent of total revenue are expected to decline from nearly 10% of total revenue now to about mid single-digit percent after the merger, alleviating the risk of changes in regulated access rates.

The incumbent local exchange carriers' (ILECs') high-margin revenues from access services are undergoing a secular shift as competition from the expanding number of carriers pressures these rates, particularly on intrastate calls. On various occasions the Federal Communication Commission has expressed willingness to initiate a comprehensive reform of intercarrier compensation and universal service. The critical nature of these revenue streams was demonstrated when former FCC Chairman Kevin Martin proposed a plan that would have reduced intra-state access rates to inter-state levels and further lowering it to $.0007 over time. The recommendation set off a massive outcry against the proposal by the RLECs and the issue was deferred. Although a revision of existing access revenue rules is unlikely in the near term, modifications are expected in the future. Because these revenues are very high margin, modifications to the current frameworks are likely to have a significant impact on all RLECs, potentially negatively impacting CenturyTel's free cash flow generating capacity.

Moody's believes that ILECs are likely to have an opportunity to tap into a large portion of the billions of stimulus funding devoted to broadband expansion, and in the long-term if a government funded national broadband plan comes into being.

Liquidity

Moody's expects CenturyTel to maintain very good liquidity over the next 12-to-18months, primarily comprising CenturyTel's nominal cash balances but its sizeable and predictable free cash flow generation and committed bank credit facilities.

CenturyTel's existing $728 million revolving credit facility expires in December 2011. As of December 31, 2009, $291 million was outstanding under the facility. The Company's ability to borrow under the facility reduces commensurately with the amount outstanding under the Company's commercial paper programs, which in turn is effectively limited to the amount available under the credit facility. CenturyTel's commercial paper program, which is rated Prime-3 - consistent with its Baa3 long-term rating - is intended for working capital purposes, capital expenditures, acquisitions and debt repayments. The commercial paper program was unutilized as of year-end 2009. CenturyTel also has access to Embarq's $800 million revolving credit facility that matures in May 2011, which was undrawn as of 12/31/2009. The Company had additionally utilized the revolving lines of credit to issue a modest $46 million of letters of credit.

We expect CenturyTel to generate about $2.5 billion in cash flow from operations, and capital spending of about $850 million - slightly elevated from the level of their combined capital spending before the acquisition reflecting additional capital expenditures to increase broadband availability in former Embarq markets. Moody's estimates of CenturyTel's cash flow from operations include $185 million (after-tax basis) of contribution to Embarq's pension plan. As a result, Moody's projects the Company will generate about $900 million in free cash flow after dividends of nearly $840 million, or a payout ratio of about 48%. We expect the Company will maintain over $100 million of cash on hand over the next twelve months.

CenturyTel has $500 million and $303 million of debt maturing in 2010 and 2011, respectively, which Moody's expects the Company will repay as it comes due. Based on our expectations of the combined company's operating performance, we estimate CenturyTel and Embarq will maintain ample cushion under the financial covenants contained in their respective revolving credit facilities. CenturyTel's revolving credit facility contains financial covenants of consolidated leverage ratio set at 4.0x and a minimum interest coverage ratio test of at least 1.5x (both metrics as defined under the credit agreement). Embarq's revolving credit facility contains financial covenants that do not permit leverage ratio greater than 3.25x and minimum interest coverage ratio of 3.0x.

The Company has suspended its share repurchase program, but may consider making additional share repurchases after the merger is completed.

Moody's also expects that CenturyTel's liquidity, pro forma for the acquisition of Qwest, will remain very strong. Moody's estimates CenturyTel's pro forma for the acquisition of Qwest would be about $1 billion (excluding synergies from the Qwest acquisition and the spending to achieve those synergies), which includes special contribution to the Embarq pension plan.

Structural Considerations

The senior secured debt of Embarq's operating subsidiaries, Embarq Florida, Inc., The United Telephone Company of Pennsylvania, and the Carolina Telephone & Telegraph Company is rated Baa1, and the senior unsecured debt of Centel Capital Corporation (Centel) is rated Baa2.

The Baa1 rating of the senior secured first mortgage bonds reflects their structural seniority and the benefits they derive from the pledge of assets of the operating companies. Moody's expects that Embarq's Baa1 rated operating subsidiaries will continue to maintain stronger credit metrics than the consolidated entity, including leverage of about 1.0x, over the rating horizon.

The senior unsecured debt of Centel (guaranteed by its direct parent, Centel Corporation) is rated Baa2 reflecting its structural subordination to nearly $203 million of secured debt at the subsidiaries of Centel Corporation (Embarq Florida).

Rating Outlook

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

WHAT COULD STABILIZE THE OUTLOOK

Moody's could stabilize CenturyTel's rating outlook if the operating performance of CenturyTel and Qwest remains stable or improves leading up to the close of the acquisition, as evidenced by the EBITDA levels of the companies.

Moody's believes that achieving stable EBITDA levels would also be dependent on the two companies' ability to cut costs while remaining competitive, and achieving the targeted synergies from the Embarq merger. Positive rating pressure could develop if the two companies are able to compete effectively and the access line loss rates and high-speed internet subscriber growth rate remain stable.

What Could Change the Rating - Down

Moody's could downgrade CenturyTel's long-term rating if the Company's operating performance deteriorates, or if Qwest's operating performance falls short of expectations and its EBITDA continues to decline, such that the merged entity is unable to sustain financial leverage (Total debt-to-EBITDA, Moody's adjusted) of less than 3.0x and if the free cash flow generation falls into low single digit percent of total debt.

Moody's believes that a sustained decline in EBITDA (excluding one-time items) exceeding a rate of 3% could put enormous pressure on CenturyTel's ability to repay debt while continuing to return cash to shareholders, stay competitive and maintain leverage consistent with an investment grade rating.

Negative rating pressure could develop if CenturyTel's integration with Embarq adversely affects the operating performance of the combined company, resulting in a weakened competitive position, evidenced by a rapid acceleration in access-line losses, or if the Company's liquidity becomes strained as a result of significant delays in realizing merger synergies.

The rating could also come under pressure if persistent underperformance or high shareholder returns result in weakened credit metrics, such that leverage increases to 3.0x (Moody's adjusted) and free cash flow deteriorates to the low single-digits range (relative to total debt). In addition, the rating could be lowered if management's financial policies no longer remain supportive of a strong balance sheet consistent with an investment grade rating.

Rating Factors

CenturyTel, Inc

Global Telecommunications Industry	Aaa	Aa	A	Baa	Ba	B	Caa-C
Factor 1: Size, Scale, Business Model & Competitive Environment (25%) [1][2]							
a) Size & Scale (Total Revenues USD BLN)				X			
b) Business Model & Competitive Environment					x		
Factor 2: Operating Environment(20%) [2]							
a) Regulatory and Political				X			
b) Technology Risk					X		
c) Market Share				X			
Factor 3: Strategy And Financial Policies (5%) [2]							
a) Management's Financial Strategy				X			
Factor 4:Operating Performance (10%) [1][2]							
a) EBITDA Margin			X				
b) EBITDA Trend			X				
Factor 5: Financial Strength (40%) [1][2]							
a) Debt / EBITDA				X			
b) FCF / Debt						X	
c) RCF / Debt					X		
d) (FFO + Interest Expense) / Interest Expense					X		
e) (EBITDA - Capex) / Interest Expense					X		
Rating:							
a) Indicated Rating from Methodology				Baa3			
b) Actual Rating Assigned				Baa3			

[1] Standard adjustments in accordance with "Rating Methodology: Moody's Approach to Global Standard Adjustments

in the Analysis of Financial Statements for Non-Financial Corporations, Part 1 (February 2006)." In addition, Moody's adjusts for one-time ite [2] Moody's projected for 2010, pro forma for the acquisition of Qwest.

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Rating Action: Moody's changes CenturyTel's outlook to negative; reviews Qwest's ratings for upgrade

Global Credit Research - 22 Apr 2010

Approximately $23 billion of Debt Affected

New York, April 22, 2010 -- Moody's Investors Service has affirmed the Baa3 long-term and Prime-3 short-term debt ratings of CenturyTel, Inc. ("CenturyTel" or the "Company") and changed the rating outlook to negative following the announcement that CenturyTel plans to acquire Qwest in a stock-for-stock transaction. In connection with the announcement, Moody's also placed the ratings of Qwest Communications International Inc. ("QCII") and its subsidiaries under review for upgrade.

Under the terms of the agreement, Qwest shareholders will receive 0.1664 CenturyTel shares for each share of Qwest common stock they own. The transaction reflects an enterprise value of approximately $25 billion, including the planned assumption of about $14 billion of Qwest's debt. The companies anticipate closing this transaction in the first half of 2011. CenturyTel expects that after a few years it will be able to generate significant expense savings from the merger, initially estimated at about $575 million annually. Non-recurring integration costs will likely be in the $1.0 billion range, spread over several years. While broadband deployment is likely to remain a strategic priority of the new company, approximately $50 mm of capital spending synergies are also possible, bringing total annual synergies to $625mm. The merger will produce a company with operations in 37 states, 17 million access lines and 5 million broadband customers.

The affirmation of CenturyTel's ratings reflects Moody's expectations that the combined company's pro forma leverage will remain between 2.8 and 3.0 times Debt to EBITDA (Moody's adjusted, before synergies) over the next two to three years and that its dividend payout ratio will decline modestly, although the absolute level of dividends will increase. Moody's Senior Vice President Dennis Saputo said "While the acquisition of Qwest significantly increases CenturyTel's exposure to more competitive urban/suburban markets (about 80% of Qwest's access lines are in five metropolitan markets), the enhanced scale of the Company, combined with the addition of Qwest's national state-of-the-art fiber optic network, is expected to generate meaningful expense and capital efficiencies, especially those related to transport costs, network expansion and new product development." He added, "The new company should be able to capitalize on growth in enterprise services revenues, especially as the economy rebounds and given Qwest's selection as one of three carriers competing for the U.S. Government's Networx contract." The combined company is expected to generate significant free cash flow, especially after anticipated synergies. The rating affirmation also reflects CenturyTel management's commitment to an investment grade rating and its historically balanced use of free cash flow between debt reduction and shareholder returns.

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

The affirmation of CenturyTel's Prime-3 short-term debt rating reflects its sizeable cash balance, ample committed back-up facilities, manageable near-term debt maturities and our expectation that it will generate significant free cash flow over the next 12 to 18 months.

The review of Qwest's ratings will evaluate the ability of the company to improve its operating performance and continue to reduce its leverage in light of the secular challenges confronting the sector and the potential distraction caused by working toward closing the merger. Positive rating pressure could develop prior to the merger based on improved fundamentals, specifically, if the company can sustain stable EBITDA over the foreseeable future. Qwest's rating might also be upgraded further if the company is acquired by CenturyTel.

Before the transaction can close, several regulatory approvals, including those of numerous state Public Utility Commissions, are required and conditions may be imposed by some of these states' regulatory authorities, or the FCC. Moody's affirmation of CenturyTel's ratings assumes that any condititions that may be imposed will not have a material impact on the Company's financial profile.

The Obama administration and Federal Communication Commission have proposed comprehensive reforms of inter-carrier compensation and universal service rules as part of an effort to expand broadband deployment, especially to un-served and under-served markets. "While the details of the final regulatory overhaul are far from clear and could change significantly over time, Moody's believes that the proposed merger of these two companies is likely to reduce the combined company's exposure to an adverse decision since the merger lowers the percentage of universal service and access revenues in the new company", added Saputo.

Moody's has taken the following rating actions:

On Review for Possible Upgrade:

..Issuer: Qwest Communications International Inc.

....Probability of Default Rating, Placed on Review for Possible Upgrade, currently Ba2

....Corporate Family Rating, Placed on Review for Possible Upgrade, currently Ba2

....Multiple Seniority Shelf, Placed on Review for Possible Upgrade, currently (P)Ba3

....Senior Unsecured Conv./Exch. Bond/Debenture, Placed on Review for Possible Upgrade, currently B1

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Upgrade, currently a range of B2 to Ba3

..Issuer: Qwest Corporation

....Senior Unsecured Bank Credit Facility, Placed on Review for Possible Upgrade, currently Ba1

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Upgrade, currently a range of Ba1 to Baa1

..Issuer: Qwest Services Corp.

....Senior Secured Bank Credit Facility, Placed on Review for Possible Upgrade, currently Ba3

..Issuer: Mountain States Telephone and Telegraph Co.

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Upgrade, currently Ba1

..Issuer: Northwestern Bell Telephone Company

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Upgrade, currently Ba1

..Issuer: Qwest Capital Funding, Inc.

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Upgrade, currently B1

Outlook Actions:

..Issuer: CenturyTel, Inc

....Outlook, Changed To Negative From Stable

..Issuer: Embarq Corporation

....Outlook, Changed To Negative From Stable

..Issuer: Embarq Florida, Inc.

....Outlook, Changed To Negative From Stable

..Issuer: Carolina Telephone & Telegraph Company

....Outlook, Changed To Negative From Stable

..Issuer: Centel Capital Corp.

....Outlook, Changed To Negative From Stable

..Issuer: United Telephone Co. of Pennsylvania

....Outlook, Changed To Negative From Stable

..Issuer: Qwest Communications International Inc.

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Qwest Corporation

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Qwest Services Corp.

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Qwest Capital Funding, Inc.

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Mountain States Telephone and Telegraph Co.

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Northwestern Bell Telephone Company

....Outlook, Changed To Rating Under Review From Stable

Please refer to Moodys.com for additional research.

Moody's most recent rating action for CenturyTel was on September 14, 2009, at which time Moody's assigned a Baa3 rating to the company's Series P and Series Q note offerings.

Moody's most recent rating action for Qwest Communications International was on January 7, 2010, at which time Moody's assigned a Ba3 rating to the company's new note issuance.

The principal methodology used in rating CenturyTel and Qwest was Moody's Global Telecommunications Industry rating methodology, which can be found at www.moodys.com in the Rating Methodologies sub-directory under the Research and Ratings tab(December 2007, document #106465). Other methodologies and factors that may have been considered in the process of rating these issuers can also be found in the Rating Methodologies sub-directory on Moody's website.

CenturyTel, Inc., headquartered in Monroe, Louisiana is a regional communications company that served approximately 7.0 million total access lines in 33 states as of December 31, 2009.

Qwest , headquartered in Denver, CO. is a RBOC and nationwide inter-exchange carrier (IXC). It served about 10.3 million access lines in 14 western states as of December 31, 2009.

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CASE: UM 1484
WITNESS: Jorge Ordonez

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 207

Exhibits in Support
Of Reply Testimony

<u>REDACTED</u>
September 3, 2010

STAFF EXHIBIT 207

CONTAINS HIGHLY CONFIDENTIAL INFORMATION AND SUBJECT TO HIGHLY CONFIDENTIAL PROTECTIVE ORDER NO. 10-291. YOU MUST HAVE SIGNED APPENDIX B OF THIS HIGHLY CONFIDENTIAL PROTECTIVE ORDER IN DOCKET UM 1484 TO RECEIVE THE HIGHLY CONFIDENTIAL VERSION OF THIS EXHIBIT.

CASE: UM 1484
WITNESS: Jorge Ordonez

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 208

Exhibits in Support
Of Reply Testimony

REDACTED
September 3, 2010

STAFF EXHIBIT 208

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CASE: UM 1484
WITNESS: John Reynolds

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 300

Reply Testimony

<u>REDACTED</u>
September 3, 2010

CERTAIN INFORMATION ON PAGES 4 AND 5 CONTAINED IN

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ORDER NO. 10-291 IN UM 1484. YOU MUST HAVE SIGNED

APPENDIX B OF THIS HIGHLY PROTECTIVE ORDER IN

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HIGHLY CONFIDENTIAL VERSION

OF THIS EXHIBIT.

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is John Reynolds. I am a Senior Telecommunications Analyst in the Cost Analysis Section of the Telecommunications Division of the Public Utility Commission of Oregon (Commission). My business address is 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2551.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. My Witness Qualification Statement is found in Exhibit Staff/301.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide supporting arguments for certain requirements proposed by Staff as conditions for Commission approval of the transaction.

Q. DID YOU PREPARE AN EXHIBIT FOR THIS DOCKET?

A. Yes. I prepared Highly Confidential Exhibit Staff/300, consisting of 13 pages, Highly Confidential Exhibit Staff/302, Concerning CenturyLink Broadband, consisting of 2 pages, and Highly Confidential Exhibit Staff/303, Concerning Qwest Broadband, consisting of 2 pages.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony is organized as follows:

ISSUE 1, BROADBAND DEPLOYMENT PLAN

Q. DO YOU RECOMMEND A SPECIFIC BROADBAND DEPLOYMENT PLAN AS A CONDITION FOR APPROVAL OF THE TRANSACTION?

A. Yes. As a condition for transaction approval I recommend specific expenditures and specific speed targets over the five years after closing of the transaction. This is Condition number 13, stated in Staff/100, Dougherty/46.

Q. WHY IS THE BROADBAND PROGRESS PLAN REQUIRED?

A. This condition is required to ensure that the merged CenturyLink Company plans to place the appropriate emphasis on upgrading its broadband network in Oregon to meet the target developed by the FCC in the National Broadband Plan.[1, 2] I believe that failure to meet this goal would be detrimental to the Oregon customers and to the economy of Oregon.

Q. HOW DOES THE PROPOSED REQUIREMENT MATCH EXISTING CENTURYLINK AND QWEST PLANS?

A. Neither CenturyLink nor Qwest provided Staff with sufficient data to evaluate plans the companies might have. Both CenturyLink and Qwest were asked through Staff Data Requests Nos. 108 (CenturyLink) and 109 (Qwest) to provide data concerning their broadband expansion plans. The following are the requests made to CenturyLink and Qwest and their responses:

Staff Data Request 108 [109] "Additional requests for CenturyLink's [Qwest's] response to Staff Data Request No. 25 [26]:

[1] FCC Order No. 10-58, released April 21, 2010. (4 Mbps download, 1 Mbps upload within 3 to 5 years.)
[2] Federal Communications Commission, National Broadband Plan, March 16, 2010, p. 135

a. Please provide projected Capital expenditures for years 2010, 2011, 2012, 2013, and 2014. (Provide in Excel format as hard copy and CDROM)

b. Show the subtotals included in the above amounts for:
   i. DSL expansion.
   ii. Fiber optic broadband service expansion to the home/curb.
   iii. Local loop modernization & growth.
   iv. Switching modernization & growth.
   v. Circuit equipment modernization & growth….”

CenturyLink responded as follows:

a. Please see Confidential Attachment Staff 108 for the projected expenditures for 2010. State specific capital expenditure projections are not available beyond 2010.
b. Please see Confidential Attachment Staff -108 for the requested capital expenditure projection for Oregon in the categories utilized by CenturyLink for 2010.”

Qwest responded in a supplemental response as follows:

(a) Qwest does not prepare capital budgets for stand alone operating entities below QCII or capital budgets for states.

Qwest prepares an annual capital expenditure budget at the QCII [Qwest Communications International, Inc.] level only. A portion of QCII’s total annual capital expenditure is further assigned to the Qwest Corporation (QC) Network Operations Vice president (NOVP) level and, under each NOVP, to the states managed by that NOVP. The assignment of annual capital expenditure budget to NOVP and state is fluid and changes frequently throughout the year as the needs of the business change throughout the year. Please see Confidential Attachment A for the current estimate of the FTTN and DSL High Speed Internet budgets to Oregon.

Both companies provided their estimated expenditures for only the year 2010. As this year is almost over, the responses of both companies provided little assurance that broadband (DSL) growth has been purposefully planned with sufficient funding for Oregon. Broadband has been identified as one of the factors that would give a boost to the economy nationwide. Indeed the broadband proposals reviewed by Staff for the American Reinvestment and Recovery Act (ARRA) funding for Oregon demonstrate that broadband stimulates the Oregon economy. Lack of steady progress on the part of CenturyLink in providing adequate broadband growth post transaction presents the risk of harm to the economic growth of Oregon.

Q. HAS THE FEDERAL COMMUNICATIONS COMMISSION STATED ITS GOAL FOR BROADBAND SPEED AVAILABILITY?

A. Yes. In the National Broadband Plan the Federal Communications Commission (FCC) stated its goal for broadband speed availability: "actual download speeds of at least 4 Mbps and actual upload speeds of at least 1 Mbps."[3]

Q. WHERE DO QWEST AND LEGACY CENTURYLINK STAND TODAY IN TERMS OF SPEEDS AVAILABLE IN THEIR RESPECTIVE AREAS?

A. Both Qwest's and CenturyLink's broadband deployments are short of the speed goal that the FCC has set. *************REDACTED*****************
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[3] Federal Communications Commission, National Broadband Plan, March 16, 2010, p. 135

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************ Because of this gap, Staff's proposed condition for establishing broadband deployment funding and meeting speed goals is intended to minimize the risks to the customers in Oregon and to the economy of Oregon.

Q. HAS THE COMMISSION APPROVED CONDITIONS REQUIRING SPECIFIC BROADBAND GROWTH TARGETS IN OTHER TRANSACTIONS IN OREGON?

A. Yes. In Docket UM 1431, the Frontier-Verizon transaction was approved with the condition that the merged company would spend $25 million on broadband over three years. (See OPUC Order No. 10-067).

Q. HOW DO THE CONDITIONS PROPOSED FOR CENTURYLINK COMPARE TO THOSE APPROVED FOR FRONTIER-VERIZON?

A. The post transaction CenturyLink will be a much larger company than the post transaction Frontier. A comparison of the funding conditions is shown below in comparison to total access lines of the companies:

	Amount	**Access Lines (2009 Form O)**	**Amt/line**
FTR-VZ	$25 Mil.	269,415	$93/line
CTL-QC	$60 Mil	851,042	$71/line

Q. DO YOU SPECIFY CERTAIN REPORTING REQUIREMENTS CONCERNING BROADBAND DEPLOYMENT PROGRESS?

A. Yes. These requirements are included in Condition 13. (See Staff/100, Dougherty/47). These requirements are very similar to those required of Frontier in Docket UM 1431.

Q. DO YOU REQUIRE ADVANCE PLACEMENT OF FUNDS IN AN ESCROW ACCOUNT?

A. Yes. This is included in Condition 13. (See Staff /100, Dougherty/46.) This requirement is also similar to that required of Frontier in Docket UM 1431.

ISSUE 2, SERVICE QUALITY – SWITCH REPLACEMENT PLAN

Q. AS A CONDITION FOR APPROVAL OF THE TRANSACTION, DO YOU PROPOSE THAT CENTURYLINK PROVIDE A PLAN FOR REPLACEMENT OF AGING OR OBSOLETE SWITCHES?

A. Yes. The reason for this requirement is to ensure that CenturyLink provides evidence that it recognizes its funding needs for its operations in Oregon, in competition with demands for funds in other CenturyLink territories and for other projects nationwide.

Q. WHAT ARE THE SITUATIONS IN WHICH CENTURYLINK MIGHT REPACE AGING SWITCHES?

A. There are several common reasons for replacing aging switches: (1) deteriorating service quality (2) increasing maintenance costs (3) opportunity to offer more advanced services (4) and opportunity to serve customers more economically.

Q. HAS CENTURYLINK PROVIDED INFORMATION REGARDING FUTURE REPLACEMENT OF SWITCHES IN LEGACY CENTURYLINK AND QWEST TERRITORIES?

A. No. The companies provided data regarding the ages of the various switches in their territories. However, in response to Staff's Data Requests Nos. 111 (Qwest) and 113 (CenturyLink), the companies provided no information regarding planned replacement of any switches either on the basis of age or for other reasons. The responses expose a potentially large gap in the network planning that has been undertaken to date. CenturyLink provides no assurance that proactive network planning will be undertaken. Furthermore, the responses convey significant uncertainty as to what priority CenturyLink will assign to funding for network replacements. Joint CLECs also express concern with this lack of planning and commitment for future network investments, and cite several non-reassuring responses from CenturyLink. (JCLECs/4, Ankum/22 and 23).

ISSUE 3, OPERATIONS SUPPORT SYSTEMS

Q. AS A CONDITION FOR APPROVAL OF THE TRANSACTION, DO YOU PROPOSE THAT CENTURYLINK NOTIFY THE COMMISSION IN ADVANCE REGARDING INTEGRATION OF THE CURRENT OPERATIONS SUPPORT SYSTEMS OF THE COMPANIES?

A. Yes. The operations support systems are critical to the operation of the telephone network. The concern for the proper functioning of Operations Support Systems (OSS) was strongly stated in the conditions of the Frontier-Verizon merger in Docket UM 1431. In the Frontier-Verizon transaction, the companies planned major conversion activities in the near future. In the CenturyLink-Qwest transaction, CenturyLink proposed no major conversions, and in most cases indicated that it had not evaluated the issues involved. (See (JCLECS/4, ANKUM/1-4). However, the number of customers potentially affected by OSS conversions is much greater for CenturyLink. Staff proposes Condition No. 29. as a measure to maintain a level of oversight by the Commission in this critical area. (See Staff/100, Dougherty/52).

Q. HAVE OTHER PARTIES EXPRESSED CONCERN ABOUT OPERATIONAL SUPPORT SYSTEMS?

A. Yes. Several parties expressed concern about the uncertainty of how the operational support systems will be managed in the future. The parties expressed concerns primarily in the wholesale arena, but many of the issues apply to OSS universally. Some of the issues are the uncertainties evident in

CenturyLink's responses to many data requests, where the company claims it has not evaluated the issues (JCLECs/4, Ankum/1-4) and expresses uncertainty regarding CenturyLink’s plans for Qwest’s OSS (JCLECs/8, Gates/121). Staff Witness Marinos also addresses OSS concerns in Staff/500.

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ISSUE 4, ACCESS CHARGES

Q. DO YOU SUPPORT REDUCING CENTURYLINK'S ACCESS CHARGES AS A CONDITION FOR APPROVAL OF THE TRANSACTION?

A. No. Reducing CenturyLink's access rates at this time is likely to have serious undesirable consequences: (1) a potentially large increase in the Oregon Exchange Carrier Association (OECA) pool access charges, (2) a significant reduction in CenturyLink's rates could price them below costs, and (3) the issues of Universal Service Support, intercarrier compensation, and access charges are extremely complex and a solution that focuses only on the carriers involved in this transaction is not appropriate.

Q. HOW MIGHT A REDUCTION IN CENTURYLINK'S ACCESS RATES AFFECT THE OREGON EXCHANGE CARRIER ASSOCIATION (OECA) POOL?

A. CenturyLink Oregon and CenturyLink Eastern Oregon are members of the Oregon Exchange Carrier Association (OECA) pool. The OECA pool consists of thirty small Oregon telephone companies. CenturyLink is the largest, comprising roughly forty percent of the input value (minutes of use and revenue requirements) used in calculating the pool access rates. CenturyLink's input values drive the pool rates downward. Departure of CenturyLink from the OECA pool to allow it to file independently is likely to cause a significant increase in the rates that the remaining twenty nine members of the pool must charge. The options the other companies would have to consider to counteract this increase would be to increase basic service rates, or to increase the Oregon Universal Service Fund (OUSF) distributions to the companies. Raising basic rates to the customers of these companies to accommodate this merger is not acceptable. An increase in OUSF to fund legacy telecommunications services is contrary to the direction of the FCC. In Oregon, it is not likely that additional OUS funds will be available.

Q. HOW MIGHT A SIGNIFICANT REDUCTION IN RATES CAUSE THEM TO BE BELOW COSTS?

A. The legacy CenturyLink companies compute access charges under different rules from those that apply to Qwest. The CenturyLink companies use “embedded costs” or actual costs as the basis for computing access charges. The OECA pool input is embedded cost data from the pool members. A cursory review of access charges in Qwest’s tariff P.U.C. Oregon No. 32 shows that they are orders of magnitude lower than CenturyLink’s. Reducing CenturyLink's rates significantly, particularly to the level of Qwest’s rates, incurs the risk of their being priced below cost. Reducing access rates would likely require the company to seek rate increases in other services, e.g. basic services. A condition requiring reduction of access rates would penalize CenturyLink, and is not warranted for approval of this transaction.

Q. DO YOU BELIEVE IT IS APPROPRIATE TO ADDRESS THE ISSUES INVOLVED IN ACCESS CHARGES, INTERCARRIER COMPENSATION AND UNIVERSAL SERVICE SUPPORT IN THIS DOCKET?

A. No. These issues are too broad and too complex to be addressed simply as a condition for approval of this transaction. Where many of the requests of the parties may have merit and warrant in-depth consideration, these issues must be considered in a broad policy context. (An example of the pitfalls of addressing these issues solely in this docket is illustrated by the potential harm to the OECA pool as discussed earlier.) The Commission has initiated Docket UM 1481 *Staff Investigation into the Oregon Universal Service Fund* to address the many issues involved.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

CASE: UM 1484
WITNESS: John Reynolds

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 301

Witness Qualification Statement

September 3, 2010

WITNESS QUALIFICATIONS STATEMENT

NAME:	JOHN REYNOLDS
EMPLOYER:	PUBLIC UTILITY COMMISSION OF OREGON
TITLE:	SENIOR TELECOMMUNICATIONS ANALYST
ADDRESS:	550 Capitol Street NE, Suite 215 Salem, Oregon 97301-2551
EDUCATION AND TRAINING:	Master of Science in Engineering-Economic Systems—Stanford University Bachelor of Science in Mechanical Engineering – Stanford University Certificate -- Duke University Graduate School of Business—Pacific Bell Management Development Program
WORK EXPERIENCE:	Employed with the Oregon Public Utility Commission as a Senior Telecommunications Analyst since September, 1998 • Audit of Annual Reports Form O • Jurisdictional Separations Issues • Lead in Annual Access Charge Filings • Lead in Unbundled Network Element (UNE) and Non-recurring Cost dockets • Review tariffs for conformance to cost rules • Broadband proposal review and recommendation Principal of Decision Consulting Associates, performing economic decision and risk analyses (1994-1998) Pacific Bell (1966-1992). Various assignments in cost allocation methods development, engineering process redesign, network maintenance engineering, network capital budget management, long range planning, transmission engineering, and equipment cost estimating.

CASE: UM 1484
WITNESS: John Reynolds

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 302

Exhibits in Support
Of Reply Testimony

<u>REDACTED</u>
September 3, 2010

STAFF EXHIBIT 302

CONTAINS HIGHLY CONFIDENTIAL INFORMATION AND SUBJECT TO HIGHLY CONFIDENTIAL PROTECTIVE ORDER NO. 10-291. YOU MUST HAVE SIGNED APPENDIX B OF THIS HIGHLY CONFIDENTIAL PROTECTIVE ORDER IN DOCKET UM 1484 TO RECEIVE THE HIGHLY CONFIDENTIAL VERSION OF THIS EXHIBIT.

CASE: UM 1484
WITNESS: John Reynolds

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 303

Exhibits in Support
Of Reply Testimony

REDACTED

September 3, 2010

STAFF EXHIBIT 303

CONTAINS HIGHLY CONFIDENTIAL INFORMATION AND SUBJECT TO HIGHLY CONFIDENTIAL PROTECTIVE ORDER NO. 10-291. YOU MUST HAVE SIGNED APPENDIX B OF THIS HIGHLY CONFIDENTIAL PROTECTIVE ORDER IN DOCKET UM 1484 TO RECEIVE THE HIGHLY CONFIDENTIAL VERSION OF THIS EXHIBIT.

CASE: UM 1484
WITNESS: Irvin L. Emmons

PUBLIC UTILITY COMMISSION OF OREGON

STAFF EXHIBIT 400

Reply Testimony

September 3, 2010

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Irvin L. Emmons. I am employed by the Public Utility Commission of Oregon (PUC) as the Program Manager of the Rates and Service Quality Section, Telecommunications Division, Utility Program. My business address is 550 Capitol Street NE Suite 215, Salem, Oregon 97301.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. My Witness Qualification Statement is found in Exhibit Staff/401.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. In my testimony I will discuss Oregon Public Utility Commission Staff recommended conditions 22 and 23.

Q. DID YOU PREPARE AN EXHIBIT FOR THIS DOCKET?

A. Yes. I prepared Exhibit Staff/401, my Witness Qualification Statement.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony is organized as follows:

ISSUE 1 – CONDITION NUMBER 22, SERVICE QUALITY REPORTING

Q. PLEASE STATE STAFF RECOMMENDED CONDITION NUMBER 22.

A. Immediately after the close of this transaction, the Operating Companies will report retail service quality results in accordance with OAR 860-023-0055. CenturyTel is currently exempt from service quality reporting, having met the conditions of OAR 860-023-0055(16)(d), but is required to submit to the Commission the monthly CenturyTel retail service quality reports for two years after the close of this transaction.

Q. DO UNITED TELEPHONE COMPANY OF THE NORTHWEST (UNITED); CENTURYTEL OF OREGON, INC. AND CENTURYTEL OF EASTERN OREGON, INC. (CENTURYTEL); AND QWEST CORPORATION (QWEST) CURRENTLY SUBMIT SERVICE QUALITY REPORTS?

A. United and Qwest currently submit monthly service quality reports to the Commission as in accordance with ORS 759.450 and OAR 860-023-0055. CenturyTel met the requirements of OAR 860-023-0055(16)(d) and is currently exempt from service quality reporting, but is still required to collect service quality data.

Q. HOW DID CENTURYTEL MEET OAR 860-023-0055(16)(D)?

A. CenturyTel filed a petition on March 5, 2008, to the Commission for a waiver from service quality reporting requirements after meeting all service quality objective service levels set forth in OAR 860-023-0055(4) through (8) for the 12 months prior to the month in which the petition was filed. CenturyTel met the requirements and the Commission granted the petition in Order 08-205, effective April 11, 2008.

Q. UNDER WHAT CONDITIONS WOULD CENTURYTEL NORMALLY BE REQUIRED TO RESUME SERVICE QUALITY REPORTING?

A. Order No. 08-205 states that “The Public Utility Commission of Oregon reserves the right to revoke the exemption should a Staff investigation reveal poor CenturyTel of Oregon, Inc. or CenturyTel of Eastern Oregon, Inc. network performance.”

Q. HAS STAFF PERFORMED AN INVESTIGATION OR FOUND THAT CENTURYTEL HAS POOR NETWORK PERFORMANCE?

A. No, based on monitoring complaints and outages. The condition 22 requirement to report service quality information is not indicative of substandard service.

Q. THEN WHY IS CENTURYTEL BEING REQUIRED TO START REPORTING SERVICE QUALITY INFORMATION AGAIN TO THE COMMISSION.

A. CenturyTel appears to be providing acceptable service to its customers but the Commission is not able to either verify through service quality reports or be able to see if service starts to degrade. Staff follows service quality trends and tries to be proactive in identifying potential problems and work for solutions before the problems cause significant harm to customers. This process has proven to be very effective.

UM 1484 would add a third company under CenturyLink, with CenturyTel being the smallest company, that is, has the fewest number of access lines. Staff contends that it is in the public interest to ensure that CenturyTel maintains the current level of service and the only way to verify service quality status is by receiving monthly service quality reports. These reports would only be for two years and then, without having to petition the Commission, CenturyTel would again be exempt from service quality reporting subject to Order 08-205. Monitoring the service quality of all three companies for the two years after the merger and not omitting the information from one company, is critical to ensure that service levels provided to all of the CenturyLink customers do not change.

ISSUE 2 – CONDITION NUMBER 23, PENALTIES

Q. PLEASE STATE STAFF RECOMMENDED CONDITION NUMBER 23.

A. CenturyLink will maintain current Commission minimum retail service quality standards (OAR 860-023-0055) as are currently being reported in the Qwest's monthly service quality reports to the Commission. If CenturyLink fails to maintain the current service quality levels for the QWEST Operating Company, it will be subject to potential penalties as set forth in ORS 759.450.

Q. WHAT ARE THE PENALTIES FOR FAILURE TO MEET SERVICE QUALITY STANDARDS?

A. In accordance with ORS 759.450, the Commission shall require a telecommunications utility that is not meeting the minimum service quality standards to submit a plan for improving performance to meet the standards. If the utility does not meet the goals of its improvement plan within six months or if the plan is disapproved by the commission, penalties may be assessed against the utility on the basis of the utility's service quality measured against the minimum service quality standards and, if assessed, shall be assessed according to the provisions of ORS 759.990.

Q. ORS 759.450 APPLIES TO ALL THREE COMPANIES, REGARDLESS OF THE MERGER. WHY IS THIS A CONDITION?

A. This condition was included in UM 1484 to emphasize to all parties that potential penalties under ORS 759.450 apply to CenturyLink under the merger, as it did to the individual companies prior to the merger.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

CASE: UM 1484
WITNESS: Irvin L. Emmons

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 401

Witness Qualification Statement

September 3, 2010

WITNESS QUALIFICATION STATEMENT

NAME:	IRVIN L. EMMONS
EMPLOYER:	PUBLIC UTILITY COMMISSION OF OREGON
TITLE:	PROGRAM MANAGER, RATES AND SERVICE QUALITY SECTION
ADDRESS:	550 CAPITOL ST. NE, SALEM, OR 97308-2148
EDUCATION:	Bachelor of Science, Electrical Engineering, Auburn University, Auburn, AL.

EXPERIENCE: Employed with the Oregon Public Utility Commission from August 1998 to present. Served as Senior Telecommunications Engineer until June 2010 and currently serving as the Program Manager, Rates and Service Quality, Telecommunications Division, Utility Program. Principal during the rulemaking for the current service quality standards and responsible for the oversight of the large utility service quality reports.

Employed by Science Applications International Corporation (SAIC) as Senior Communications Engineer from March 1994 to August 1998. Principal investigator for four logistic subtasks and responsible for the management and maintenance of 16,000 items worth over $19-million.

Employed by Shield Rite, Inc. (SRI) as Program Manager in 1993. Responsible for the design and manufacture of twenty-one MILSTAR Extremely High Frequency Antenna Support Shelters.

Employed by SAIC as a Senior Analyst from 1990 to 1993. Supported selected Air Force Initial Operational Test and Evaluations and the Space Systems Integrated Diagnostics subtask.

Served in the United States Air Force from December 1974 to August 1998, retiring as a Major. Chairman of a multi-service and joint-agency working group charged with developing a military standard for critical communications facilities. Liaison Exchange Officer to the Canadian Forces Communication Command Headquarters and served as the System Traffic Manager for the Canadian Switched Network;

monitored contract maintenance on nine telephone switches; and gave daily system status briefings to the Commanding General. Supervised and technically supported long-haul military communications operations in Spain which included power generation, microwave, troposcatter, satellite, and a telephone switch. Had the system-wide responsibility for the United States military telephone network in Europe.

Served in the United States Air Force from August 1965 to December 1974 as an airborne radio technician and shift supervisor for the avionics maintenance branch. Certified Air Force Technical Instructor.

CASE: UM 1484
WITNESS: Kay Marinos

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 500

Reply Testimony

September 3, 2010

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Kay Marinos. I am the Program Manager for the Competitive Issues Section of the Public Utility Commission of Oregon. My business address is 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2551.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. My Witness Qualification Statement is found in Exhibit Staff/501.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to identify the potential harms of the proposed transaction, and to recommend remedies to mitigate those potential harms, as they pertain to: 1) intrastate long distance service customers, and 2) competitive providers and competition in Oregon.

Q. DO YOU INCLUDE EXHIBITS WITH YOUR TESTIMONY?

A. Yes, in addition to Exhibit Staff/501, I include Exhibit Staff/502 through Exhibit Staff/506. Exhibit Staff/505 contains confidential information.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony is organized as follows: Page

Q. HOW WILL QWEST'S AND CENTURYLINK'S CURRENT LONG DISTANCE SERVICE OFFERINGS BE AFFECTED BY THE PROPOSED TRANSACTION?

A. Currently, Qwest and CenturyLink each offer long distance services using separate networks and each company markets its services independently to its customers. The Qwest long distance entity is Qwest Communications Company (QCC), while CenturyLink apparently has two entities that offer long distance services – CenturyTel Long Distance and Embarq Communications, Inc. The CenturyLink entities provide intrastate long distance services in Oregon through the use of their own facilities and those of multiple vendors. Once the merger is complete, however, it is likely that CenturyLink will move more of its traffic in the CenturyLink areas to Qwest's long distance network facilities. *See* CenturyLink response to Staff Data Request No. 48, attached as Exhibit Staff/502. CenturyLink may choose to offer long distance services through any of its interexchange carrier (IXC) entities post-merger, or combine or eliminate some of the entities. In other words, CenturyLink customers could experience a new underlying carrier for their long distance services. However, if CenturyLink still markets the long distance service in conjunction with its local service as a CenturyLink branded service offering, customers may not know their underlying carrier has changed.

Q. DO YOU FORESEE ANY POTENTIAL HARMS TO LONG DISTANCE CUSTOMERS THAT MAY RESULT FROM THE MERGER?

A. Yes. First, CenturyLink states that it will continue to offer the same services at the same rates as prior to the merger, but it does not specify for how long. Therefore, the Commission should require a period of rate stability for Qwest intrastate long distance customers for a limited time following the close of the merger. In addition, CenturyLink should be required to honor any commitments made by Qwest to its customers that include long distance bundled with other services, as well as any discounts, promotional or otherwise, for long distance service for the time period promised by Qwest.

Second, I am concerned that CenturyLink could materially change the quality of its customers' current intrastate long distance services by moving legacy CenturyLink customers to a different long distance affiliate post-merger, e.g., from the CenturyLink IXC to QCC. If customers are moved to a different long distance affiliate, then CenturyLink should give customers notice and the opportunity to choose another long distance carrier for intrastate services, at no cost to the customers. This is not to imply that the customers may encounter inferior service as a result of any change in carriers, but rather it is intended to give customers notice that changes to their service will occur.

Third, if a customer wishes to switch to a different long distance carrier, the customer would generally be subject to a "PIC" change charge. The PIC charge should be waived so that customers do not incur increased costs as a result of the proposed merger.

Q. PLEASE STATE THE CONDITIONS YOU RECOMMEND RELATING TO INTRASTATE LONG DISTANCE SERVICES.

A. The recommended conditions are:

44. For at least 180 days following the close of the proposed transaction, CenturyLink will offer substantially the same intrastate toll calling services, at the same rates, in the pre-merger Qwest area as provided by Qwest immediately prior to the closing. This includes the bundled service offerings of local and long distance at the same rates as set forth in the price lists of Qwest. In addition, CenturyLink will honor all commitments made by Qwest to customers regarding the terms for which promotional discounts on intrastate long distance services apply.

45. If CenturyLink changes the carriers it uses to provide intrastate long distance service to customers in either the pre-merger CenturyLink or the pre-merger Qwest areas, the company will notify each of the affected Oregon intrastate long distance customers at least 30 days in advance of the change. Furthermore, for 90 days following any such change, CenturyLink will waive any change charges, e.g., PICs, for any affected long distance customer choosing to change carriers.

These recommended ordering conditions are listed as conditions 44 and 45 in Staff Exhibit 100.

IMPACTS ON COMPETITIVE PROVIDERS AND COMPETITION

Q. WHAT IS THE SECOND AREA ADDRESSED IN YOUR TESTIMONY?

A. The second area addressed in my testimony is the potential impact of the proposed transaction on competitive providers and competition for local exchange telecommunications services in Oregon. To the extent that the transaction harms competitors, it also likely harms competitors' customers and reduces the level of competition. CenturyLink's and Qwest's competitors include "competitive local exchange carriers" (CLECs), cable companies providing telecommunications services, and wireless carriers, among others. Competitors rely on the CenturyLink and Qwest Incumbent Local Exchange Carriers (ILECs) for services comprising essential inputs that enable them to offer services in competition with the ILECs in the retail market. These services, generally referred to as wholesale services, include collocation, interconnection, unbundled network elements (UNEs), access and services for resale.

Q. IN GENERAL, HOW WOULD YOU DETERMINE IF THE TRANSACTION IS CREATING HARM TO COMPETITORS OR HARMING COMPETITIVE MARKETS?

A. Competitors should be able to obtain post-transaction at least the same services, at rates no higher than current rates, and with the same ease and speed as they would have *absent the transaction*.

The transaction should not upset the market for wholesale services, or tilt the balance of competition unreasonably toward the merged entity. If CenturyLink raises rates to its competitors for the services they use in the Qwest area, then those competitors would be forced to accept reduced profit margins or raise rates to their customers. If CenturyLink discontinues certain essential services to competitors in the Qwest area, then the competitors may be forced to discontinue service to their customers or go out of business. If CenturyLink is unable to adequately operate or support Qwest's Operations Support Systems (OSS) that are vital for the delivery of wholesale services to competitors, or is unsuccessful in attempts to convert to different systems, then competitors would be unable to obtain the wholesale services they need to provide services to their customers in a timely fashion. Depending on the nature of the failure, service delivery times could be so long that competitors would lose their customers (who would then turn to post-merger CenturyLink for retail services instead).

Just as Qwest's current retail customers should not suffer a reduction in services as a result of the proposed transaction, neither should the competitors' retail customers. If CenturyLink cannot maintain Qwest's current level of service to competitors, then the competitors' customers will experience longer delivery and repair times for their services. This group of customers that may be at risk as a result of this transaction number exceeds 100,000 given that CLECs had more than 300,000 access lines across all ILEC areas in Oregon at the end of 2008.[1]

[1] See Local Telecommunication Competition Survey, Year 2009 Report, page 1, prepared by the Public Utility Commission of Oregon, included here as Exhibit Staff/503.

Q. DOES CENTURYLINK DISCUSS THE ANTICIPATED IMPACTS OF THE PROPOSED MERGER ON COMPETITION?

A. Yes. On page 15 of its application, CenturyLink states "the public interest in preserving competition is not harmed as there is no meaningful reduction in competition especially since there is no overlap in the companies' incumbent local exchange operation. And, where competition exists currently between Qwest and CenturyLink for government or enterprise customers, there is an abundance of other providers from which customers may choose, and thus the Transaction will not lessen competition materially in these markets." As to the last sentence, one can assume CenturyLink refers to situations in which its competitive local exchange carrier (CLEC) affiliates currently have customers in Qwest's service area, and vice versa.

Q. DOES THIS ADEQUATELY DESCRIBE THE POTENTIAL HARMS OF THE PROPOSED MERGER ON COMPETITION IN OREGON?

A. No, it only addresses one part of the competitive equation. The lack of overlap in the ILEC operations of CenturyLink and Qwest is rather insignificant. To use this statement to conclude that there will be no "meaningful" reduction in competition belies fact that the merger will result in the loss of one incumbent competitor in Oregon, and the emergence of an even larger competitor under the CenturyLink corporate umbrella. Indeed, the desire to become larger and stronger in order to compete in the market is the driving force behind the merger. The merger will increase the number of customers in Oregon served by CenturyLink from its current 109,000 access lines to 911,000 access lines in total in the state. Although the companies propose to retain the ILEC areas as separate entities, there is no denying that the resulting company will create a much larger single corporate presence covering a significantly larger combined area of the state. It should be noted that the relative growth of CenturyLink within Oregon will be much greater than on a national level. That is, while CenturyLink will grow from 7 million access lines to 17 million lines nationally (almost 150 percent increase), the company will grow from around 109,000 lines to 911,000 in Oregon (an increase of over 700 percent). Therefore, the risks to Oregon customers are greater than in many other states. After the merger, CenturyLink will serve approximately 70% of all access lines in the state.

Q. IS THERE ANOTHER IMPORTANT POTENTIAL IMPACT ON COMPETITION THAT MUST BE ADDRESSED?

A. Yes. Many of the merged company's competitors are also their customers for wholesale (carrier to carrier) services. These competitors rely on services from both Qwest and CenturyLink ILECs in order to provide service to their end-user customers. These services include interconnection, collocation, unbundled network elements, resale services, and number porting. In essence, competitive providers must obtain many of their essential inputs from the very ILECs with which they compete. This customer-competitor relationship creates a tension between the Qwest/CenturyLink ILECs and their competitors. From the ILEC perspective, there is a disincentive to provide services their competitors need. If Qwest and CenturyLink do not provide adequate wholesale services to their competitors, the competitors and their customers suffer. If competitors and their customers suffer, Qwest and CenturyLink may be in a better position to retain or win back more end user customers.

Q. DO THE APPLICANTS DISCUSS HOW THE MERGER WILL IMPACT THE OFFERING OF WHOLESALE SERVICES TO COMPETITORS?

A. Yes. In its application at page 6, CenturyLink states that "Immediately upon completion of the Transaction, end-user and wholesale customers will continue to receive service from the same carrier, at the same rates, terms and conditions and under the same tariffs, price plans, interconnection agreements, and other regulatory obligations as immediately prior to the Transaction; as such, the Transaction will be transparent to the customers." Qwest states in testimony that the interconnection agreements that Qwest currently has with competitive carriers will not be impacted by the merger, and will remain in effect "until such time as they are negotiated or expire by their own terms." Further, "CLECs and Interexchange Carriers ("IXCs") will continue to receive wholesale services from the post-merger company at the rates, terms and conditions that are contained in current interconnection agreements and applicable tariffs." *See* Qwest/1, Peppler/9.

Q. DOES CENTURYLINK INDICATE WHETHER OR WHEN IT WILL CHANGE RATES FOR SERVICES?

A. In footnote 5 of its application, CenturyLink states "While rates, terms and conditions will be the same immediately after the Transaction as immediately before the Transaction, prices and product mixes necessarily will change over time as marketplace, technology, and business demands dictate. The affected entities will make such changes only following full compliance with all applicable rules and laws."

Q. DID CENTURYLINK AND QWEST FILE ANY TESTIMONY SPECIFICALLY ADDRESSING WHOLESALE SERVICES?

A. Yes. As the companies' initial set of testimony did not address wholesale issues to a great extent, the competitive providers in the docket requested that supplemental testimony be filed addressing CenturyLink's proposed treatment of wholesale services post-merger. Qwest witness Christopher Viveros submitted testimony identifying Qwest's existing wholesale obligations to competitive carriers. *See* Qwest/2. CenturyLink witness Michael Hunsucker submitted testimony describing CenturyLink's wholesale operations and the differences in wholesale obligations between Qwest, as a Bell Operating Company (BOC), and Century Link, as a non-BOC. Mr. Hunsucker states that CenturyLink is willing and able to abide by the obligations and commitments placed upon Qwest as a BOC. *See* CTL/400, Hunsucker/13-14. While the testimony of both parties is instructive in a descriptive sense, it yields little in the way of demonstration that CenturyLink will actually be able to deliver on its promise, or any explanation as to what changes are planned in the wholesale operations post-merger.

Q. HAVE COMPETITIVE PROVIDERS EXPRESSED CONCERNS REGARDING THE POTENTIAL IMPACTS OF THE MERGER?

A. Yes. Competitive providers have identified and explained their concerns through testimony submitted in this docket. The competitive providers use different types of wholesale services and provide several different types of services to their customers in Oregon, yet they all have concerns expressed in detail in their testimony. In particular, companies referred to as the Joint CLECs (tw telecom, Integra, Advanced Telecom, Electric Lightwave, Eschelon, Oregon Telecom, Unicom, Covad, Level 3 Communications, and Charter Fiberlink) have sponsored the Direct Testimony of August Ankum (Joint CLEC/1), and Timothy Gates (Joint CLECs/8). Integra presents additional testimony of Douglas Denney (Integra/1) and Bonnie Johnson (Integra/3). Other supplementary testimony addressing company-specific concerns is provided by Billy Pruitt (Charter/1), Brady Adams (360networks/100), and Richard Thayer (Level 3 Communications/100). And finally, Sprint, which is not a CLEC but an IXC, submitted testimony of Chris Frentrup (Sprint/1). The magnitude of their concerns is obvious as these parties also submitted testimony in other states, and with the FCC as well.

Q. DO YOU AGREE WITH CONCERNS EXPRESSED BY COMPETITIVE PROVIDERS?

A. Yes, generally, I do. These parties present compelling arguments in testimony of the potential harm that could result from the proposed merger. As customers of Qwest and CenturyLink, the competitors have firsthand, real-world experience with both companies that is far more valuable than opinions or information that I am able to offer from my vantage point. As their businesses depend on the events that transpire after the merger, they have much at stake. However, I do consider their arguments from the standpoint of the “no harm” standard for merger review, and limit my recommendations regarding conditions for the merger within the confines of that standard. Further, I do not address the portion of Sprint’s testimony that proposes reductions in access charges, as that is not included within my scope of responsibilities.

Q. WHAT ARE THE GENERAL CONCERNS EXPRESSED ABOUT THE MERGER?

A. There are at least three general concerns. The first is that CenturyLink will assume control over the merged entity even though Qwest is the larger entity and the one with much more experience, impact and responsibilities in the wholesale market. The second is that CenturyLink just completed a significant merger with Embarq only slightly over a year ago (July 1, 2009) and is still grappling with integrations as a result of that merger. Of particular relevance to wholesale services is the FCC requirement that CenturyLink migrate to Embarq’s wholesale systems. The third, and perhaps most important, is that CenturyLink has provided very little information regarding its plans for post-merger changes that could significantly impact wholesale customers, despite the indications that CenturyTel does intend to make changes. I discuss each one in turn.

CENTURYLINK CONTROL

Q. PLEASE EXPLAIN WHY CENTURYLINK CONTROL OVER QWEST CONCERNS COMPETITIVE PROVIDERS.

A. Several components comprise the concerns regarding CenturyLink's control over the merged company as it relates to wholesale services and competitive providers that rely on those services. The first is the sheer relative magnitude of the wholesale services currently provided by Qwest in Oregon compared to that of CenturyLink. The second is CenturyLink's lack of experience in meeting special requirements imposed on Bell Operating Companies (BOCs) that were not imposed on CenturyLink. The third is CenturyLink's approach to competitors and the offering of wholesale services to its competitors.

Q. IS IT APPARENT THAT CENTURYLINK WILL BE CONTROLLING THE QWEST OPERATIONS?

A. Although Qwest will be brought under CenturyLink intact as an individual ILEC entity, majority ownership of the merged company will lie with CenturyLink, and CenturyLink executives are slated to fill most positions at the highest level of the corporation. *See* CTL/100, Jones/14-15. With a few exceptions, the company has not yet announced which Qwest executives will be retained at somewhat lower levels. As Joint CLECs witness Gates explains, the Qwest ILEC will be indirectly owned and controlled by CenturyLink. "This means that post-merger, CenturyLink will make the decisions about how Qwest interacts with its wholesale customers, how much Qwest will attempt to charge for its wholesale services, the resources that will be dedicated to wholesale service quality and provisioning, the amount Qwest invests in its network for advanced services, etc." *See* Joint CLECs/8, Gates/24. In response to a staff data request, CenturyLink stated that the President of Wholesale Operations post-merger will be Bill Cheek who is currently the President of Wholesale Operations for CenuryLink. Mr. Cheek will report directly to the Chief Executive Officer, also of CenturyLink. *See* Exhibit Staff/504 (response to Staff Data Request No. 54). Despite the much greater size of Qwest's wholesale operations relative to CenturyLink's, it appears that a Qwest executive will not be at the very top of the post-merger wholesale operations.

Q. HOW DOES QWEST'S WHOLESALE SERVICES MARKET COMPARE WITH THAT OF CENTURYLINK?

A. CenturyLink operates in predominantly rural areas where there is little competition for local exchange services, and its rural carrier status under the Telecom Act has enabled its exemption from wholesale requirements imposed on larger ILECs, as well as extended requirements to which Qwest is subjected as a Bell Operating Company (BOC). These factors result in CenturyLink offering far fewer wholesale services, and processing significantly fewer orders for such services, than Qwest does. Joint CLEC witness Gates presents data comparing the numbers of UNEs, collocation arrangements and number ports processed for CenturyLink and Qwest in Oregon. Based on the data, he states that "This data shows that CenturyLink will inherit an exponentially large wholesale operation than it has operated to date." *See* Joint CLECs/8, Gates/28. In terms of interconnection agreements (ICAs), Qwest has 127 ICAs with CLECs, compared to CenturyLink's 37 ICAs with CLECs in Oregon. *See* Sprint/1, Frentrup/24. Qwest's wholesale market dwarfs CenturyLink's in terms of size, customers and service offerings at a national level as well. *See* Exhibit Staff/505 which includes confidential responses to Staff Data Request No. 20.

Q. WHAT REQUIREMENTS MUST QWEST MEET REGARDING WHOLESALE SERVICE OFFERINGS THAT DIFFER FROM THOSE OF CENTURYLINK?

A. Christopher Viveros of Qwest addresses the requirements imposed on Qwest in the Telecom Act. These apply to Qwest because it is not only an ILEC, but also a BOC. *See* Qwest/2. Michael Hunsucker addresses the requirements imposed on the current CenturyLink ILECs. He points out that certain obligations under Section 271 of the Act apply only to BOCs such as Qwest, and not current CenturyLink ILECs. He states that "CTL is not a BOC and as such has no similar 271 obligations placed on the legacy CTL territories in Oregon post merger closing. However the legacy Qwest territories will continue to have 271 obligations." *See* CTL/400, Hunsucker/12. The CLECs are very concerned that CenturyLink has no experience meeting Section 271 obligations while Qwest has spent many years of efforts toward that end.

Q. WHAT OBLIGATIONS DOES SECTION 271 IMPOSE ON QWEST?

A. As explained in Christopher Viveros' testimony, Qwest/2, Qwest provides products and services to CLECs that are not required under Section 251. These are provided under various mechanisms, including tariffs, price lists, and commercial agreements. Products under commercial agreements include line sharing (copper loop used by competitors to provide advanced data services), dark fiber, platform services, and unbundled switching. As part of its effort to obtain entry into the long distance market under Section 271, Qwest developed a Performance Assurance Plan (QPAP) designed to prevent degradation of service to competitors. The plan established benchmarks for service quality measures and standards for reaching parity (delivering service to CLECs comparable to that for Qwest's retail customers). There are also penalties for non-performance with money paid to CLECs and states if Qwest falls below established indicators. CLECs have the option to include the QPAP as part of their interconnection agreements or elect not to participate in the plan. Section 271 also requires nondiscriminatory access to Qwest's Operations Support Systems (OSS) to enable competitors to access the ILEC systems for pre-ordering, ordering, provisioning, maintenance and repair, and billing. In addition, Qwest is required to implement a Change Management Process (CMP) to handle changes to the OSS. *See* the testimony of Joint CLECs witness Gates (Joint CLECs/8) for more information on the importance of Section 271 requirements to the wholesale market.

Q. DO YOU SEE A NEED FOR WHOLESALE SERVICE QUALITY MEASURES POST-MERGER?

A. Yes, I do. In the Qwest area, service quality performance is reflected in the QPAP. Through the QPAP, the Commission will be able to determine if Qwest's wholesale service quality deteriorates post-merger. The penalties in the QPAP should serve as a financial incentive for CenturyLink to maintain or improve service quality. The QPAP should continue for at least four years after close of the merger or until the Commission determines a need for review. The Joint CLECs have proposed an additional PAP in their testimony. *See* Integra/1, Denney/8-14 for a detailed discussion. The Commission may wish to consider adopting that proposal or perhaps open a docket to allow more input and discussion. Alternatively, the CLECs may be successful in securing such an additional PAP through negotiations with CenturyLink.

In the CenturyLink area, there are no measures of wholesale service quality performance reported to the Commission. There is a risk that after the merger wholesale service quality performance in the current CenturyLink areas could deteriorate. CenturyLink must currently provide measures to the FCC to comply with the conditions approving the merger with Embarq. *See* FCC Order 09-54 included here as Exhibit Staff/506. CenturyLink should be required to begin submitting Oregon-specific reports for the indicators required by the FCC for the quarter following Commission approval of the merger. Those reports would give the Commission data to determine whether wholesale service quality in the current CenturyLink area falls below benchmark measures. The FCC requires submission of the reports for two years following the merger closing, which was July 1, 2009. Similar reports to the Commission for Oregon should continue at least through the end of 2012. In that year, staff should review the data and performance and recommend continuation or elimination of the reports.

In addition, the former Embarq entity makes available wholesale service performance data on its website. Access to the website and data should be made available to Commission staff.

Q. WHAT EVIDENCE DOES CENTURYLINK PROVIDE TO DEMONSTRATE THAT IT CAN MEET QWEST'S REQUIREMENTS AS A BOC POST-MERGER?

A. In testimony at pages 12-13, Michael Hunsucker, who is the Director-CLEC Management for CenturyLink, states that "The combined company will continue to meet these [Section 271] obligations through its wholesale operations leveraging the key resources and expertise of both entities." Unfortunately, there is no discussion of allocated resources, staffing levels, possible combinations of operations, or any details to demonstrate how CenturyLink expects to accomplish this commitment. Joint CLECs express serious concern in this regard, stating "Since CenturyLink has no experience dealing with 271 obligations, there is no knowledge base from which to discern if and how CenturyLink would abide by 271 obligations post-merger, of if the systems or processes CenturyLink will ultimately utilize will remain 271 compliant in Qwest's territory." See Joint CLECs/8, Gates/34.

Q. DOES CENTURYLINK PLAN TO INTEGRATE ITS OSS WITH THAT OF QWEST? IF SO, HOW WOULD THAT IMPACT CLECS?

A. In response to data requests from Joint CLECs and Staff, CenturyLink basically indicates that no decisions in this regard have been made yet. CenturyLink indicated to the FCC that it intends to operate both companies' OSS for at least one year following merger approval. Joint CLECs believe that OSS integration would be one way in which the merged company could attain significant synergies and cost savings. However, they are concerned that such integration would greatly harm competitors if CenturyLink was unsuccessful in any attempt to migrate Qwest systems to CenturyLink systems. Even if such a migration were successful, it could impose significant costs on the CLECs. *See* Joint CLECs/8, Gates/37-63 for an in-depth explanation of OSS issues. Given the potential for disaster when companies attempt OSS migrations as evidenced in the now classic Hawaiian Telcom and Fairpoint cases, the Commission must not allow CenturyLink to convert Qwest's OSS without notice and oversight. For purposes of stability in the wholesale market, CenturyLink should be required to maintain the Qwest wholesale OSS, associated procedures and processes, and CLEC support for at least three years after the close of the merger.

Q. WHAT IS THE BASIS FOR COMPETITORS' CONCERNS REGARDING CENTURYLINK'S APPROACH TO COMPETITORS AND WHOLESALE SERVICE OFFERINGS?

A. There are several reasons for caution regarding CenturyLink's willingness to embrace competition and the provision of necessary wholesale services to competitors, some of which are addressed above. As a carrier subject to the rural exemption under Section 251(f) of the Act, CenturyLink has fewer responsibilities to provide services to competitors under Section 251 of the Act compared to Qwest, and has not had to embrace serving competitors in the more expansive manner that Qwest has. The CenturyTel affiliates of CenturyLink operate under the rural exemption and have not sought any suspension or modification of the exemption. CharterLink argues that CenturyLink's wholesale practices have had negative impacts on the company and affected CharterLink's ability to effectively compete against CenturyLink to provide voice services. Specific examples include charges to port numbers, access network interface devices (NIDs), directory assistance and listing records that CenturyLink imposes but Qwest does not. Additionally, CharterLink alleges that CenturyLink uses its rural exemption status to force interconnection at multiple points within a LATA, unlike Qwest. *See* Charter/1 testimony of Billy Pruitt. Further discussion of examples of "how CenturyTel does business with CLECs" is offered by Joint CLEC's witness Gates. *See* Joint CLECs/8, Gates/68-79. In approving CenturyTel's merger with Embarq, the FCC noted allegations by various CLECs regarding CenturyTel's practices that harm competitors. *See* FCC Order 09-54 included as Exhibit Staff/506. The larger concern with such issues is that CenturyLink's approach not be applied to the Qwest ILEC area in a manner that would degrade any of the aspects of wholesale services as currently provided by Qwest after CenturyLink assumes control. Any such result would negatively impact competitors and would violate the no-harm standard for merger approval.

CENTURYTEL/EMBARQ MERGER ACTIVITIES

Q. DOES THE RECENT MERGER OF CENTURYTEL AND EMBARQ PRESENT ANY CONCERNS FOR THE PROPOSED MERGER WITH QWEST?

A. Yes, it does. First, it was approximately a year ago (July 1, 2009) that CenturyLink acquired Embarq, and the integration activities related to that merger are not yet completed. Through the Embarq acquisition, CenturyLink approximately tripled in size from roughly 2 million access lines to 7 million in total nationally. Todd Schafer, President of CenturyLink's Mid-Atlantic Region, addresses the integration efforts for that merger in his testimony. *See* CTL/200, Schafer/10-12 and CTL/202. According to Mr. Schafer, by October 2009, financial and human resources systems were converted to CenturyLink's systems and a new brand was launched. To date, one quarter of the former Embarq lines have been converted to CenturyLink's retail customer service and billing system and conversion is expected to be completed for all customers by the third quarter of 2011. Assuming the Qwest merger closes during the first quarter of 2011 as the company plans, the customer service and billing system conversions associated with the pre-merger Embarq will still be unfinished.

To put all the merger challenges in perspective, it should be noted that if CenturyLink acquires Qwest's 10 million access lines, it will have grown by nine times its size within less than two years. The concern is that CenturyLink is still in the midst of fully integrating the former Embarq customers into CenturyLink and sufficient time has not passed to determine how smoothly that merger activity will actually have progressed before the Commission must make a determination on the more significant merger with Qwest.

Q. ARE CENTURYLINK'S WHOLESALE SERVICES IMPACTED BY THE RECENT MERGER OF CENTURYTEL AND EMBARQ?

A. Yes, they are. As explained by Joint CLEC witness Gates, as a condition of approval for the CenturyTel merger with Embarq, the FCC ordered CenturyTel to migrate to the wholesale system of legacy Embarq (EASE) which is superior to that of CenturyTel. Mr. Gates argues there is evidence to suggest that the Embarq integration may be hindering CenturyLink's ability to meet its regulatory obligations. CenturyLink requested a waiver of the FCC's one business day porting interval requirement because of its ongoing system changes associated with the Embarq merger. Mr. Gates states "This waiver request not only calls into question the purported seamlessness of the Embarq integration efforts, but also casts serious doubts on the Merged Company's ability to integrate both Embarq and Qwest simultaneously, let alone in an efficient manner." In addition, Mr. Gates cites troubles two CLECs experienced during the OSS transition so far and summarizes data covering CenturyLink's wholesale service quality performance reports to the FCC. *See* Joint CLECs/8, Gates/79-88.

PLANNED CHANGES POST-MERGER

Q. DOES CENTURYLINK NOTE ANY PLANS TO CHANGE ANY ASPECTS OF QWEST'S CURRENT WHOLESALE OFFERINGS OR SERVICES THAT WOULD NEGATIVELY IMPACT COMPETITIVE PROVIDERS?

A. As mentioned above, and in its application and testimony, CenturyLink's commitments to make no changes seem to apply only to the period immediately following closing and are open-ended as to timeframes beyond that. This approach applies commonly to service offerings, rates, interconnection agreements, OSS and other aspects of the wholesale business impacting competitors. As CenturyLink makes no commitments to provide some period of stability for competitive providers, the Commission should establish such a period through conditions.

Q. WHY IS A PERIOD OF STABILITY IMPORTANT FOR COMPETITIVE PROVIDERS?

A. Competitive providers must have sufficient notice and time to prepare for any major changes that CenturyLink may make to wholesale service offerings. A period of stability for service offerings and rates is necessary and consistent with ensuring that competitive providers and their customers are not harmed by the merger. In addition, interconnection agreements must also be granted a window of time for stability purposes. Otherwise, CenturyLink could proceed with major changes for agreements that are soon to expire or are in evergreen status. Douglas Denney of Integra explains in his testimony the length of time and amount of effort required to negotiate, and sometimes arbitrate, interconnection agreements. *See* Integra/1, Denney/15-25. Similarly, any attempts to significantly change Qwest's OSS or CMP would negatively impact competitors. Any planned changes to these important areas should be done under Commission review. Additionally, CenturyLink must ensure that support personnel and related other services necessary to maintaining Qwest's wholesale services continue at a level that is no less than Qwest's current levels. This includes measures of wholesale service quality embodied in the QPAP.

Q. WHAT LENGTH OF TIME IS NECESSARY AND REASONABLE FOR STABILITY RELATING TO RATES, SERVICES, INTERCONNECTION AGREEMENTS, ETC.?

A. The Joint CLECs recommend that such a time period should be 3-5 years based on CenturyLink's expectation that synergies from the merger will be recognized over this time period following closing, or alternatively, 3.5 years based on the FCC's order imposing conditions in the AT&T/Bell South merger. Staff proposes 4 years, which is within the range proposed by Joint CLECs. The AT&T/Bell South merger involved two experienced BOCs, each familiar with all the requirements placed on BOCs. CenturyLink has no such experience and has offered no time commitments of its own volition. Although the time period for the Frontier/Verizon merger conditions generally spanned two years, that period was negotiated in settlement between the parties. Staff originally proposed three years in that case. As Qwest's wholesale market is considerably larger than Verizon's, the impacts of the Qwest merger will be larger and the risks to the public greater. In light of CenturyLink's inability to share its plans for change in the Qwest area, four years is not an unreasonable length of time for most of the conditions impacting the wholesale market. The future of competition in Oregon hangs in the balance.

Not all conditions are reasonably subject to this time period. For those conditions that relate to CenturyLink's assumptions of Qwest's general responsibilities under the law, the obligations will continue until changed by the FCC or the Commission.

Q. PLEASE STATE YOUR RECOMMENDATION REGARDING HOW THE COMMISSION SHOULD ENSURE THAT THE PROPOSED MERGER WILL RESULT IN NO HARM TO COMPETITORS OR COMPETITION IN OREGON.

A. Given that the merged company will have more market power than either company had independently prior to the merger, and that CenturyLink has committed to fulfilling all the current obligations of Qwest, the Commission should adopt conditions for approval of the merger that, at a minimum, ensure that competitors are not harmed by the merger. This includes providing a period of stability for wholesale markets and customers to avoid disruptions following the merger. Competitive providers should be able to obtain at least the same services, at rates no higher than current rates, and with the same ease and speed as they would have absent the transaction. Indeed, the Applicants have asserted that the merger will be transparent to customers. This should apply to wholesale, as well as retail, customers. Based on arguments presented above, I recommend the conditions listed below. The numbers correlate to those in the conditions list included in Staff witness Dougherty's testimony (Staff/100). To the extent that other conditions, e.g., conditions 9 and 10, listed in Staff/100 also relate to wholesale services or competitive providers, I support those conditions in addition to the following.

Operations Support Systems (OSS)

29. The Applicants commit to the following OSS actions:

General

Operations support systems included in this requirement will include:

a. Systems used to monitor cable and pair information and operation
b. Systems used to track or monitor in-service circuit equipment information
c. Systems used to track or monitor switch components
d. Billing systems, and
e. Systems used for customer pre-ordering, ordering, provisioning, maintenance, and repair operations.

This requirement applies to both wholesale and retail systems.

CenturyLink will keep Qwest's legacy operations support systems intact for a minimum of three years after the closing of the transaction.

Prior to modifying or integrating existing Qwest/CenturyLink operations support systems, CenturyLink will request approval from the Commission six months in advance of the proposed action. Notification will consist of a description of the systems involved, the action to be taken, the proposed work schedule, a description of the company's and customers' activities that will be affected, and a list of status reports to be provided to the Commission.

CenturyTel – Embarq Conversions

CenturyLink will provide to Commission Staff quarterly reports for the state of Oregon for the same performance measures as those currently submitted to the FCC in FCC 09-54. This reporting requirement will begin with data for the first quarter following Commission approval of the merger and will continue at least through the end of 2012. During 2012, Commission staff will analyze the performance data and recommend whether there is a need for continued reporting.

CenturyLink will enable Commission staff to access the service quality data currently available to CLECs on the company's website.

Wholesale Services

30. CenturyLink will honor, assume or take assignment of all obligations under Qwest's existing interconnection agreements. CenturyLink will not terminate, change the conditions of (with the exception of those governing expiration), or increase the rates in, any effective interconnection agreement during the unexpired term of the agreement, or for a period of four years from the Closing Date, whichever occurs later, unless requested by the non-ILEC interconnecting party, approved by the Commission, or required by a change of law. Furthermore, CenturyLink will allow requesting carriers to extend existing interconnection agreements, whether or not the initial or current term has expired, at least four years from the Closing Date, or the date of expiration, whichever is later.

31. CenturyLink will honor or assume all obligations in effect as of the Merger Filing Date under Qwest's current intrastate tariffs, including those for access services, and price lists for wholesale services. CenturyLink will not increase rates for such services for a period of at least four years from the Closing Date.
32. CenturyLink will continue to provide intrastate transit service in all ILEC territories subject to the same rates, terms, and conditions that were provided as of the Merger Filing Date unless approved or directed otherwise by the Commission.
33. No Qwest wholesale intrastate service offered to competitive carriers as of the Merger Filing Date will be discontinued for four years after closing of the transaction except as approved by the Commission.
34. CenturyLink and all of its ILEC affiliates will comply with the statutory obligations applicable to all incumbent local exchange carriers (ILECs) under 47 U.S.C. Section 251 and 252. In the legacy Qwest territory, CenturyLink will not seek to avoid any of its obligations on the grounds that it is exempt from any of the obligations pursuant to Section 251(f)(1) or Section 251(f)(2) of the Act.
35. After the close of the transaction the legacy Qwest ILEC territory shall continue to be classified as a Bell Operating Company ("BOC"), pursuant to Section 3(4)(A)-(B) of the Communications Act and shall be subject to all requirements applicable to BOCs, including but not limited to the "competitive checklist" set forth in Section 271(c)(2)(B) of the Act.
36. In the legacy Qwest ILEC territory, CenturyLink shall comply with all wholesale performance requirements for all wholesale services, including those set forth in

regulations, tariffs, and interconnection agreements applicable to legacy Qwest as of the Merger Filing Date, unless otherwise directed by the Commission or agreed to by customers.

37. Following the Closing Date, CenturyLink shall continue to comply with the provisions of the Qwest Performance Assurance Plan (QPAP) that are in effect as of the Merger Filing Date for at least four years following the Closing Date, or such period as negotiated by any other party in this docket, whichever is longer. CenturyLink shall provide the monthly reports of wholesale performance metrics that Qwest currently provides to Staff and to each CLEC. Any changes to the PIDs or PAP must be approved by the Commission or agreed to by affected wholesale customers. Staff will monitor QPAP reported data and alert the Commission if service performance appears to be deteriorating from pre-merger levels.

38. After the close of the transaction, CenturyLink shall provide and maintain updated escalation information, contact lists and account manager information that is in place at least 30 days prior to the transaction close date. For changes to support center locations, wholesale customer-impacting organizational structures, or contact information, CenturyLink will provide at least 30 days advance written notice to all CLECs and Commission Staff.

39. CenturyLink will continue to make available to each wholesale carrier in the Legacy Qwest ILEC territory the types of information that Qwest made available as of the Merger Filing Date concerning wholesale Operational Support Systems functions and wholesale business practices and procedures, including

information provided via the wholesale web site, notices, industry letters, the change management process, and databases/tools.

40. CenturyLink will maintain the current Qwest Change Management Process ("CMP"), utilizing the terms and conditions set forth in the CMP Document. Pending CLEC Change Requests shall be completed in a commercially reasonable time frame.

41. CenturyLink shall ensure that Wholesale and CLEC support centers are sufficiently staffed by adequately trained personnel dedicated exclusively to wholesale operations so as to provide a level of service that is comparable to that which was provided in the Legacy Qwest ILEC area prior to the transaction and to ensure the protection of CLEC information from being used for CenturyLink's retail operations.

42. The Merged Company shall allow a requesting competitive provider to use its pre-existing interconnection agreement, including agreements entered into with Qwest, as the basis for negotiating a new replacement interconnection agreement. If Qwest and a requesting competitive carrier are in negotiations for a replacement interconnection agreement before the Closing Date, the Merged Company will allow the requesting carrier to continue to use the negotiations draft upon which negotiations prior to the Closing Date have been conducted as the basis for negotiating a replacement interconnection agreement.

43. In the Legacy CenturyLink ILEC territory, the Merged Company will permit a requesting carrier to opt into any interconnection agreement to which Qwest is a party in Oregon, including agreements in evergreen status.

Q. HOW DO YOUR RECOMMENDED CONDITIONS RELATE TO THOSE PROPOSED IN TESTIMONY OF THE COMPETITIVE PROVIDERS?

A. Many of my conditions are the same or similar to those proposed by the competitive providers. I have attempted to include conditions that address common concerns of the various types of competitive providers and that also meet the no harm standard. However, competitive providers do recommend several conditions that are slightly different, or are in addition to those I recommend. Some of those conditions are specific to the individual competitive provider's circumstances or experiences. Some conditions appear to address issues currently under Commission consideration in other venues. Due to the short time frame available to review and consider the wealth of testimony provided by CLEC witnesses, I was unable to formulate an opinion on all their recommended conditions. For those I did not include here, I suggest the Commission consider the arguments presented by the parties and assess whether those conditions should be adopted as well.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

CASE: UM 1484
WITNESS: Kay Marinos

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 501

Witness Qualification Statement

September 3, 2010

WITNESS QUALIFICATION STATEMENT

NAME: Kay Marinos

EMPLOYER: Public Utility Commission of Oregon

TITLE: Program Manager, Competitive Issues

ADDRESS: 550 Capitol St NE Suite 215
Salem, Oregon 97301-2551

EDUCATION: PhD/ABD and MA in Economics
University of Hawaii, 1981

BA in Economics
Hofstra University, 1975

PROFESSIONAL EXPERIENCE:

<u>Program Manager, Competitive Issues</u>, Public Utility Commission of Oregon, 2007 – Present
Manage group responsible for telecommunications competitive issues, competitive provider certifications, carrier agreements, Eligible Telecommunications Carrier (ETC) designations, federal universal service programs and ILEC service territory allocations. Staff member of Federal-State Joint Board on Universal Service.

<u>Senior Telecommunications Analyst</u>, Public Utility Commission of Oregon, 2004 - 2007
Responsible for federal ETC designations, annual ETC recertifications, and universal service issues. Developed ETC requirements adopted by the state Commission and served as expert witness in Docket UM 1217.

<u>Senior Consultant</u>, Verizon Communications, 2000 -2003
Led special project teams to ensure compliance with regulatory and legal requirements in various aspects of national telecommunications business, including new product development, wholesale service offerings, and customer proprietary network information. Coordinated responses to federal audit of wholesale services.

<u>Senior Specialist</u>, Bell Atlantic & NYNEX, 1988 - 2000
As subject matter expert, performed wide range of analytic functions to develop and support company's objectives in federal regulatory proceedings pertaining to wholesale services. Major issues included Telecom Act implementation, competitive markets, interconnection, access services, pricing flexibility, price caps, rate restructuring, cost recovery, and cost allocation.

Manager, National Exchange Carrier Association (NECA), 1984 -1988
Managed development of telecom industry forecasts of interstate usage and dedicated access services used to determine nationwide carrier pool rates.

Business Research Analyst, GTE Hawaiian Telephone, 1982 - 1983
Developed revenue and demand forecasts for budgeting and network planning.

Economist & Planner, State of Hawaii, 1978 – 1982
Managed energy conservation and emergency planning projects, lectured in economics at the University of Hawaii, and supervised economic and demographic studies for urban redevelopment in industrial area of Honolulu.

CASE: UM 1484
WITNESS: Kay Marinos

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 502

Exhibits in Support
Of Reply Testimony

September 3, 2010

Oregon
Docket No. UM-1484
Response to Staff Data Request No. 48
Respondent: John Felz
Response Date: July 2, 2010

STAFF-48

Does CenturyLink provide intrastate toll services in Oregon using its own facilities or those of other carriers? If other carriers, please specify which carriers.

OBJECTION:

CenturyLink objects to the portion of the question seeking the names of other carriers utilized to provide intrastate long distance services on the grounds the information requested is not relevant to this proceeding and not reasonably calculated to lead to the discovery of admissible evidence. Furthermore, the requested information is competitively sensitive and providing the carrier names would require the disclosure of confidential third-party information.

RESPONSE:

Subject to and without waiver of any objections, CenturyLink provides intrastate long distance services in Oregon through the use of our own facilities and multiple vendors that are utilized to terminate "off-net" traffic. CenturyLink anticipates the merger with Qwest will provide the opportunity to move more of the long-distance traffic in the CenturyLink areas that is currently "off-net" to "on-net" through utilization of Qwest's network facilities.

CASE: UM 1484
WITNESS: Kay Marinos

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 503

Exhibits in Support
Of Reply Testimony

September 3, 2010

LOCAL TELECOMMUNICATION COMPETITION SURVEY

YEAR 2009 REPORT

Economic Research and
Financial Analysis Division

Public Utility Commission of Oregon

December 2009

Executive Summary

In January 2009, the staff of the Public Utility Commission of Oregon (OPUC) sent its ninth survey to the 269 certified local exchange carriers (LECs) in Oregon for the purpose of assessing the status of local telephone competition in Oregon. The survey asked all carriers, both incumbent local exchange carriers (ILECs) and competitive local exchange carriers (CLECs), to provide information about the local services they provided in 2008. Survey responses were received from all 34 ILECs and 183 out of 235 CLECs, for a total response rate of 81 percent.

HIGHLIGHTS

Total Oregon Local Exchange Service Revenue 2008	$891.3 Million
ILEC Revenue - $Millions / Share	$716 / 80.3%
CLEC Revenue - $Millions / Share	$176 / 19.7%
Total Switched Lines at Year-end 2008	1,771,220
ILEC Switched Lines / Market Share	1,436,946 / 81.1%
CLEC Switched Lines / Market Share	334,274 / 18.9%
Total Residential Switched Lines at Year-end 2008	942,043
ILEC Residential Switched Lines / Market Share	891,937/ 94.7%
CLEC Residential Switched Lines / Market Share	50,106 / 5.3%
Total Business Switched Lines at Year-end 2008	660,887
ILEC Business Switched Lines / Market Share	380,774 / 57.6%
CLEC Business Switched Lines / Market Share	280,113 / 42.4%
Total Wholesale Switched Lines at Year-end 2008	168,290
ILEC Wholesale Switched Lines / Market Share	164,235 / 97.6%
CLEC Wholesale Switched Lines / Market Share	4,055 / 2.4%
Change from prior Year - Total Switched Lines / % Change	-144,365 / -7.5%
Change from prior Year - ILEC Switched Lines / % Change	-168,965 / -10.5%
Change from prior Year - CLEC Switched Lines / % Change	24,600 / 7.9%
UNE-P and QPP, Lines / % Change from Prior Year	66,228 / 57.3%
CLECs Having Certificates	235
CLECs Doing Business / % of Total CLECs	130 / 55.3%
Total Number of Private Line Circuits	33,067
Lower Capacity Circuits / % of Total	17,669 / 53.4%
Higher Capacity Circuits / % of Total	15,398 / 46.6%

CASE: UM 1484
WITNESS: Kay Marinos

PUBLIC UTILITY COMMISSION OF OREGON

STAFF EXHIBIT 504

Exhibits in Support Of Reply Testimony

September 3, 2010

Oregon
Docket No. UM-1484
Response to Staff Data Request No. 54
Respondent: Mike Hunsucker
Response Date: July 2, 2010

STAFF-54

Does CenturyLink intend to maintain separate wholesale operations after the merger? If so, where will the Qwest wholesale personnel be located? Where will the CenturyLink wholesale personnel be located? If not, where will the single group be located and what is the consolidation plan?

RESPONSE:

CenturyLink has announced that Bill Cheek, currently the President of Wholesale Operations for CenturyLink will be the President of Wholesale Operations for the combined company, effective with the close of the merger. Wholesale Operations will remain as a separate business unit within CenturyLink with Mr. Cheek reporting direct to the Chief Executive Officer. Integration planning is in the early stages and decisions on personnel, location of personnel, etc. have not been made at this time, however, providing quality customer service to wholesale customers will continue to be a priority for CenturyLink.

CASE: UM 1484
WITNESS: Kay Marinos

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 505

Exhibits in Support
Of Reply Testimony

September 3, 2010

Oregon
Docket No. UM-1484
Response to Staff Data Request No. 120
Respondent:
Response Date: July 22, 2010

STAFF-120

Staff seeks information that will facilitate Staff's evaluation of the merged company's ability to adequately provide wholesale services in Oregon. To adequately evaluate this aspect Staff requests data not only for Oregon, but for the other states in which Qwest and/or CenturyLink operate. Qwest and CenturyLink provided information for Oregon only.

a. Please identify the states in which CenturyLink offers unbundled network elements, and indicate (i) the number of UNE loops it currently provides in each, and (ii) the number of "platform" offerings provided that include a UNE loop
b. Please identify the states in which Qwest offers unbundled network elements, and indicate (i) the number of UNE loops it currently provides in each, and (ii) the number of "platform" offerings (i.e., QLSP) provided that include a UNE loop.
c. Please identify the states in which CenturyLink offers services for *resale*, and indicate the number of resold lines it currently provides in each.
d. Please identify the states in which Qwest offers services for *resale*, and indicate the number of resold lines it currently provides in each.

OBJECTION:

CenturyLink objects to this request on the grounds that it is overly broad, not reasonably calculated to lead to the discovery of admissible evidence, and seeks information that is not relevant. Specifically, the request seeks information related to matters other than Oregon intrastate operations subject to the jurisdiction of the Commission, and in particular information related to states other than Oregon that is not relevant to this case.

RESPONSE:

a. Subject to and without waiving its objections, CenturyLink offers unbundled network elements in the following states: Florida, Indiana, Kansas, Missouri, Minnesota, Nebraska, New Jersey, Nevada, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, Washington, Wyoming, Wisconsin, Arkansas, Illinois, Alabama. Please see Confidential Attachment Staff-120 for information on the number of UNE loops and "platform" offerings provided by CenturyLink in Oregon and company-wide.

b. Please see Qwest's response to this request.

c. Subject to and without waiving its objections, CenturyLink offers services for resale in all states where CenturyLink operates as an ILEC: Florida, Indiana, Kansas, Missouri, Minnesota, Nebraska, New Jersey, Nevada, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, Washington, Wyoming, Arkansas, Alabama, California, Colorado, Georgia, Idaho, Iowa, Illinois, Louisiana, Michigan, Mississippi, Montana, Oklahoma , New Mexico and Wisconsin. Please see Confidential Attachment Staff-120 for information on the number of resale lines provided by CenturyLink in Oregon and company-wide.

d. Please see Qwest's response to this request.

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Oregon
UM 1484
PUC 10-120

INTERVENOR: Oregon Public Utility Commission Staff

REQUEST NO: 120

Interconnection

Staff seeks information that will facilitate Staff's evaluation of the merged company's ability to adequately provide wholesale services in Oregon. To adequately evaluate this aspect Staff requests data not only for Oregon, but for the other states in which Qwest and/or CenturyLink operate. Qwest and CenturyLink provided information for Oregon only.

a. Please identify the states in which CenturyLink offers unbundled network elements, and indicate (i) the number of UNE loops it currently provides in each, and (ii) the number of "platform" offerings provided that include a UNE loop

b. Please identify the states in which Qwest offers unbundled network elements, and indicate (i) the number of UNE loops it currently provides in each, and (ii) the number of "platform" offerings (i.e., QLSP) provided that include a UNE loop

c. Please identify the states in which CenturyLink offers services for *resale*, and indicate the number of resold lines it currently provides in each.

d. Please identify the states in which Qwest offers services for *resale*, and indicate the number of resold lines it currently provides in each.

RESPONSE:

Qwest objects to this request on the grounds that it is overly broad, not reasonably calculated to lead to the discovery of admissible evidence, and seeks information that is not relevant. Specifically, the request seeks information related to matters other than Oregon intrastate operations subject to the jurisdiction of the Commission, and in particular information related to states other than Oregon that is not relevant to this case.

Subject to and without waiving these objections, Qwest responds as follows:

a. Please see CenturyLink's response to this request.

b. Qwest provides Unbundled Network Elements and "platform" offerings (QLSP) in each of its 14 states, which include Arizona, Colorado, Iowa, Idaho, Minnesota, North Dakota, Nebraska, New Mexico, Oregon, South Dakota, Utah, Washington and Wyoming.

The number of UNE loops and the number of QLSP services in Oregon and in Qwest's 14-state ILEC region are confidential. See Confidential Attachment A.

Respondent: Candace Mowers, Staff Advocate - Public Policy, Qwest

c. Please see CenturyLink's response to this request.

d. Qwest provides Resold lines in each of its 14 states, which include Arizona, Colorado, Iowa, Idaho, Minnesota, North Dakota, Nebraska, New Mexico, Oregon, South Dakota, Utah, Washington and Wyoming.

The number of resold lines in Oregon and in Qwest's 14-state ILEC region are confidential. See Confidential Attachment A.

Respondent: Candace Mowers, Staff Advocate - Public Policy, Qwest

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CASE: UM 1484
WITNESS: Kay Marinos

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 506

Exhibits in Support
Of Reply Testimony

September 3, 2010

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Applications Filed for the Transfer of Control of	)	WC Docket No. 08-238
Embarq Corporation to CenturyTel, Inc.	)	

MEMORANDUM OPINION AND ORDER

Adopted: June 24, 2009 **Released: June 25, 2009**

By the Commission: Acting Chairman Copps and Commissioners Adelstein and McDowell issuing separate statements.

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Para.

I. INTRODUCTION

1. Embarq Corporation (Embarq) and CenturyTel, Inc. (CenturyTel) (together, the Applicants) filed a series of applications[1] seeking Commission approval to transfer control of certain wireless licenses and domestic and international section 214 authorizations from Embarq and CenturyTel to a reorganized CenturyTel, which would combine the two companies.[2] Grant of these applications will result in the transfer of domestic and international section 214 authorizations and the assignment of certain spectrum licenses.

2. Under the Communications Act of 1934, as amended (the Act), we must determine whether the Applicants have demonstrated that the proposed transaction would serve the public interest, convenience, and necessity.[3] As each transaction considered by the Commission has a unique set of facts, we evaluate the discrete evidence in the record to assess any public interest harms that may arise from this transaction. In the instant transaction, we are mindful that rural areas face particular challenges when it comes to the deployment of basic and advanced telecommunications services. The Commission must remain vigilant in ensuring that technological advances are extended to these areas. We note that the Applicants principally serve rural areas, and it is essential to assess whether the benefits of the merged company outweigh the harms to consumers and businesses of all sizes in their combined, primarily rural territory. In addition, some parties filing comments opposing the proposed transaction argue that the transaction may pose a threat to competition in various wholesale markets. After careful consideration, we conclude that opponents have presented a theory of harm under which the proposed transaction might result in increased anticompetitive behavior. In response to these concerns, the Applicants have offered certain voluntary commitments. We find that the Applicants' voluntary commitments address these potential harms, and that, on balance, the proposed transaction will benefit the public interest. Accordingly, we grant our consent to the transfer and assignment applications conditioned on compliance with the voluntary commitments listed in Appendix C, which shall constitute binding and enforceable conditions of our approval.[4]

II. BACKGROUND

A. Description of the Applicants

1. Embarq Corporation

3. Embarq, a Delaware holding company, owns subsidiaries that operate as incumbent local exchange carriers (incumbent LECs) in 18 states and provides local exchange services over nearly 5.9 million telephone access lines and broadband service to 1.4 million subscribers.[5] The company's operating subsidiaries offer residential customers local and long distance phone service, high-speed

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[1] *See* Embarq Corporation, Transferor, and CenturyTel, Inc., Transferee, Application for Transfer of Control of Domestic Authorizations Under Section 214 of the Communications Act, as Amended, WC Docket No. 08-238 (filed Nov. 26, 2008) (Embarq/CenturyTel Application or Application); *see also Applications Filed for the Transfer of Control of CenturyTel, Inc. and its Subsidiaries*, WC Docket No. 08-238, Public Notice, DA 09-791 (rel. Apr. 7, 2009) (*Embarq/CenturyTel Second Public Notice*).

[2] *See infra* note 11. We refer herein to both the transfer of control of Embarq and the transfer of control of CenturyTel to a reorganized CenturyTel as "the transaction" or as "the merger."

[3] *See* 47 U.S.C. §§ 214(a), 310(d).

[4] These conditions are effective as of the Transaction Closing Date, which is defined for these purposes as the date on which the Applicants consummate the proposed transaction.

[5] Embarq's subsidiaries provide service in the following states: Florida, Indiana, Kansas, Minnesota, Missouri, Nebraska, Nevada, New Jersey, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, Washington, and Wyoming. Embarq's subsidiary incumbent LECs and the states in which they operate are listed in Exhibit 3 of the Application.

Internet access, and satellite video from DISH network.[6] For business customers, Embarq's subsidiaries offer local voice and data services, long distance services, business class high-speed Internet services, satellite video services from DIRECTV, enhanced data network services, voice and data communication equipment, and managed network services.[7] Embarq also offers payphone services in various parts of the United States.[8]

2. CenturyTel, Inc.

4. CenturyTel, a Louisiana holding company, conducts its business operations principally through subsidiaries offering communications, high-speed Internet, and entertainment services in small-to-mid-size cities through its copper and fiber networks.[9] CenturyTel operates in 25 states and provides local exchange services over roughly two million telephone access lines and high-speed Internet connections to approximately 630,000 subscribers.[10] CenturyTel's offerings include long distance services, cable television services, satellite television services, Internet Protocol Television (IPTV) service, and wireless services. In certain local and regional markets, CenturyTel also provides services as a competitive local exchange carrier (competitive LEC), along with other communications and business services.[11] In addition, CenturyTel operates a fiber network that provides wholesale and retail fiber-based transport services to customers in the central United States.[12]

B. Description of the Transaction

5. On October 26, 2008, Embarq, CenturyTel, and Cajun Acquisition Company (CAC), a Delaware corporation and CenturyTel subsidiary created to facilitate the transaction's consummation, entered into an Agreement and Plan of Merger (Merger Agreement).[13] In accordance with the terms of the Merger Agreement, Embarq and CAC will merge, with Embarq becoming the surviving corporation and CAC ceasing to exist.[14] As a result of the transaction, Embarq will become a direct, wholly owned subsidiary of CenturyTel.[15] Applicants state that the stockholders of pre-transaction Embarq expect to own approximately 66 percent of post-transaction CenturyTel, and the shareholders of pre-transaction CenturyTel expect to own approximately 34 percent of post-transaction CenturyTel.[16] The post-

[6] *See* Embarq/CenturyTel Application at 3.

[7] *See id.*

[8] *See id.*

[9] *See* Embarq/CenturyTel Application, Exh. 2 (listing CenturyTel subsidiaries with domestic 214 authority).

[10] CenturyTel's subsidiaries provide service in the following states: Alabama, Arkansas, Colorado, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Montana, New Mexico, North Carolina, Ohio, Oklahoma, Oregon, Tennessee, Texas, Washington, Wisconsin, and Wyoming. *See id.* at 3.

[11] *See id.* at 2. CenturyTel has a regional fiber optic network it utilizes to provide Internet, data, video and voice communications. CenturyTel's LightCore facilities abut or overlap existing Embarq wire centers in Florida, Indiana, Missouri, Minnesota and Kansas. *See* Embarq/CenturyTel Reply at 9–10.

[12] *See id.*

[13] *See* Embarq/CenturyTel Application at 3.

[14] Embarq will be the surviving corporation but will adopt the By-Laws and Certificate of Incorporation of CAC. *See id.* at 4, n.5.

[15] *See id.* at 4.

[16] *See id.* at n.6.

transaction CenturyTel board will be composed of eight CenturyTel-appointed directors and seven Embarq-appointed directors.[17]

6. Because the current shareholders of Embarq will acquire an approximate 66 percent interest in CenturyTel, the proposed merger involves a "substantial change in ownership" of CenturyTel and its subsidiaries.[18] At the same time, the former Embarq subsidiaries will become wholly-owned subsidiaries of CenturyTel and the former CenturyTel directors will make up a majority of the post-transaction board. Accordingly, the proposed merger involves the transfer of control of the licenses and authorizations held by both companies' respective subsidiaries.[19]

7. The Applicants contend that the merger will serve the public interest. Specifically, they claim that: (1) the merger is likely to result in "more rapid deployment of advanced services, including IPTV and next-generation broadband-based services;"[20] (2) the combined entity will adopt CenturyTel's automated retail billing systems, thereby improving its services to retail customers;[21] (3) the merged entity will adopt Embarq's wholesale operations support systems (OSS), which will result in better service to wholesale customers, and make it easier for other carriers to compete in the local service market;[22] and (4) the merger will generate synergies of approximately $400 million annually within the first three years of operation.[23] The Applicants also assert that the merger will not result in any anticompetitive harm.[24] Finally, the Applicants state that the merger will not disrupt services that CenturyTel and Embarq customers currently receive.[25]

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[17] *See id.*

[18] 47 U.S.C. § 309(c)(2)(B); *see In the Matter of Existing Shareholders of Citadel Broadcasting Corp. and of The Walt Disney Co., etc. for Consent to Transfers of Control*, Memorandum Opinion and Order and Notice of Apparent Liability, 22 FCC Rcd 7083, 7085, 7107, paras. 2, 55 (2007) (*Citadel-Disney Order*); *Reading Broadcasting, Inc.*, Decision, 17 FCC Rcd 14001, 14017, para. 44 (2002).

[19] *Citadel-Disney Order*, 22 FCC Rcd at 7107, para. 55. In the *Citadel-Disney Order*, the result of the Disney shareholders' acquiring more than 50% of Citadel's stock was that Citadel lost its ability to maintain certain grandfathered ownerships interests that no longer complied with the Commission's radio ownership rules. *Id.* at 7085, 7108-09, paras. 2, 58.

[20] Embarq/CenturyTel Application at 7–9; Embarq/CenturyTel Reply at 8–9.

[21] *Id.*

[22] The record indicates that CenturyTel's pre-merger wholesale ordering and provisioning systems are obstacles to wholesale providers seeking to compete in the local telephone market. *See, e.g.*, Letter from Charles W. McKee, Director, Government Affairs, Sprint Nextel Corp., *et al.*, to Marlene H. Dortch, Secretary, FCC, WC Docket No. 08-238, at 5 (filed Apr. 3, 2009) (Joint Commenters Apr. 3 *Ex Parte* Letter) (stating that "it is hard to imagine interconnection and provisioning getting worse in CenturyTel areas").

[23] *See* Embarq/CenturyTel Application, Ewing Declaration, para. 2.

[24] *See* Embarq/CenturyTel Application at 13–17. On November 21, 2008, the Federal Trade Commission terminated the waiting period mandated by the Clayton Act for the proposed transaction. *See* Federal Trade Commission, Granting of Request for Early Termination of the Waiting Period Under the Premerger Notification Rules, 73 Fed. Reg. 75,117 (Dec. 10, 2008).

[25] *See* Embarq/CenturyTel Application at 11–12, 17.

C. Comments on the Transaction

8. On December 9, 2008, the Wireline Competition Bureau released a public notice seeking comments and reply comments on the Application.[26] Several commenters contend that, unless the Commission imposes conditions on the merger, the proposed transaction will not serve the public interest. More specifically, commenters opposing the merger argue that the merger benefits claimed by the Applicants are speculative and will not result in verifiable, tangible benefits.[27] They further argue that the merged entity will have an increased incentive and ability to discriminate against its wholesale customers by leveraging its increased footprint and adopting the worst practices of CenturyTel in the Embarq service territories.[28] In response to these allegations, the Applicants offer certain voluntary commitments to enhance the ability of CenturyTel's wholesale customers to compete in the local telephone service market following the merger, and to provide consumers with certain assurances regarding broadband service deployment and speeds.[29]

III. STANDARD OF REVIEW AND PUBLIC INTEREST FRAMEWORK

A. Public Interest Review

9. Pursuant to sections 214(a) and 310(d) of the Act,[30] the Commission must determine whether the proposed transfer of control of certain licenses and authorizations held and controlled by Embarq and CenturyTel will serve the public interest, convenience, and necessity.[31] In making this determination, we first assess whether the proposed transaction complies with the specific provisions of

[26] *See Applications Filed for the Transfer of Control of Embarq Corporation to CenturyTel, Inc.*, WC Docket No. 08-238, Public Notice, DA 08-2681 (rel. Dec. 9, 2008); *see also Embarq/CenturyTel Second Public Notice* (seeking comment on the transfer of licenses and authorizations from pre-merger CenturyTel to reorganized CenturyTel).

[27] *See, e.g.*, COMPTEL Comments at 3–5 (arguing that conditions were necessary to make the merger benefit the public interest); NuVox/Socket Comments at 8 (arguing that claimed benefits are not tangible); Joint Commenters Apr. 3 *Ex Parte* Letter at 1, 2 (arguing that vague claims of efficiency are not verifiable benefits); Sprint Reply at 4 (stating that Applicants' generic claims of customers benefiting from subscription to current and new services are not verified merger specific benefits).

[28] *See, e.g.*, Joint Commenters Apr. 3 *Ex Parte* Letter at 3–4, 8–9 n.42.

[29] *See* Letter from Gregory J. Vogt, Counsel for CenturyTel, Inc., and Samuel L. Feder, Counsel for Embarq Corporation, to Marlene H. Dortch, Secretary, FCC, WC Docket No. 08-238, (filed June 22, 2009) (Embarq/CenturyTel June 22 *Ex Parte* Letter). The commitments in this letter are reproduced in Appendix C. These conditions are voluntary, enforceable commitments but are not general statements of Commission policy and do not alter Commission precedent or bind future Commission policy or rules.

[30] 47 U.S.C. §§ 214(a), 310(d).

[31] Section 310(d) of the Act, 47 U.S.C. § 310(d), requires that we consider applications for transfer of Title III licenses under the same standard as if the proposed transferee were applying for licenses directly under section 308 of the Act, 47 U.S.C. § 308. *See, e.g., AT&T Inc. and BellSouth Corporation Application for Transfer of Control*, WC Docket No. 06-74, Memorandum Opinion and Order, 22 FCC Rcd 5662, 5672, para. 19 (2007) (*AT&T/BellSouth Order*); *SBC Communications, Inc. and AT&T Corp. Applications for Approval of Transfer of Control*, WC Docket No. 05-65, Memorandum Opinion and Order, 20 FCC Rcd 18290, 18300 n.60 (2005) (*SBC/AT&T Order*); *Verizon Communications, Inc. and MCI, Inc. Applications for Approval of Transfer of Control*, WC Docket No. 05-75, Memorandum Opinion and Order, 20 FCC Rcd 18433, 18443 n.59 (2005) (*Verizon/MCI Order*); *Applications of AT&T Wireless Services, Inc. and Cingular Wireless Corporation*, WT Docket 04-70, Memorandum Opinion and Order, 19 FCC Rcd 21522, 21542, para. 40 (2004) (*Cingular/AT&T Wireless Order*); *General Motors Corporation and Hughes Electronics Corporation, Transferors, and The News Corporation Limited, Transferee*, MB Docket No. 03-124, Memorandum Opinion and Order, 19 FCC Rcd 473, 485, para. 18 (2004) (*News Corp./Hughes Order*). Thus, we must examine the Applicants' qualifications to hold licenses. *See infra* Part III.B.

the Act, other applicable statutes, and the Commission's rules. If the proposed transaction would not violate a statute or rule, the Commission considers whether it could result in public interest harms by substantially frustrating or impairing the objectives or implementation of the Communications Act or related statutes. The Commission then employs a balancing test weighing any potential public interest harms of the proposed transaction against the proposed public interest benefits.[32] The Applicants bear the burden of proving, by a preponderance of the evidence, that the proposed transaction, on balance, serves the public interest.[33] If we are unable to find that the proposed transaction serves the public interest for any reason, or if the record presents a substantial and material question of fact, we must designate the application for hearing.[34]

10. Our public interest evaluation necessarily encompasses the "broad aims of the Communications Act,"[35] which include, among other things, a deeply rooted preference for preserving and enhancing competition in relevant markets, accelerating private sector deployment of advanced services, ensuring a diversity of license holdings, and generally managing the spectrum in the public interest.[36] Our public interest analysis may also entail assessing whether the merger will affect the quality of communications services or will result in the provision of new or additional services to consumers.[37] In conducting this analysis, the Commission may consider technological and market changes, and the nature, complexity, and speed of change of, as wells as trends within, the communications industry.[38]

11. Our competitive analysis, which forms an important part of the public interest evaluation, is informed by, but not limited to, traditional antitrust principles.[39] The Commission and the Department

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[32] *See, e.g.*, *AT&T/BellSouth Order*, 22 FCC Rcd at 5672, para. 19; *Application of GTE Corporation, Transferor, and Bell Atlantic Corporation, Transferee*, CC Docket No. 98-184, Memorandum Opinion and Order, 15 FCC Rcd 14032, 14046, paras. 20, 22 (2002) (*Bell Atlantic/GTE Order*); *Applications of Ameritech Corp. and SBC Communications Inc.*, WC Docket No. 98-141, Memorandum Opinion and Order, 14 FCC Rcd 14712, 14737–38, para. 48 (1999) (*SBC/Ameritech Order*); *Applications of NYNEX Corp., Transferor, and Bell Atlantic Corp., Transferee, For Consent to Transfer Control of NYNEX Corp. and Its Subsidiaries*, File No. NSD-L-96-10, Memorandum Opinion and Order, 12 FCC Rcd 19985, 19987, para. 2 (1997) (*Bell Atlantic/NYNEX Order*).

[33] *See, e.g.*, *AT&T/BellSouth Order*, 22 FCC Rcd at 5672, para. 19; *Cingular/AT&T Wireless Order*, 19 FCC Rcd at 21542–44, para. 40; *News Corp./Hughes Order*, 19 FCC Rcd at 483, para. 15; *Application of EchoStar Communications Corporation (a Nevada Corporation), General Motors Corporation, and Hughes Electronics Corporation (Delaware Corporations) (Transferors) and EchoStar Communications Corporation (a Delaware Corporation) (Transferee)*, CS Docket No. 01-348, Hearing Designation Order, 17 FCC Rcd 20559, 20574, para. 25 (2002) (*EchoStar/DirecTV Order*)).

[34] We are not required, in any event, to designate for hearing applications for the transfer or assignment of Title II authorizations. *See ITT World Commc'ns, Inc. v. FCC*, 595 F.2d 897, 901 (2d Cir. 1979). We may do so, however, if we find that a hearing would be in the public interest. With respect to the applications to transfer licenses subject to Title III of the Act, however, if we are unable to find that the proposed transaction serves the public interest, or if the record presents a substantial and material question of fact, section 309(e) of the Communications Act requires that we designate the application for hearing. 47 U.S.C. § 309(e); *see also EchoStar/DirecTV Order*, 17 FCC Rcd at 20574, para. 25; *Cingular/AT&T Wireless Order*, 19 FCC Rcd at 21542–44, para. 40.

[35] *AT&T/BellSouth Order*, 22 FCC Rcd at 5673, para. 20.

[36] *See* Telecommunications Act of 1996, Pub. L. No. 104-104, § 706, 110 Stat. 56, 153 (1996 Act), *codified at* 47 U.S.C. § 157 nt; 47 U.S.C. §§ 254, 332(c)(7); 1996 Act, Preamble; *SBC/AT&T Order*, 20 FCC Rcd at 18301, para. 17; *see also Application of WorldCom, Inc. and MCI Communications Corp. for Transfer of Control of MCI Communications Corp. to WorldCom Inc.*, WC Docket No. 97-211, Memorandum Opinion and Order, 13 FCC Rcd 18025, 18030–31, para. 9 (1998) (*WorldCom/MCI Order*); *cf.* 47 U.S.C. §§ 301, 303, 309(j), 310(d), 521(4), 532(a).

[37] *See AT&T/BellSouth Order*, 22 FCC Rcd at 5673, para. 20.

[38] *See id.*

[39] *See, e.g.*, *AT&T/BellSouth Order*, 22 FCC Rcd at 5673, para. 21.

of Justice (DOJ) each have independent authority to examine the competitive impacts of proposed communications mergers and transactions involving transfers of Commission licenses, but the standards governing the Commission's competitive review differ somewhat from those applied by DOJ.[40] Like DOJ, the Commission considers how a transaction will affect competition by defining a relevant market, looking at the market power of incumbent competitors, and analyzing barriers to entry, potential competition and the efficiencies, if any, that may result from the transaction. DOJ, however, reviews telecommunications mergers pursuant to section 7 of the Clayton Act, and if it wishes to block a merger, it must demonstrate to a court that the merger may substantially lessen competition or tend to create a monopoly.[41] Under the Commission's review, the Applicants must show that the transaction will serve the public interest; otherwise the application is set for hearing.[42] DOJ's review is also limited solely to an examination of the competitive effects of the acquisition, without reference to other public interest considerations.[43] The Commission's competitive analysis under the public interest standard is somewhat broader, for example, considering whether a transaction will enhance, rather than merely preserve, existing competition, and takes a more extensive view of potential and future competition and its impact on the relevant market.[44]

12. Our analysis recognizes that a proposed transaction may lead to both beneficial and harmful consequences.[45] For instance, combining assets may allow a firm to reduce transaction costs and offer new products, but it may also create market power, create or enhance barriers to entry by potential competitors, and create opportunities to disadvantage rivals in anticompetitive ways.[46] Our public interest authority enables us, where appropriate, to impose and enforce narrowly tailored, transaction-specific conditions that ensure that the public interest is served by the transaction.[47] Section 303(r) of the Communications Act authorizes the Commission to prescribe restrictions or conditions not inconsistent with law that may be necessary to carry out the provisions of the Act.[48] Similarly, section 214(c) of the Act authorizes the Commission to attach to the certificate "such terms and conditions as in its judgment

[40] *See, e.g., Applications of Cellco Partnership d/b/a Verizon Wireless and Atlantis Holdings LLC for Consent to Transfer Control of Licenses, Authorizations, and Spectrum Manager and* De Facto *Transfer Leasing Arrangements and Petition for Declaratory Ruling that the Transaction is Consistent with Section 310(b)(4) of the Communications Act*, WT Docket No. 08-95, File Nos. 0003463892, *et al.*, ITC-T/C-20080613-00270, *et al.*, ISP-PDR-20080613-00012, Memorandum Opinion and Order and Declaratory Ruling, 23 FCC Rcd 17444, 17462, para. 28 (2008) (*Verizon Wireless/Alltel Order*).

[41] 15 U.S.C. § 18.

[42] *See Verizon Wireless/Alltel Order*, 23 FCC Rcd. at 17462, para. 28; *Applications for Consent to the Transfer of Control of Licenses XM Satellite Radio Holdings Inc., Transferor to Sirius Satellite Radio Inc.*, Transferee, MB Docket No. 07-57, Memorandum Opinion and Order and Report and Order, 23 FCC Rcd 12348, 12365–66, para. 32 (2008) (*XM/Sirius Order*).

[43] *See Verizon Wireless/Alltel Order*, 23 FCC Rcd. at 17462, para. 28; *XM/Sirius Order*, 23 FCC Rcd 12364, para. 30.

[44] *See, e.g., Verizon Wireless/Alltel Order*, 23 FCC Rcd. at 17462, para. 28; *XM/Sirius Order*, 23 FCC Rcd at 12365–66, para. 32.

[45] *See, e.g., Verizon Wireless/Alltel Order*, 23 FCC Rcd. at 17462, para. 29; *XM/Sirius Order*, 23 FCC Rcd at 12366, para. 33; *AT&T/BellSouth Order*, 22 FCC Rcd at 5674, para. 21.

[46] *See, e.g., Verizon Wireless/Alltel Order*, 23 FCC Rcd. at 17462, para. 29; *XM/Sirius Order*, 23 FCC Rcd at 12366, para. 33; *AT&T/BellSouth Order*, 22 FCC Rcd at 5674, para. 21.

[47] *See, e.g., Verizon Wireless/Alltel Order*, 23 FCC Rcd. at 17463, para. 29; *XM/Sirius Order*, 23 FCC Rcd at 12366, para. 33; *AT&T/BellSouth Order*, 22 FCC Rcd at 5674, para. 22.

[48] 47 U.S.C. § 303(r); *see also Verizon Wireless/Alltel Order*, 23 FCC Rcd. at 17463, para. 29; *XM/Sirius Order*, 23 FCC Rcd at 12366, para. 33; *AT&T/BellSouth Order*, 22 FCC Rcd at 5674, para. 22.

the public convenience and necessity may require.'"[49] Indeed, unlike the role of antitrust enforcement agencies, our public interest authority enables us to rely upon our extensive regulatory and enforcement experience to impose and enforce conditions to ensure that the transaction will yield overall public interest benefits.[50] Despite this broad authority, the Commission has held that it will impose conditions to remedy harms that arise from the transaction and that are related to the Commission's responsibilities under the Act and related statutes.[51]

B. CenturyTel's Qualifications to Hold Licenses

13. As a threshold matter, we must determine whether the Applicants meet the requisite qualifications to hold and assign and transfer licenses under section 310(d) of the Act and the Commission's rules. In general, when evaluating assignments under section 310(d), we do not re-evaluate the qualifications of the transferor.[52] The exception to this rule occurs where issues related to basic qualifications have been designated for hearing by the Commission or have been sufficiently raised in petitions to warrant the designation of a hearing.[53] This is not the case here. In the case of the transfer

[49] 47 U.S.C. § 214(c); *see also Verizon Wireless/Alltel Order*, 23 FCC Rcd. at 17463, para. 29; *XM/Sirius Order*, 23 FCC Rcd at 12366, para. 33; *AT&T/BellSouth Order*, 22 FCC Rcd at 5674, para. 22.

[50] *See, e.g., Verizon Wireless/Alltel Order*, 23 FCC Rcd. at 17463, para. 29; *XM/Sirius Order*, 23 FCC Rcd at 12366, para. 33; *AT&T/BellSouth Order*, 22 FCC Rcd at 5674, para. 22; *see also Schurz Communications, Inc. v. FCC*, 982 F.2d 1043, 1049 (7th Cir. 1992) (discussing Commission's authority to trade off reduction in competition for increase in diversity in enforcing public interest standard).

[51] *See, e.g., Verizon Wireless/Alltel Order*, 23 FCC Rcd. at 17463, para. 29; *XM/Sirius Order*, 23 FCC Rcd at 12366, para. 33; *AT&T/BellSouth Order*, 22 FCC Rcd at 5674, para. 22.

[52] *See Applications of Sprint Nextel Corporation and Clearwire Corporation For Consent to Transfer Control of Licenses, Leases and Authorizations*, WT Docket No. 08-94, Memorandum Opinion and Order and Declaratory Ruling, 23 FCC Rcd 17570, 17582–83, para. 23 (2008) (*Sprint Nextel/Clearwire Order*); *Verizon Wireless/Alltel Order*, 23 FCC Rcd at 17464, para. 31; *Applications of Guam Cellular and Paging, Inc., and DoCoMo Guam Holdings, Inc., for Consent to Transfer Control of Licenses and Authorizations; Applications of Guam Cellular and Paging, Inc., and Guam Wireless Telephone Company, LLC, for Consent to Assignment of Licenses and Authorizations; Petition for Declaratory Ruling that the Transaction is Consistent with Section 310(b)(4) of the Communications Act*, File Nos. 0002556700, ITC-T/C-20060405-00234, 002553437, ITC-ASG-20060404-00181, ISP-PDR-20050404-00005, WT Docket No. 06-96, 21 FCC Rcd 13580, 13590, para. 14 (2006) (*DoCoMo/Guam Cellular Order*); *Applications of Midwest Wireless Holdings, L.L.C. and Alltel Communications, Inc.*, WT Docket No. 05-339, Memorandum Opinion and Order, 21 FCC Rcd 11526, 11536, para. 17 (2006) (*Alltel/Midwest Wireless Order*); *Applications of Nextel Partners, Inc., Transferor, And Nextel Wip Corp. and Sprint Nextel Corporation, Transferees*, Memorandum Opinion and Order, 21 FCC Rcd 7358, 7362, para. 10 (*Sprint Nextel/Nextel Partners Order*); *Verizon/MCI Order*, 20 FCC Rcd at 18526, para. 183; *SBC/AT&T Order*, 20 FCC Rcd at 18379, para. 171; *Applications of Nextel Communications, Inc. and Sprint Corporation for Consent to Transfer Control of Licenses and Authorizations*, WT Docket No. 05-63, Memorandum Opinion and Order, 20 FCC Rcd 13967, 13979, para. 24 (2005) (*Sprint/Nextel Order*); *Applications of Western Wireless Corporation and Alltel Corporation for Consent to Transfer Control of Licenses and Authorizations*, WT Docket No. 05-50, Memorandum Opinion and Order, 20 FCC Rcd 13053, 13063–64, para. 18 (2005) (*Alltel/Western Wireless Order*); *Cingular/AT&T Wireless Order*, 19 FCC Rcd at 21546, para. 44; *Applications of VoiceStream Wireless Corporation and Powertel, Inc., Transferors, and Deutsche Telekom AG, Transferee*, IB Docket No. 00-187, Memorandum Opinion and Order, 16 FCC Rcd 9779, 9790, para. 19 (2001) (*Deutsche Telekom/VoiceStream Order*).

[53] *See Sprint Nextel/Clearwire Order*, 23 FCC Rcd at 17582–83, para. 23; *Verizon Wireless/Alltel Order*, 23 FCC Rcd at 17464, para. 31; *DoCoMo/Guam Cellular Order*, 21 FCC Rcd at 13590, para. 14; *Alltel/Midwest Wireless Order*, 21 FCC Rcd 11536, para. 17; *Sprint Nextel/Nextel Partners Order*, 21 FCC Rcd at 7362, para. 10; *Verizon/MCI Order*, 20 FCC Rcd at 18526, para. 183; *SBC/AT&T Order*, 20 FCC Rcd at 18379, para. 171; *Sprint/Nextel Order*, 20 FCC Rcd at 13979, para. 24; *Alltel/Western Wireless Order*, 20 FCC Rcd at 13063–64, para. 18; *Cingular/AT&T Wireless Order*, 19 FCC Rcd at 21546, para. 44; *Deutsche Telekom/VoiceStream Order*, 16 FCC Rcd at 9790, para. 19.

of control applications involving the Embarq subsidiaries, we need not re-evaluate Embarq's basic qualifications. In the case of the transfer of control applications involving the CenturyTel subsidiaries, we need not re-evaluate the basic qualifications of the current CenturyTel shareholders.

14. Section 310(d) also requires that the Commission consider the qualifications of the proposed transferee as if the transferee were applying for the license directly under section 308 of the Act.[54] In this proceeding, no issues have been raised with respect to the basic qualifications of either CenturyTel or the current Embarq shareholders (who will be obtaining majority ownership of CenturyTel under the terms of the Merger Agreement), both of which previously have been found qualified to control entities holding FCC licenses and authorizations. Thus, we find that, at this time, there is no reason to re-evaluate the qualifications of these entities.

IV. POTENTIAL PUBLIC INTEREST HARMS

15. We consider first the potential public interest harms arising from this proposed transaction, before turning to potential benefits. Because Embarq and CenturyTel currently compete for customers in at least some service territories, we first consider the potential horizontal effects of the transfers.[55] We consider the risk that allegedly anti-competitive practices will spread from CenturyTel into Embarq territories, and we consider whether the combined entity's larger footprint will enhance its incentive and ability to spread or perpetuate discriminatory practices that would have been geographically or temporally confined absent the transaction.

A. Potential Horizontal Effects

16. Because CenturyTel and Embarq currently compete against each other in certain local markets, we consider the potential horizontal effects of this merger.[56] Based on the record evidence, we find that the proposed transaction is unlikely to harm competition or potential competition in those local markets where the Applicants currently compete.[57]

17. There are 54 Embarq service territories that abut 59 CenturyTel territories; these adjacent service territories affect less than three percent of the exchanges involved in the transaction and only 281,000 out of more than 7.3 million lines served.[58] Despite the adjacencies, direct competition between

[54] Section 308 requires that applicants for Commission licenses set forth such facts as the Commission may require as to citizenship, character, and financial, technical, and other qualifications. *See* 47 U.S.C. § 308. Our rules implementing the provisions of section 308 regarding an applicant's qualifications to hold the Commission licenses involved in this transfer are set forth in Parts 5, 25, and 63 of the Commission's rules. *See* 47 C.F.R. Parts 5, 25, 63; *see also DoCoMo/Guam Cellular Order*, 21 FCC Rcd at 13590, para. 14; *Alltel/Midwest Wireless Order*, 21 FCC Rcd at 11536, para. 17; *Sprint Nextel/Nextel Partners Order*, 21 FCC Rcd at 7362, para. 10; *Verizon/MCI Order*, 20 FCC Rcd at 18526, para. 183; *SBC/AT&T Order*, 20 FCC Rcd at 18379, para. 171; *Alltel/Western Wireless Order*, 20 FCC Rcd at 13063–64, para. 18; *Cingular/AT&T Wireless Order*, 19 FCC Rcd at 21546, para. 44.

[55] *AT&T/BellSouth Order*, 22 FCC Rcd at 5675, para. 23. We note that there are no competitive issues associated with the wireless licenses involved in the subject transaction.

[56] A merger is horizontal when the merging firms sell competing products that are in the same relevant markets and are therefore viewed as reasonable substitutes by purchasers of the products. *News Corp./Hughes Order*, 19 FCC Rcd at 507, para 69.

[57] *Cf. Joint Applications of Telephone and Data Systems, Inc. and Chorus Communications, Ltd. for Authority to Transfer Control of Commission Licenses and Authorizations Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 22, 63 and 90 of the Commission's Rules*, CC Docket No. 01-73, Memorandum Opinion and Order, 16 FCC Rcd at 15297, paras. 8–9 (CCB/WTB 2001) (granting transfer of control involving an incumbent LEC and competitive LEC providing in-region service where merger would not harm competition).

[58] Embarq/CenturyTel Application at 13. Most of the adjacencies are located in four states: Missouri, Oregon, Washington, and Minnesota. *See id.* at 15.

the two carriers is minimal: CenturyTel's competitive LEC subsidiaries provide service in only three Embarq incumbent LEC markets to only 130 enterprise customers, and Embarq does not currently compete in any CenturyTel markets.[59]

18. This lack of present competition between these two incumbent LECs is hardly surprising — both carriers largely serve rural local exchanges[60] and the adjacent exchanges are almost all small and rural.[61] Only five adjacent exchanges have over 10,000 access lines, with the largest being Embarq's Jefferson City, Missouri, exchange.[62] We recognize that carriers are generally less likely to compete in such territories because of the high costs of reaching consumers and the lower potential revenues of serving fewer customers,[63] and we thus acknowledge that here each carrier's incentive to encroach on the other's territories is small.

19. We are also not concerned that the merger will have significant anticompetitive effects in the three local markets where CenturyTel currently competes with Embarq for enterprise customers. First, as the Commission has previously observed, mid-sized and large enterprise customers tend to be sophisticated purchasers of communications services[64] and hence more likely to pick their local exchange carrier based on all competitive options. Given the enhanced revenue opportunities in serving enterprise customers,[65] we recognize that competitive LECs are more likely to target such customers when entering an area.[66] Indeed, we see such competition in the three local markets where CenturyTel and Embarq currently compete. In the Chaska, Minnesota exchange, for example, Applicants assert that they compete with Level 3, ITC Deltacom, Paetec, Verizon, AT&T, ALEC, and Bandwidth.com, among others.[67] Other competitors in the overlapping and adjacent exchanges include Alltel,[68] AT&T Wireless, Digital Telecommunications Inc., Granite Telecommunications LLC, Lakedale Link, Inc., Midwest Wireless, Qwest Corporation, Sprint Nextel Communications, and US Cable Corporation.[69] Thus, it appears that, even after the merger, there will be a significant number of carriers competing for enterprise customers in

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[59] *Id.* at 13–14.

[60] *Id.* at 2.

[61] The median size of adjacent exchanges is only 1,021 access lines. *Id.* at 15.

[62] That exchange has 18,945 residential and 26,544 business access lines. *Id.* at 16 n.33.

[63] *See GTE/Bell Atlantic Order*, 15 FCC Rcd at 14095, para. 117.

[64] *See AT&T/BellSouth Order*, 22 FCC Rcd at 5708, para. 82.

[65] For example, a price cap LEC's monthly charge for each primary residential or single-line business local exchange service subscriber line cannot exceed $6.50, 47 C.F.R. § 69.152(d)(1)(ii)(D), whereas a price cap LEC's monthly line charge for a multi-line business cannot exceed $9.20, 47 C.F.R. § 69.152(k)(1)(i), not including up to an additional $4.31 per line per month that price cap carriers can recover either from a multi-line business's pre-subscribed interexchange carrier or from a multi-line business itself, 47 C.F.R. § 69.153(a). Thus, looking only at the interstate portion of a carrier's costs in a high-cost area, competitive LECs are best able to compete on price for multi-line business customers (who pay subscriber line and pre-subscribed interexchange carrier charges of up to $13.51 to the incumbent) rather than residential customers (whose subscriber line charge is capped at $6.50 a line).

[66] *Cf. AT&T/BellSouth Order*, 22 FCC Rcd at 5690–91, para. 55 ("When competitive LECs seek to enter a new special access market, they generally concentrate their efforts in high density areas where the revenue opportunities are the greatest — such as locations where enterprise customers are located.").

[67] *See* Embarq/CenturyTel Application at 14.

[68] Verizon Wireless recently acquired Alltel and hence should be competing in its stead. *See Verizon Wireless/Alltel Order*, 23 FCC Rcd 17444.

[69] *See* Letter from Mark D. Schneider, Counsel for Embarq Corporation, to Marlene H. Dortch, Secretary, FCC, WC Docket No. 08-238, Exh. 1 at 1 (filed Dec. 10, 2009) (Embarq/CenturyTel Supplement) (listing competitors in Embarq's Plainview, MN exchange); *id.*, Exh. 2 at 6 (listing competitors in CenturyTel's Kellogg, MN exchange).

the three local markets at issue. Accordingly, we conclude that the limited horizontal aspects of the proposed transaction do not raise competitive concerns.

B. Perpetuation and Spread of Discriminatory Practices

1. Alleged Harms

20. Commenters opposing the merger contend that anticompetitive effects in the Embarq and CenturyTel service territories are likely for two reasons. First, citing the Commission's *SBC/Ameritech Order* and its *Bell Atlantic/GTE Order*, commenters claim that, after the merger, the merged entity will have an increased incentive and ability to discriminate against competitors in local retail markets.[70] Second, opponents of the merger claim that "CenturyTel lacks the wholesale support infrastructure, commitment and experience necessary to serve wholesale customers as required," and they claim that the "comparatively better practices and capabilities in place at Embarq will be replaced with those CenturyTel uses to stymie competition in its service areas."[71]

21. In addition to presenting these general theories of competitive harm, commenters opposing the merger make a number of specific allegations, which fall into four general categories: (1) those resulting from CenturyTel's manual OSS; (2) those involving local number portability; (3) those involving interconnection agreements and obligations; and (4) those involving wholesale pricing and fees. We discuss below each of the four categories of alleged harm and the voluntary commitments that the Applicants offered in response to these allegations.

22. *Operations Support Systems* (*OSS*). Commenters, as well as Embarq and CenturyTel, agree that CenturyTel's OSS "are largely manual with little if any automated or interactive capabilities"[72] and that CenturyTel's OSS "cannot provide as rapid and efficient processing as the Embarq systems."[73] The problems with CenturyTel's OSS appear to disadvantage competitors in several ways.

23. For example, CenturyTel admits that its antiquated OSS has led it to adopt a policy limiting the number of service requests, including number ports, any given competitor could make to 50 in a single day, the purpose being to "maintain[] parity of treatment for all submitting carriers."[74] Similarly, it does not deny allegations that, because of its problematic OSS, the information in CenturyTel's Customer Service Record (CSR) database "is often missing, inaccurate, or contradicts information contained in CenturyTel's other databases."[75]

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[70] *See, e.g.*, NuVox/Socket Comments at 14; COMPTEL Comments at 3; Sprint Nextel Reply Comments at 5–6.

[71] NuVox/Socket Comments at 3; *see also* Joint Commenter April 3 *Ex Parte* Letter at 5 *citing* SBC/Ameritech Order, 14 FCC Rcd at paras. 15[1]–155; NuVox/Socket Comments, Kohly Declaration, para. 8.

[72] NuVox/Socket Comments, Kohly Declaration, para. 11; DeltaCom Reply, Mastando/Sharp Declaration, para. 11.

[73] Embarq/CenturyTel Reply at 10.

[74] Letter from Gregory J. Vogt, Counsel for CenturyTel, Inc., and Samuel L. Feder, Counsel for Embarq Corporation, to Marlene H. Dortch, Secretary, FCC, WC Docket No. 08-238, at 2 (filed Apr. 10, 2009) (Embarq/CenturyTel Apr. 10 *Ex Parte* Letter); *see also* NuVox/Socket Comments, Kohly Declaration, para. 36; Sprint Reply at 10; Letter from John J. Heitmann, to Marlene H. Dortch, Secretary, FCC, WC Docket No. 08-238, Cox/Hankins Declaration, para. 7 (filed Feb. 27, 2009) (Charter Feb. 27 *Ex Parte* Letter).

[75] NuVox/Socket Comments, Kohly Declaration, para. 18; *id.* ("This is especially true with respect to customers with multiple locations."); *see also* DeltaCom Reply, Mastando/Sharp Declaration, para. 13. Because of these issues and other problems with CenturyTel's Location Service Request (LSR) validation system, commenters further allege that simple ports can take multiple days or even weeks to process. Letter from Michael H. Pryor, Counsel for Bresnan, to Marlene H. Dortch, Secretary, FCC, WC Docket No. 08-238, at 7 (filed Apr. 20, 2009) (Bresnan Apr. 20 *Ex Parte* Letter); *id.*, Hould/Strouf Declaration, paras. 5–12; *see also* NuVox/Socket Comments, Kohly Declaration, para. 43 (noting that CenturyTel's system "provide[s] no real-time or near real-time information when placing an order"); DeltaCom Reply, Mastando/Sharp Declaration, para. 11 (same); NuVox/Socket Comments, Kohly

24. Commenters further allege that CenturyTel's system for directory listings is "more manual" and hence "error prone,"[76] and that CenturyTel's manual OSS has hampered its ability to respond to competitors' requests for repairs and installations in a timely manner.[77] These allegations, if true, put competitors at a disadvantage in the marketplace in competing for time-sensitive business customers.

25. *Local Number Portability.* Commenters assert that CenturyTel has implemented several anti-competitive practices with regard to local number portability. As noted, commenters allege, and CenturyTel admits, that, because of its antiquated OSS, it has had to limit the number of service requests, including number ports, that a given competitor could make in a single day.[78] In addition, commenters allege that CenturyTel has imposed several outright anti-competitive practices against them.[79] For example, opponents claim that CenturyTel has proposed, but not yet implemented, a requirement that competitive LECs include "a CenturyTel subscriber's Personal Identification Number" (PIN) — "a randomly generated 11-digit number that appears only on the first bill that CenturyTel sends to a subscriber" — "as one of the four fields required for all LSRs for porting submitted to CenturyTel."[80] Because customers are unlikely to remember that PIN or save their initial bill, commenters argue that such a requirement, in practical effect, would force many customers to contact CenturyTel to retrieve the PIN before being able to port their number to a new provider. This contact then gives CenturyTel personnel an opportunity to try to retain the customer. Finally, Socket claims that its "customer[s] [have]

Declaration, para. 11 (noting that CenturyTel's system "cannot provide addressing information or even whether a specific customer location can even be served out of a particular end-office on a real-time or near real-time basis," creating processing delays of "several days").

[76] DeltaCom Reply, Mastando/Sharp Declaration, para. 15; *see also* NuVox/Socket Comments, Kohly Declaration, para. 25. At most, CenturyTel explains that inaccuracies are unintentional, Embarq/CenturyTel Apr. 10 *Ex Parte* Letter at 5 n.13 ("Inaccuracies in directory lists are simply clerical accidents that must be resolved as the inaccuracy is identified, and they are not caused by any intent to undermine competitive service providers."), uncommon, *id.* (claiming a "statistically minimal number of actual instances"), and someone else's fault, *id.* ("CenturyTel and Embarq have only limited control over the accuracy of the third party database providers' listings, and they are constantly vigilant in seeking that the listings are accurate.").

[77] According to competitors, CenturyTel takes, on average, more than twice as long as Embarq to install DS1 lines and to fulfill EEL orders. *See* NuVox/Socket Comments, Walsh/Cadieux Declaration, para. 7 ("From the time of order, it takes CenturyTel, on average, sixteen (16) days to install a DS1. From the time of order it takes Embarq, on average, seven (7) days."); NuVox/Socket Comments, Kohly Declaration, para. 10 ("Embarq has a five-business day interval for DS1 loop and EEL orders. In contrast, CenturyTel has a fifteen-business day interval for DS1 loop and EEL orders."); DeltaCom Reply, Mastando/Sharp Declaration, para. 14 (same); *but see* CenturyTel Reply, Glover Declaration, para. 6 (CenturyTel consistently meets a nine business day interval."). Moreover, commenters allege that CenturyTel has failed to complete circuit installation in a timely manner 30% of the time in a recent survey, NuVox/Socket Comments, Kohly Declaration, para. 16, and that CenturyTel has, in some instances, begun "marking orders for xDSL-capable loops as complete when they, in fact, were not complete," NuVox/Socket Comments, Kohly Declaration, para. 16.

[78] Embarq/CenturyTel Apr. 10 *Ex Parte* Letter at 10.

[79] *See, e.g.*, NuVox/Socket Comments, Kohly Declaration, para. 33 ("In Socket's second complaint related to CenturyTel's refusal to port numbers in situations that CenturyTel maintained constituted location portability, the MO PSC found that CenturyTel's refusal violated its interconnection agreement with Socket. Specifically, the MO PSC found that 'The evidence shows that CenturyTel stands alone in its refusal to make such ports.'").

[80] Charter Feb. 27 *Ex Parte* Letter, Cox/Hankins Declaration, paras. 9–10; *see* Embarq/CenturyTel Apr. 10 *Ex Parte* Letter at 11.

indicat[ed] they were contacted by CenturyTel's sales personnel and indicat[ed] the sales call was in response to a Socket loop or port order."[81]

26. *Interconnection Agreements and Obligations*. Commenters allege that CenturyTel has manipulated the interconnection agreement process to disadvantage interconnecting competitors. Charter claims that CenturyTel has not always negotiated in good faith with competitors but instead "has a history of slow rolling the interconnection agreement negotiation process."[82] In addition, commenters contend that CenturyTel at times has kept the corporate forms of its acquisitions, allegedly so that its competitors must "maintain separate interconnection agreements, separate interconnection arrangements, and generally conduct business separately with each," even when those companies are "managed jointly with many of the same people performing the same functions for each entity."[83]

27. Commenters further allege that CenturyTel maintains separate corporate subsidiaries as a shield against efficient interconnection arrangements. In Missouri, for example, CenturyTel uses a non-incumbent LEC affiliate to manage its tandems and dedicated transport services, which commenters argue sometimes causes unnecessary delays in maintenance and repairs and lets CenturyTel exempt itself from unbundling interoffice transport for use in enhanced extended links (EELs).[84] In cases where CenturyTel's interoffice transport is owned by this separate affiliate, CenturyTel insists that competitors establish separate points of interconnection with each local operating company.[85]

28. *Wholesale Pricing and Fees*. Commenters allege that both CenturyTel and Embarq have set prices and fees for certain wholesale services at anticompetitively high rates.[86] Charter claims that CenturyTel has imposed charges on certain service requests, indirectly raising the costs of porting a number[87] and complains that Embarq has charged it fees for listing a Charter customer in the Embarq directory without providing any cost justification.[88] Commenters also allege that both companies have

[81] NuVox/Socket Comments, Kohly Declaration, para. 35; *see also* Bresnan Apr. 20 *Ex Parte* Letter, Brester Declaration, paras. 2–3 (explaining that when a customer called to disconnect her CenturyTel line, the representative "told her that she would not be able to make 911 emergency calls if she used Bresnan's phone service.").

[82] Charter Feb. 27 *Ex Parte* Letter Cox/Hankins Declaration, para. 26. *See also* NuVox/Socket Comments, Kohly Declaration, para. 33.

[83] NuVox/Socket Comments, Kohly Declaration, para. 30.

[84] *Id.*, paras. 30–31; DeltaCom Reply, Mastando/Sharp Declaration, para. 18.

[85] NuVox/Socket Comments, Kohly Declaration, para. 30. *See also* DeltaCom Reply, Mastando/Sharp Declaration, para. 18; Charter Feb. 27 *Ex Parte* Letter, Cox/Hankins Declaration, paras. 22, 25.

[86] *See, e.g.*, Letter from CTI Networks, Inc., WC Docket No. 08-238 at 2 (Mar. 6, 2009); Letter from Michael H. Pryor, Counsel for Bresnan Communications, LLC, to Marlene H. Dortch, Secretary, FCC, WC Docket No. 08-238, Attach. at 2 (June 18, 2009) (alleging that CenturyTel charges excessive fees to obtain CSRs, including $31.20 in Montana and $20.00 in Colorado).

[87] Charter Feb. 27 *Ex Parte* Letter, Cox/Hankins Declaration, para. 8 ("In Texas, for example, CenturyTel charges $11.29 for each LSR, including those for porting. In Wisconsin, CenturyTel charges an 'Initial Service Order Charge' of $41.58 for each LSR, including port requests. . . . CenturyTel charged Charter a fee of $19.78 for port requests from 2003 to 2007."); Charter Feb. 27 *Ex Parte* Letter, Cox/Hankins Declaration, para. 8 ("CenturyTel has proposed (and in all cases has advocated in arbitrations) the following Service Order Charges for port requests to be applied in all three states: an Initial Service Order Charge of $14.02 for simple ports; an Initial Service Order Charge of $65.77 for complex ports; and a Subsequent Service Order Charge of $7.53 for modification of an existing port request.").

[88] Charter Feb. 27 *Ex Parte* Letter, Cox/Hankins Declaration, para. 20; *see also id.* ("In recent interconnection agreement negotiations, Embarq has attempted to impose a monthly recurring charge of between $0.40 and more than $3.00 for each Charter customer listing that Embarq stores and maintains in Embarq's directory assistance database.").

leveraged their "monopol[ies] in the provision of critical special access facilities"[89] to charge unreasonably high special access rates and to squeeze resale competitors out of the market.[90] Commenters further allege that both companies have engaged in price-squeezing behavior.[91]

2. Voluntary Commitments

29. In response to these alleged harms of the proposed merger, the Applicants offer a number of voluntary commitments.[92] In order to address concerns about CenturyTel's wholesale operations, the Applicants commit to "integrate, and adopt for CenturyTel CLEC orders, the automated [OSS] of Embarq within fifteen months of the transaction's close," and in the interim, to "devote additional resources to its existing manual CLEC order processing system to ensure that all local number portability requests are promptly processed."[93] Applicants also commit to processing CenturyTel's wholesale LNP orders through Embarq's OSS.[94] Further, the CenturyTel companies commit to no longer limit the number of ports that can be processed.[95]

30. In order to address allegations that CenturyTel insisted that competitors negotiate separate interconnection negotiations for CenturyTel LECs within the same state, the Applicants commit to "negotiate all [r]ural company interconnection contracts in a state at the same time and all [n]onrural company interconnection contracts in a state at the same time."[96] In these unified negotiations, the Applicants commit to limit requests for terms unique to individual operating companies in a state to "rates, different physical interconnection points reflecting network configurations, or where unified terms are otherwise technically infeasible."[97]

31. In order to address concerns that Embarq's wholesale performance might deteriorate following the merger, the Applicants commit to "maintain substantially the service levels that Embarq has provided for wholesale operations, subject to reasonable and normal allowances for the integration of CenturyTel and Embarq systems."[98] They further commit, for a period of two years following the transaction closing date, to make available to competitive LECs, and to the FCC upon request, quarterly performance metric data comparing Embarq service levels to a benchmark value set at the 12-month

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[89] Sprint Reply at 9; NuVox/Socket Comments at 35 (citing NuVox/Socket Comments, Walsh/Cadieux Declaration, para. 4); NuVox/Socket Comments at 35 ("[T]here are few, if any, competitive sources of these facilities . . . ."). For present purposes, we define special access as a dedicated transmission link between two places. *See Special Access Rates for Price Cap Local Exchange Carriers; AT&T Corp. Petition for Rulemaking to Reform Regulation of Incumbent Local Exchange Carrier Rates for Interstate Special Access Services*, WC Docket No. 05-25, RM-10593, Order and Notice of Proposed Rulemaking, 20 FCC Rcd 1994, 1997, para. 7 (2005); *see also SBC/AT&T Order*, 20 FCC Rcd at 18304, para. 24; *Verizon/MCI Order*, 20 FCC Rcd at 18447, para. 24.

[90] Sprint Reply at 9 (suggesting that each carrier's special-access rates are so high as to let them "realize obscene profits"); NuVox/Socket Comments, Kohly Declaration, para. 19 (Embarq imposes "'line conditioning' charges on DS1 loops" that "range from $100 to $350 per loop and are in addition to the standard non-recurring charge for DS1 loops of $330.83.").

[91] *See, e.g.*, NuVox/Socket Comments, Kohly Declaration, para. 38–39; Accelerated Reply at 2.

[92] *See* Embarq/CenturyTel June 22 *Ex Parte* Letter. These voluntary commitments are reproduced in Appendix C.

[93] Appendix C.

[94] *Id.*

[95] *Id.*

[96] *Id.*

[97] *Id.*

[98] *Id.*

average results achieved from April 1, 2008 through March 31, 2009.[99] Applicants commit that "Embarq will maintain service at a level that is no less than one standard deviation from the benchmark value, 90 percent of the time."[100]

32. In order to address specific complaints in the record about certain of CenturyTel's current practices,[101] the Applicants commit to improve CenturyTel companies' processing of wholesale orders, including provisioning intervals for DS-1 Loops, hot cut processes, maintenance and repair, and unlocking E-911 records.[102] The CenturyTel and Embarq operating companies also commit to offer to "Internet service providers for their provision of broadband Internet access service to ADSL capable retail customer premises, ADSL transmission service in their respective territories that is functionally the same as the services they offered as of the date of the merger closing."[103] Each local operating company's wholesale ADSL transmission offering will be set at "a price not greater than its retail price in the same state for ADSL service that is separately purchased by customers who also subscribe to that local operating company's local telephone service."[104]

33. We find that, as a theoretical matter, the merger may result in increased anticompetitive behavior on the part of the Applicants. Consistent with the "Big Footprint" theory that the Commission addressed in prior BOC mergers,[105] we find that the increase in the size of CenturyTel's study area resulting from the merger may increase its incentive to engage in anticompetitive activity, although we think it is likely to have a lesser effect in the instant case than in the prior BOC mergers.[106] Additionally, to the extent that CenturyTel has been less willing to cooperate with competitors than Embarq — as numerous commenters allege — following the merger, CenturyTel may extend this behavior to the Embarq territories.[107] In order to address these potential harms, the Applicants have proposed a series of voluntary commitments, summarized above and included in Appendix C. After consideration of the record, we find that these voluntary commitments adequately address both of these concerns, and as discussed below, we therefore make them enforceable conditions of the merger.

[99] *Id.*

[100] *Id.*

[101] *See, e.g.*, Letter from John J. Heitmann to Marlene H. Dortch, Secretary, FCC, WC Docket No. 08-238 at 3 (May 21, 2009) (NuVox/Socket May 21 *Ex Parte* Letter) (arguing that the Commission should impose conditions requiring the adoption of Embarq's "best practices" in the CenturyTel territories).

[102] *See* Appendix C.

[103] *Id.*

[104] *Id.*

[105] *See SBC/Ameritech Order*, *SBC/Ameritech Order*, 14 FCC Rcd at 14797–98, paras. 192–93; *see also AT&T/BellSouth Order*, 22 FCC Rcd at 5751–53, paras. 183–85; *Bell Atlantic/GTE Order*, 15 FCC Rcd at 14115–16, paras. 176–78.

[106] As the Commission explained in the *SBC/Ameritech Order*, a merger between two incumbent LECs may increase the merged entity's incentive to engage in anticompetitive behavior by allowing it to capture or internalize a higher proportion of the benefits of such anticompetitive strategies against regional or national competitors. *See SBC/Ameritech Order*, 14 FCC Rcd at 14798, para. 193. The larger the resulting incumbent LEC is, the greater is its ability to internalize these spillover effects. Because CenturyTel after the merger will still be smaller than AT&T or SBC or Verizon was, it will be unable to internalize as large a proportion of the benefits of anticompetitive activity as those companies. Accordingly, we do not find that the "Big Footprint" theory raises the same concerns here as it did in past mergers.

[107] *See SBC/Ameritech Order*, 14 FCC Rcd at 14950, para. 571 (distinguishing between a determination that an applicant has the requisite "character" qualifications to hold a Commission license and the public interest determination concerning whether the benefits of a particular merger outweigh the harms).

V. POTENTIAL PUBLIC INTEREST BENEFITS

34. We next consider whether the transaction is likely to generate verifiable, merger-specific public interest benefits.[108] In doing so, we ask whether the combined entity will be able, and is likely, to pursue business strategies resulting in demonstrable and verifiable benefits that could not be pursued but for the combination.[109] As discussed below, we find that the proposed transaction is likely to generate some merger-specific public interest benefits, although in some cases it is difficult to quantify the magnitude of these benefits.

A. Analytical Framework

35. The Commission applies several criteria in deciding whether a claimed benefit is cognizable. First, the claimed benefit must be transaction or merger specific (*i.e.*, the claimed benefit "must be likely to be accomplished as a result of the merger but unlikely to be realized by other means that entail fewer anticompetitive effects").[110] Second, the claimed benefit must be verifiable. Because much of the information relating to the potential benefits of a merger is in the sole possession of the Applicants, they are required to provide sufficient evidence supporting each claimed benefit to enable the Commission to verify its likelihood and magnitude.[111] In addition, as the Commission has noted, "the magnitude of benefits must be calculated net of the cost of achieving them."[112] Furthermore, the Commission will discount or dismiss speculative benefits that it cannot verify. Thus, as the Commission explained in the *EchoStar/DirecTV Order*, "benefits that are to occur only in the distant future may be discounted or dismissed because, among other things, predictions about the more distant future are inherently more speculative than predictions about events that are expected to occur closer to the present."[113] Third, the Commission "will more likely find marginal cost reductions to be cognizable than

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[108] *See, e.g., AT&T/BellSouth Order*, 22 FCC Rcd at 5760, para. 200; *WorldCom/MCI Order*, 13 FCC Rcd at 18134–35, para. 194.

[109] *See, e.g., Verizon/América Móvil Order*, 22 FCC Rcd at 6210, para. 34; *Bell Atlantic/GTE Order*, 15 FCC Rcd at 14130, para. 209; *SBC/Ameritech Order*, 14 FCC Rcd at 14825, para. 255.

[110] *AT&T/BellSouth Order*, 22 FCC Rcd at 5761, para. 202; *EchoStar/DirectTV Order*, 17 FCC Rcd at 20630, para. 189; *see also Bell Atlantic/NYNEX Order*, 12 FCC Rcd at 20063–64, para. 158 ("Pro-competitive efficiencies include only those efficiencies that are merger-specific, *i.e.*, that would not be achievable but for the proposed merger. Efficiencies that can be achieved through means less harmful to competition than the proposed merger . . . cannot be considered to be true pro-competitive benefits of the merger." (footnote omitted)); *SBC/Ameritech Order*, 14 FCC Rcd at 14825, para. 255 ("Public interest benefits also include any cost saving efficiencies arising from the merger if such efficiencies are achievable only as a result of the merger . . . ."); *Applications for Consent to the Transfer of Control of Licenses from Comcast Corporation and AT&T Corp., Transferors, to AT&T Comcast Corporation, Transferee*, MB Docket No. 02-70, Memorandum Opinion and Order, 17 FCC Rcd 23246, 23313, para. 173 (2002) (explaining that the Commission considers whether benefits are "merger-specific"); *cf.* DOJ/FTC Guidelines § 4.

[111] *See AT&T/BellSouth Order*, 22 FCC Rcd at 5761, para. 202; *EchoStar/DirectTV Order*, 17 FCC Rcd at 20630, para. 190; *see also Bell Atlantic/NYNEX Order*, 12 FCC Rcd at 20063, para. 157 ("These pro-competitive benefits include any efficiencies arising from the transaction if such efficiencies . . . are sufficiently likely and verifiable . . . ."); *BellSouth/Comcast Order*, 17 FCC Rcd at 23313, para. 173 (explaining that the Commission considers whether benefits are verifiable . . . ."); *SBC/Ameritech Order*, 14 FCC Rcd at 14825, para. 255; *DOJ/FTC Guidelines* § 4 ("[T]he merging firms must substantiate efficiency claims so that the Agency can verify by reasonable means the likelihood and magnitude of each asserted efficiency, how and when each would be achieved (and any costs of doing so), [and] how each would enhance the merged firm's ability to compete . . . .").

[112] *AT&T/BellSouth Order*, 22 FCC Rcd at 5761, para. 202; *EchoStar/DirectTV Order*, 17 FCC Rcd at 20631, para. 190.

[113] *EchoStar/DirectTV Order*, 17 FCC Rcd at 20631, para. 190.

reductions in fixed cost"[114] because "reductions in marginal cost are more likely to result in lower prices for consumers."[115]

36. The Applicants bear the burden of demonstrating that the potential public interest benefits of the proposed transfer outweigh the potential public interest harms.[116] As such, the Commission applies a "sliding scale approach" to evaluating benefit claims.[117] Under this sliding scale approach, where potential harms appear "both substantial and likely, the Applicants' demonstration of claimed benefits also must reveal a higher degree of magnitude and likelihood than we would otherwise demand."[118] On the other hand, where potential harms appear less likely and less substantial, we will accept a lesser showing to approve the merger.[119]

B. Analysis

37. The Applicants claim that the merger will likely result in several types of benefits. As discussed below, while we do not accept all of the Applicants' claims or their exact quantification of benefits, we do agree that the merger is likely to result in benefits that will accrue to consumers.

38. The Applicants first claim that the transaction is likely to result in cost savings and greater economies of scale and scope.[120] The Applicants contend that the merger will generate synergies of approximately $400 million annually within the first three years of operation.[121] The Applicants anticipate that the sources of these synergies include, "reduction of corporate overhead, elimination of duplicate functions, realization of enhanced revenue opportunities, and achievement of increased operational efficiencies through the adoption of best practices and capabilities from each company."[122] Commenters respond that the claimed benefits from these synergies are vague and not sufficiently verifiable.[123]

[114] *Id.* at para. 191; *see also AT&T/BellSouth Order*, 22 FCC Rcd at 5761, para. 202.

[115] *AT&T/BellSouth Order*, 22 FCC Rcd at 5761, para. 202; *EchoStar/DirectTV Order*, 17 FCC Rcd at 20631, para. 191; *see also DOJ/FTC Guidelines* § 4.

[116] *See AT&T/BellSouth Order*, 22 FCC Rcd at 5761, para. 201; *SBC/Ameritech Order*, 14 FCC Rcd at 14825, para. 256; *see also Bell Atlantic/NYNEX Order*, 12 FCC Rcd at 20063, para. 157.

[117] *AT&T/BellSouth Order*, 22 FCC Rcd at 5761, para. 203 (internal quotation marks omitted).

[118] *EchoStar/DirectTV Order*, 17 FCC Rcd at 20631, para. 192 (quoting *SBC/Ameritech Order*, 14 FCC Rcd at 14825); *cf. DOJ/FTC Guidelines* § 4 ("The greater the potential adverse competitive effect of a merger . . . the greater must be cognizable efficiencies in order for the Agency to conclude that the merger will not have an anticompetitive effect in the relevant market. When the potential adverse competitive effect of a merger is likely to be particularly large, extraordinary great cognizable efficiencies would be necessary to prevent the merger from being anticompetitive.").

[119] *See, e.g.*, *AT&T/BellSouth Order*, 22 FCC Rcd at 5762, para. 203.

[120] *See* Embarq/CenturyTel Application at 6.

[121] *See id.*, Ewing Declaration, para. 2.

[122] *Id.*

[123] *See, e.g.*, COMPTEL Comments at 3–5 (arguing that conditions were necessary to make the merger benefit the public interest); NuVox/Socket Comments at 8 (arguing that claimed benefits are not tangible); Joint Commenters Apr. 3 *Ex Parte* Letter at 1, 2 (arguing that vague claims of efficiency are not verifiable benefits); Sprint Reply at 4 (stating that Applicant's generic claims of customers benefiting from subscription to current and new services are not verified merger specific benefits).

39. Second, the Applicants claim that the merger is likely to result in "more rapid deployment of advanced services, including IPTV and next-generation broadband-based services."[124] Specifically, the Applicants contend that: (1) CenturyTel's experience and investment in IPTV will be able to be transferred to Embarq; (2) combining CenturyTel's backbone network with Embarq's network will enable the realization of "transport" economies of scale; and (3) consumers will benefit from the parties' ability to share CenturyTel's 700 MHz spectrum and Embarq's experience with IP business services.[125]

40. CenturyTel and Embarq both provide broadband to 87 percent of their respective geographic territories today at speeds considered to be first generation data (or higher) per our *2008 Broadband Data Gathering Order*.[126] The Applicants have specifically committed in this proceeding to substantially increasing the broadband service available to consumers in the areas they serve over the next three years. The Applicants will offer retail broadband Internet access to 100 percent of the merged company's retail single-line residential and single-line business access lines within three years of the transaction closing date.[127] To meet this commitment, the merged company has committed to make available retail broadband Internet access service with a download speed of 768 kbps to 90 percent of such lines within three years using wireline technologies.[128] The merged company will make available retail broadband Internet access service in accordance with the Commission's current definition of broadband to the remaining 10 percent of lines using alternative technologies and operating arrangements, including but not limited to satellite and terrestrial wireless broadband technologies. In addition, the merged company has committed to make available retail broadband Internet access service with a download speed of (1) 1.5 Mbps to 87 percent of the merged company's retail single-line residential and single-line business access lines within two years of the transaction closing date and (2) 3 Mbps to 75 percent of such lines within one year of the transaction closing date, 78 percent of such lines within two years, and 80 percent within three years.[129]

41. Third, the Applicants claim that rural consumers will benefit. According to the Applicants, the "combination of two mid-sized local wireline providers with investment grade ratings . . . will position the combined enterprise to capitalize on the collective knowledge of local customers' needs and to deliver innovative product offerings to these rural and smaller markets."[130]

42. Fourth, the Applicants claim that the combined entity will utilize the best of current CenturyTel and Embarq systems to improve retail and wholesale systems.[131] For example, the Applicants expect the combined entity to adopt CenturyTel's automated billing systems, thereby improving its

[124] Embarq/CenturyTel Application at 7–9; Embarq/CenturyTel Reply at 8–9.

[125] *See* Embarq/CenturyTel Application at 7–9; Embarq/CenturyTel Reply at 8.

[126] *See* Embarq/CenturyTel Reply at 15, Closz Declaration, para. 6, Glover Declaration, para. 4; *Development of Nationwide Broadband Data to Evaluate Reasonable and Timely Deployment of Advanced Services to All Americans, Improvement of Wireless Broadband Subscribership Data, and Development of Data on Interconnected Voice over Internet Protocol (VoIP) Subscribership*, WC Docket No. 07-38, Report and Order and Further Notice of Proposed Rulemaking, 23 FCC Rcd 9691, 9700–01, para. 20 & n.66 (2008) (*2008 Broadband Data Gathering Order*).

[127] Appendix C.

[128] *Id.*

[129] *Id.*

[130] Embarq/CenturyTel Application at 9.

[131] *See* Embarq/CenturyTel Apr. 29 *Ex Parte* Letter at 3.

services to retail customers.[132] In addition, they have committed that the merged entity will adopt Embarq's wholesale OSS, which will result in better service to wholesale customers, and make it easier for other carriers to compete in the local service market.[133]

43. Fifth, the Applicants claim that the merger will benefit the public interest because CenturyTel's current access rates will "decline further than if it remained separate from Embarq because of its commitment to utilize the CALLS plan $ 0.0065 Average Traffic Sensitive (ATS) target rate after it converts to price cap status," rather than the higher $0.0095 ATS target rate that otherwise would apply.[134] In the *CenturyTel Price Cap Order*, the Wireline Competition Bureau determined that "after the merger, the combined company would have more than 19 access lines per square mile at the holding company level" and must therefore lower its ATS rate.[135]

44. We conclude that the transaction is likely to result in some merger-specific benefits. First, although we do not fully accept the Applicants' claim of $400 million in cost savings, and although we find that many of the claimed savings are likely to be in the form of reduced fixed costs rather than reduced marginal costs, we nevertheless find that the merger is likely to result in savings in fixed and marginal costs, some of which are likely to accrue to the benefit of consumers.[136] Similarly, although we do not necessarily accept all of the Applicants' original claims concerning the broadband benefits likely to result from the merger, we do find that the merger, as conditioned, is likely to result in more rapid deployment of broadband services to consumers in the merged entity's service territory, which is principally rural. Significantly, Applicants commit to offer retail broadband Internet access service to retail single-line residential and single-line business access lines according to a specific deployment timetable that includes minimum speed commitments, as described earlier in this section.[137]

45. We also find that the merger should result in lower access rates because of the change in regulatory status for CenturyTel, which should benefit long-distance callers. Finally, we find that one of the major benefits of the proposed merger is that the Applicants can adopt each other's best practices. In particular, we find that, by adopting CenturyTel's billing software and Embarq's wholesale OSS, the Applicants will be better able to serve both retail and wholesale customers, and that local competitors will be better able to compete. In this regard, we are further encouraged by the Applicants' commitment to

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[132] *Id.*

[133] *See, e.g.*, Appendix C (committing that within 15 months of the Transaction Closing Date, wholesale OSS will be provided through the Embarq companies' automated IRES and successor EASE system. The record indicates that CenturyTel's pre-merger wholesale ordering and provisioning systems are obstacles to wholesale providers seeking to compete in the local telephone market. *See, e.g.*, Joint Commenters Apr. 3 *Ex Parte* Letter at 5 (stating that "it is hard to imagine interconnection and provisioning getting worse in CenturyTel areas").

[134] Embarq/CenturyTel Apr. 29 *Ex Parte* Letter at 3. The Commission recently granted CenturyTel permission to convert its current rate of return properties to price caps. *See CenturyTel, Inc. Petition for Conversion to Price Cap Regulation and Limited Waiver Relief*, WC Docket No. 08-191, Order, DA 09-855 (WCB rel. Apr. 17, 2009) (*CenturyTel Price Cap Order*). Applicants maintain that they made the commitment "even though the rules would have allowed the CenturyTel formerly rate-of-return study areas to retain their primarily rural target rate if the price cap conversion ha[d] been granted prior to the merger." *See* Embarq/CenturyTel Apr. 29 *Ex Parte* Letter at 3–4.

[135] *CenturyTel Price Cap Order* at para. 7.

[136] *Compare AT&T/BellSouth Order*, 22 FCC Rcd at 5769–72, paras. 215–21 (crediting part of the Applicants' claimed benefits where credible evidences existed to support a finding of some efficiency, but the precise magnitude of the benefits was difficult to quantify), *with GTE/Bell Atlantic Order*, 15 FCC Rcd at 1412, para. 242 (finding vague claims of operational efficiencies to be "difficult to evaluate" and "unpersuasive" where Applicants did not demonstrate or state cost savings would be passed on to consumers).

[137] *See* Appendix C.

implement Embarq's OSS within 15 months. We find that these benefits will affirmatively advance competition, thereby benefiting the public interest.[138]

VI. CONCLUSION

46. We find that several significant public interest benefits are likely to result from the proposed transaction. As discussed above, we also find, as several commenters suggest, that the proposed transaction poses certain potential anticompetitive risks. In response to these concerns, the Applicants offered several voluntary commitments. We find that these voluntary commitments adequately address the potential competitive harms, and we therefore make these commitments an express condition of our approval of this merger.

47. We further find that, in light of the commitments made by the Applicants, the potential public interest benefits from the proposed merger, taken as a whole, outweigh any potential public interest harms. We are particularly cognizant of the fact that the Applicants serve primarily rural areas. Furthermore, we recognize that the telecommunications landscape in rural areas appears to be in transition and more changes may result from the American Recovery and Reinvestment Act of 2009,[139] comprehensive reform of the Universal Service Fund, and future transactions. Despite anticipated changes, we stress that this merger is evaluated based on the record before us. It does not set a precedent for future transactions, and we expect that the Applicants will comply with any changes to the law that occur in the future. Accordingly, we find that the transaction, on balance, serves the public interest, convenience and necessity.

VII. ORDERING CLAUSES

48. Accordingly, having reviewed the applications and the record in this matter, IT IS ORDERED, pursuant to sections 4(i) and (j), 214, 309, and 310(d) of the Communications Act of 1934, as amended, 47 U.S.C. §§ 154(i), (j), 214, 309, 310(d), that the applications filed by Embarq and CenturyTel for the transfer of control of the domestic section 214 authorizations set forth in Appendix B and for the transfer of control of licenses and international section 214 authorizations set forth in Appendix B ARE GRANTED.

49. IT IS FURTHER ORDERED, as a condition of this grant and pursuant to section 214(c) of the Communications Act of 1934, as amended, 47 U.S.C. § 214(c), that Embarq and CenturyTel shall comply with the conditions set forth in Appendix C of this Order, and such compliance shall be enforceable by the Commission.

50. IT IS FURTHER ORDERED that the above grant shall include authority for Embarq Corporation and CenturyTel, Inc. to acquire control of: (a) any license or authorization issued to Embarq Corporation and CenturyTel, Inc. and their subsidiaries during the Commission's consideration of the transfer of control applications or the period required for consummation of the transaction following approval; (b) construction permits held by such licensees that mature into licenses after closing; and (c) applications filed by such licensees and that are pending at the time of consummation of the proposed transfer of control.

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[138] Sprint argues that Applicants must demonstrate that the merger will affirmatively advance competition, rather than merely preserve it. *See, e.g.*, Sprint Reply at 5 (quoting *Verizon Wireless/Alltel Order*, 23 FCC Rcd 11401, para. 28; *SBC/Ameritech Order*, 14 FCC Rcd at 14738, para. 49). Given our finding that the transaction will affirmatively advance competition, as described above, we need not comment on whether such a demonstration is in fact necessary.

[139] American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009).

51. IT IS FURTHER ORDERED, pursuant to section 1.103 of the Commission's rules, 47 C.F.R. § 1.103, that this Memorandum Opinion and Order IS EFFECTIVE upon release.

FEDERAL COMMUNICATIONS COMMISSION

Marlene H. Dortch
Secretary

APPENDIX A

Commenters

Comments	**Abbreviation**
COMPTEL	COMPTEL Comments
New Jersey Division of Rate Counsel	NJ Rate Counsel Comments
NuVox Communications, Inc., NuVox Communications of Missouri, Inc., Socket Telecom, LLC	NuVox/Socket Comments

Reply Commenters

Reply Comments	**Abbreviation**
Accelerated Data Works, Inc.	Accelerated Reply
Communications Workers of America, International Brotherhood of Electrical Workers[1]	CWA/IBEW Reply
DeltaCom, Inc.	DeltaCom Reply
Embarq Corp., CenturyTel, Inc.	Embarq/CenturyTel Reply
Independent Telephone & Telecommunications Alliance	ITTA Reply
National Association of State Utility Consumer Advocates	NASUCA Reply
New Jersey Division of Rate Counsel	NJ Rate Counsel Reply
Sprint Nextel Corporation	Sprint Reply

[1] *See* Letter from Debbie Goldman, Telecommunications Policy Director and Jimmy Gurganus, Vice President, Communications Workers of America and Edwin D. Hill, President, International Brotherhood of Electrical Workers to Marlene H. Dortch, Secretary, FCC, WC Docket 08-238 (filed Mar. 5, 2009) (stating that it was no longer necessary to participate in the proceeding).

APPENDIX B

List of Licenses and Authorizations Subject to Transfer of Control

Domestic Section 214 Authorizations

File No.	Authorization Holder
See WC Docket No. 08-238	Carolina Telephone and Telegraph Company LLC
	Central Telephone Company of Texas
	Central Telephone Company of Virginia
	Central Telephone Company
	CenturyTel Acquisition, LLC
	CenturyTel Broadband Services, LLC
	CenturyTel Broadband Wireless, LLC
	CenturyTel Fiber Company II, LLC
	CenturyTel Long Distance, LLC
	CenturyTel of Adamsville, Inc.
	CenturyTel of Alabama, LLC
	CenturyTel of Arkansas, Inc.
	CenturyTel of Central Arkansas, LLC
	CenturyTel of Central Indiana, Inc.
	CenturyTel of Central Louisiana, LLC
	CenturyTel of Central Wisconsin, LLC
	CenturyTel of Chatham, LLC
	CenturyTel of Chester, Inc.
	CenturyTel of Claiborne, Inc.
	CenturyTel of Colorado, Inc.
	CenturyTel of Cowiche, Inc.
	CenturyTel of Eagle, Inc.
	CenturyTel of East Louisiana, LLC
	CenturyTel of Eastern Oregon, Inc.
	CenturyTel of Evangeline, LLC
	CenturyTel of Fairwater-Brandon-Alto, LLC
	CenturyTel of Forestville, LLC
	CenturyTel of Idaho, Inc.
	CenturyTel of Inter-Island, Inc.
	CenturyTel of Lake Dallas, Inc.
	CenturyTel of Larsen-Readfield, LLC
	CenturyTel of Michigan, Inc.
	CenturyTel of Midwest - Michigan, Inc.
	CenturyTel of Midwest-Wisconsin, LLC
	CenturyTel of Minnesota, Inc.
	CenturyTel of Missouri, LLC
	CenturyTel of Monroe County, LLC
	CenturyTel of Montana, Inc.
	CenturyTel of Mountain Home, Inc.
	CenturyTel of North Louisiana, LLC
	CenturyTel of North Mississippi, Inc.
	CenturyTel of Northern Michigan, Inc.
	CenturyTel of Northern Wisconsin, LLC

CenturyTel of Northwest Arkansas, LLC
CenturyTel of Northwest Louisiana, Inc.
CenturyTel of Northwest Wisconsin, LLC
CenturyTel of Odon, Inc.
CenturyTel of Ohio, Inc.
CenturyTel of Ooltewah-Collegedale, Inc.
CenturyTel of Oregon, Inc.
CenturyTel of Port Aransas, Inc.
CenturyTel of Postville, Inc.
CenturyTel of Redfield, Inc.
CenturyTel of Ringgold, LLC
CenturyTel of San Marcos, Inc.
CenturyTel of South Arkansas, Inc.
CenturyTel of Southeast Louisiana, LLC
CenturyTel of Southern Wisconsin, LLC
CenturyTel of Southwest Louisiana, LLC
CenturyTel of the Gem State, Inc.
CenturyTel of the Midwest-Kendall, LLC
CenturyTel of the Southwest, Inc.
CenturyTel of Upper Michigan, Inc.
CenturyTel of Washingon, Inc.
CenturyTel of Wisconsin, LLC
CenturyTel of Wyoming, Inc.
CenturyTel Solutions, LLC
Coastal Communications, Inc.
Coastal Long Distance Services LLC
Coastal Utilities, Inc.
Embarq Communications, Inc.
Embarq Communications of Virginia, Inc.
Embarq Florida, Inc.
Embarq Minnesota, Inc.
Embarq Missouri, Inc.
Embarq Payphone Services, Inc.
Gallatin River Communications, LLC
Gallatin River Long Distance Solutions, LLC
Gulf Coast Services, Inc.
Gulf Communications, LLC
Gulf Long Distance LLC
Gulf Telephone Company
Madison River Communications, LLC
Madison River Long Distance Solutions LLC
Mebtel Long Distance Solutions LLC
Mebtel, Inc.
Spectra Communications Group, LLC
Telephone USA of Wisconsin, LLC
United Telephone Company of Eastern Kansas
United Telephone Company of Indiana, Inc.
United Telephone Company of Kansas
United Telephone Company of New Jersey, Inc.
United Telephone Company of Ohio
United Telephone Company of Pennsylvania LLC

United Telephone Company of Southcentral Kansas
United Telephone Company of Texas, Inc.
United Telephone Company of the Carolinas LLC
United Telephone Company of the Northwest
United Telephone Company of the West
United Telephone Southeast LLC

International Section 214 Authorizations

File No.	Authorization Holder	Authorization Number
ITC-T/C-20081126-00516	Embarq Communications, Inc.	ITC-214-20050816-00337
ITC-T/C-20081126-00517	Embarq Communications of Virginia, Inc.	ITC-214-20050816-00336
ITC-T/C-20090330-00138	CenturyTel Long Distance, LLC	ITC-214-19990224-00099
ITC-T/C-20090330-00139	Coastal Long Distance Services LLC	ITC-214-19930720-00130
ITC-T/C-20090330-00140	Gulf Long Distance LLC	ITC-214-19930622-00106
ITC-T/C-20090330-00141	Madison River Communications Corp	ITC-214-20000706-00385
ITC-T/C-20090330-00142	Madison River Long Distance Solutions LLC	ITC-214-19980820-00614

Section 310(d) Authorizations

File No.	Licensee	Lead Call Sign
0003657510	United Telephone Company of Indiana	KN6109
0003663154	United Telephone Company of the Northwest	KOQ78
0003663160	Central Telephone Company of Texas	WLC623
0003663165	United Telephone Southeast LLC	KJH26
0003663168	United Telephone Company of the Carolinas LLC	KIC29
0003663173	Embarq Florida, Inc.	KIB95
0003663174	Carolina Telephone and Telegraph Company LLC	KD53122
0003663176	Embarq Missouri, Inc.	KVI22
0003663178	United Telephone Company of Kansas	WNYU738
0003663179	Central Telephone Company	KPY34
0003663182	United Telephone Company of the West	WBP56
0003663183	Embarq Minnesota, Inc.	KQ5115
0003663187	United Telephone Company of Ohio	KQH49
0003663188	United Telephone Company of Pennsylvania LLC	KNBM625
0003663190	Central Telephone Company of Virginia	KZT930
0003786855	Cascade Autovon Company	KNKH863
0003786963	CenturyTel Broadband Services, LLC	WQGC937
0003786968	CenturyTel Fiber Company II, LLC	WPSR450
0003787027	CenturyTel of Adamsville, Inc.	KNAJ618
0003787075	CenturyTel of Alabama, LLC	WFY653
0003787078	CenturyTel of Arkansas, Inc.	KNKG844
0003787079	CenturyTel of Central Arkansas, LLC	KA53549
0003787082	CenturyTel of Central Indiana, Inc.	WPCK831
0003787083	CenturyTel of Central Louisiana, LLC	KRA982
0003787084	CenturyTel of Claiborne, Inc.	WRM205
0003787085	CenturyTel of Colorado, Inc.	WMQ709
0003787086	CenturyTel of Cowiche, Inc.	WHA647
0003787088	CenturyTel of Eagle, Inc.	KBC96

0003787089	CenturyTel of Eastern Oregon, Inc.	KDJ674
0003787090	CenturyTel of Evangeline, LLC	KZX579
0003787091	CenturyTel of Idaho, Inc.	KNHP406
0003787092	CenturyTel of Inter Island, Inc.	KNKI716
0003787099	CenturyTel of Lake Dallas, Inc.	KB6738
0003787100	CenturyTel of Larsen Readfield, LLC	WNKW579
0003787102	CenturyTel of Michigan, Inc.	KNKS204
0003787104	CenturyTel of Midwest-Michigan, Inc.	KNKS208
0003787669	CenturyTel of Missouri, LLC	KJE503
0003787670	CenturyTel of Montana, Inc.	KPG94
0003787671	CenturyTel of Mountain Home, Inc.	KDK315
0003787673	CenturyTel of Northern Wisconsin, LLC	WNSU421
0003787674	CenturyTel of Northwest Arkansas, LLC	WNSD631
0003787675	CenturyTel of Northwest Wisconsin, LLC	WNDD228
0003787676	CenturyTel of Odon, Inc.	WPCK886
0003787678	CenturyTel of Ohio, Inc.	KKK916
0003787680	CenturyTel of San Marcos, Inc.	KFD427
0003787683	CenturyTel of Southeast Louisiana, LLC	KZX578
0003787684	CenturyTel of Southern Wisconsin, LLC	KNGX448
0003787686	CenturyTel of the Gem State, Inc.	WDZ806
0003787687	CenturyTel of the Midwest-Kendall, LLC	KPRG595
0003787688	CenturyTel of the Midwest-Wisconsin, LLC	KNAZ701
0003787691	CenturyTel of the Southwest, Inc.	KNKG836
0003787692	CenturyTel of Upper Michigan, Inc.	KNKP350
0003787693	CenturyTel of Washington, Inc.	KGN894
0003787695	CenturyTel of Wisconsin, LLC	WPHN901
0003787696	CenturyTel of Wyoming, Inc.	KNKH883
0003787700	CenturyTel Security Systems, Inc.	WPCI524
0003787736	Coastal Utilities, Inc.	KNKK960
0003787737	Gallatin River Communications, LLC	KA6609
0003787740	Gulf Telephone Company	WPTC630
0003787744	Spectra Communications Group, LLC	KNCX720
0003788071	CenturyTel Service Group, LLC	WPJK533
0003788276	Actel, LLC	WPLM449
0003788283	CenturyTel Solutions, LLC	WPLM450
0003788286	CenturyTel Broadband Wireless, LLC	WQGB236
0003788287	CenturyTel Investment of Texas, Inc.	KNLG238

Earth Station License

File No.	**Authorization Holder**	**Call Signs**
SES-T/C-20090330-00383	CenturyTel Televideo, Inc.	E5214, WY78

APPENDIX C

Conditions

The Applicants have offered certain voluntary commitments, enumerated below. Because we find these commitments will serve the public interest, we accept them as conditions of our approval. Unless otherwise specified herein, these commitments are effective as of the Transaction Closing Date, which is defined for these purposes as the date on which the Applicants consummate the proposed transaction approved herein. The commitments described herein shall be null and void if CenturyTel and Embarq do not consummate the proposed transaction, and there is no Transaction Closing Date. Unless otherwise specified herein, these commitments will expire three years from the Transaction Closing Date.

It is not the intent of these commitments to restrict, supersede, or otherwise alter state or local jurisdiction under the Communications Act of 1934, as amended, or over the matters addressed in these commitments, or to limit state authority to adopt rules, regulations, performance monitoring programs, or other policies that are not inconsistent with these commitments.

CenturyTel and Embarq Commitments

For Embarq operating companies, the merged company will maintain substantially the service levels that Embarq has provided for wholesale operations, subject to reasonable and normal allowances for the integration of CenturyTel and Embarq systems.

- For two years after the Transaction Closing Date, the merged company will maintain service levels for the Embarq operating companies that are comparable to those Embarq wholesale customers experienced pre-merger.
- Orders will be processed in compliance with federal and state law, as well as the terms of applicable interconnection agreements.
- For two years after the Transaction Closing Date, Embarq will continue to produce and make available CLEC service performance reporting via its wholesale website consistent with state commission requirements, except during system integration. Such performance data is available to any requesting CLEC today with respect to its carrier specific data for each respective state. In addition, access to the system and/or performance data will be made available to the FCC upon request.
- For two years after the Transaction Closing Date, the Embarq operating companies will maintain the following service metrics on a quarterly basis, separately for the states of Florida, Nevada, Ohio, North Carolina, Virginia, and all other states in the aggregate:
    - Pre-ordering – average response time to pre-order queries calculated in seconds, which measures the number of seconds from Embarq's receipt of a query from a CLEC to the time Embarq returns the requested data to the CLEC.
    - Provisioning – average completed interval measured in days, which measures the average number of business days from receipt of a valid, error-free service request to the completion date in the service order entry system for new, move and change service orders, separately for all UNE, resale, and other CLEC services;
    - Repair/Maintenance – customer trouble report rate, which measures the total number of network customer trouble reports received within a calendar month per 100 units/UNEs, separately for all UNE, resale, and other CLEC services;

> ➢ Repair/Maintenance – average time to restore (service), which measures the average duration from the receipt of the customer trouble report to the time the trouble is cleared, separately for all UNE, resale, and other CLEC services; and
>
> ➢ Work Center – center responsiveness, which measures the average time it takes Embarq's work center to answer a call expressed as the percentage of calls that are answered within 20 seconds.

- For the above-described metrics, Embarq will maintain a comparison of actual quarterly results to a benchmark value to be set at the 12-month average results achieved from April 1, 2008 through March 31, 2009. Embarq will maintain service at a level that is no less than one standard deviation from the benchmark value, 90 percent of the time.
- These metrics will be reported manually during system integration and made available to CLECs and the FCC as described above.
- The Applicants will combine each company's wholesale systems into a single platform for the merged company. To integrate systems, new code must be developed and implemented. It is possible that wholesale customers may experience temporary conversion related issues as systems are converted. The merged company will use best efforts to minimize any potential impacts on wholesale customers.
- A reasonable transition is anticipated whereby the Applicants intend to migrate onto their new systems on a market-by-market basis to facilitate a smooth transition.
- Applicants will notify wholesale customers 30 days in advance of the anticipated integration of wholesale OSS on a market-by-market basis.

CenturyTel will integrate, and adopt for CenturyTel CLEC orders, the automated Operation Support Systems ("OSS") of Embarq within fifteen months of the transaction's close.

- This condition means that wholesale OSS will be provided through the Embarq companies' automated IRES and successor EASE system.

In the interim, CenturyTel will devote additional resources to its existing manual CLEC order processing system to ensure that all local number portability requests are promptly processed.

- As of April 20, 2009, CenturyTel had already added 36% more employees to the existing 14 employees to handle port orders from carriers, for a total of 19. This number of employees will be maintained during the interim until integration. The merged company will continue to monitor the resources required to meet this commitment and will increase the number of employees necessary to port numbers in four business days and provide a firm order confirmation within one business day for normal levels of orders in compliance with FCC rules, subject to any requests by interconnectors for a later number porting date.
- CenturyTel companies will not limit the number of ports that can be processed.
- All CenturyTel CLEC customers are covered under this commitment.

Applicants will improve CenturyTel companies' processing of wholesale orders as follows:

- Local number portability orders will be processed through Embarq OSS within fifteen months of the Transaction Closing Date.
- Provisioning intervals for DS1 loops may be amended, upon request, to include a 9 business day provisioning interval maximum.
- No later than thirty months after the Transaction Closing Date, the CenturyTel companies will provision DS1 loops within 6 business days, 80 percent of the time.
- Within 120 days of the Transaction Closing Date, the merged company will implement and make available to CLECs Embarq's TELRIC-compliant coordinated loop and bulk loop hot cut processes for use with UNE loops, xDSL-capable UNE loops and x-DSL capable UNE subloops offered by Embarq and CenturyTel operating companies.
- Within fifteen months of the Transaction Closing Date, maintenance and repair calls for DS1 or higher UNE services will be answered at the Embarq wholesale services operations center. In addition, the merged company will provide dedicated resources to handle wholesale maintenance and repair calls.
- When a number is ported from CenturyTel, E-911 records will be unlocked at the time of porting. Trouble reports involving locked E-911 records will be addressed within 24 hours.

The Applicants are willing to negotiate multiple interconnection contracts in a state at the same time in most circumstances when such consolidated negotiations will aid in addressing common issues.

- In many states, the Applicants operate both Rural and Nonrural companies with unique network and cost characteristics. For a period of two years after the Transaction Closing Date, the merged company is willing to negotiate all Rural company interconnection contracts in a state at the same time and all Nonrural company interconnection contracts in a state at the same time. These unified negotiations will include negotiation of common terms, but the company reserves the right during those unified negotiations to ask for individual terms which are unique to each operating company in the state. These individual terms are limited to rates, different physical interconnection points reflecting network configurations, or where unified terms are otherwise technically infeasible.
- Each legal entity will continue to have its own interconnection contract, but these contracts will be negotiated jointly as indicated above. Joint negotiations will substantially ease the burden on interconnecting carriers.
- As the carriers integrate operations, the companies expect that the merged company will naturally gravitate toward consistent terms in a state, albeit separately for Rural and Nonrural operating companies, subject to the necessary unique terms described above.
- No Embarq or CenturyTel legal entity shall terminate or change the conditions of a currently effective interconnection agreement that is in its initial term as of the Transaction Closing Date, including the point of interconnection (POI), for a period of three years after the Transaction Closing Date, unless requested by the interconnecting party.

- No Embarq or CenturyTel legal entity shall terminate or change the conditions of any other effective interconnection agreement, including the POI, for a period of two years after the Transaction Closing Date, unless requested by the interconnecting party. This commitment excludes inactive agreements, which are those agreements that are not used by an interconnector to obtain service or for which a termination notice was sent prior to May 10, 2009.
- A party may use § 252(i) to opt in to an interconnection agreement for no more than the remaining length of that particular agreement pursuant to the previous two bullets. No opt-ins are permitted for inactive agreements.
- Neither the Applicants nor the interconnected carrier waive any rights to seek an amendment to reflect prior and future changes of law.
- During this period, the interconnection agreement may be terminated only via the interconnected carrier's request unless terminated pursuant to the agreement's "default provisions."

For a period of 12 months after the Transaction Closing Date, the merged company agrees not to file a forbearance petition that seeks to alter the current status of any facility currently offered as a loop or transport UNE under Section 251(c)(3) of the Act or to request any new pricing flexibility for special access services in any market.

For three years after the Transaction Closing Date, the CenturyTel and Embarq operating companies will offer to Internet service providers, for their provision of broadband Internet access service to ADSL-capable retail customer premises, ADSL transmission service in their respective territories that is functionally the same as the services they offered as of the Transaction Closing Date. Each local operating company's wholesale offering will be at a price not greater than its retail price in the same state for ADSL service that is separately purchased by customers who also subscribe to that local operating company's local telephone service.

- An ADSL transmission service shall be considered "functionally the same" as the service the CenturyTel or Embarq local operating company offered within its individual local operating company territory as of the Transaction Closing Date if the ADSL transmission service relies on ATM transport from the DSLAM (or equivalent device) to the interface with the Internet service provider, and provides a maximum asymmetrical downstream speed of up to 3.0 Mbps, where available (the "Broadband ADSL Transmission Service").
- Nothing in this commitment shall require any CenturyTel or Embarq local operating company to serve any geographic areas it currently does not serve with Broadband ADSL Transmission Service or to provide Internet service providers with broadband Internet access transmission technology that was not offered by that local operating company to such providers in its operating company territory as of the Transaction Closing Date.

The merged company expects to make substantial additional investment in broadband services. The merged company will offer retail broadband Internet access service to 100 percent of its broadband eligible access lines within three years of the Transaction Closing Date.

- To meet this commitment the merged company will make available retail broadband Internet access service with a download speed of 768 kbps to 90 percent of its broadband eligible access lines using wireline technologies within three years of the Transaction Closing Date. The merged company will make available retail broadband Internet access service in accordance with the FCC's current definition of broadband to the remaining broadband eligible access lines using alternative technologies and operating arrangements, including but not limited to satellite and terrestrial wireless broadband technologies.
- In addition, the merged company will make available retail broadband Internet access service with a download speed of (1) 1.5 Mbps to 87% of the broadband eligible access lines within two years of the Transaction Closing Date and (2) 3 Mbps to 75% of broadband eligible access lines within one year of the Transaction Closing Date, 78% of broadband eligible lines within two years of the Transaction Closing Date, and 80% of broadband eligible lines within three years of the Transaction Closing Date.
- Broadband eligible access lines are defined as retail single-line residential and single-line business access lines.

STATEMENT OF
ACTING CHAIRMAN MICHAEL J. COPPS

RE: *Applications Filed for the Transfer of Control of Embarq Corporation to CenturyTel, Inc.*, WC Docket No. 08-238

Today, we consider the merger of CenturyTel and Embarq—two wireline telecommunications companies operating in largely rural areas. A key question presented by the proposed transaction is: will rural America fare better or worse as a result of this transaction? Having looked at both the potential benefits and the potential harms that could result from this merger, I find that the scale tips in favor of permitting it to proceed.

As one example, I believe that rural consumers and wholesale customers will benefit from the merged entity's commitment to maintain service levels consistent with the better of the management and operating practices of the pre-merger companies. The service levels that Embarq has provided for wholesale operations will be maintained and, with the adoption of Embarq's Operation Support Systems by CenturyTel, the newly merged company will be wholly modernized in its order processing. In addition, the merged company will improve specific practices, including local number portability order processing, and will streamline interconnection agreement negotiations.

A major focus here is broadband and making sure that every corner of the country has high-speed, value-laden technology and service. I believe that the steps which the applicants make toward realization of this objective will move us in the right direction. As a result, the merged company will provide consumers in its territory with services they may not have seen before and had not expected to see in the near future.

This particular commitment goes significantly beyond the commitments of previous mergers, but it should not be construed as ideal. It should be regarded by no one as a standard or indicative of what to expect from the Commission when it considers future mergers or, for that matter, the national broadband plan that the Commission is currently pursuing. Our country is woefully behind many others in delivering real broadband to our citizens and, going forward, will have to raise its aspirations and expectations appreciably. Consumers, businesses, innovators and all of us as citizens should expect much more from national broadband policy than we have seen in recent years. Fortunately, we now, finally, have a genuine national commitment to get the job done.

I thank the Commission staff, the applicants, stakeholders and other concerned parties, and my Commission colleagues who put in significant time and effort to make sure that this transaction is consistent with the needs of rural America and, more generally, the public interest.

**STATEMENT OF
COMMISSIONER JONATHAN S. ADELSTEIN**

RE: *Applications Filed for the Transfer of Control of Embarq Corporation to CenturyTel, Inc.*, WC Docket No. 08-238

I am pleased to support the merger of Embarq and CenturyTel with a key set of pro-consumer, voluntary, enforceable commitments. These commitments tip the public interest balance toward approval because they address the concerns raised in the record that the combination will harm competition.

The parties have agreed to measures that are essential to ensure the merger is in the public interest. I am particularly pleased by the commitment to bring broadband at speeds of at least 3 Mbps to at least 80 percent of their combined region, which is mostly rural, within three years, and 87 percent at 1.5 Mbps within two years, along with strong commitments to the remainder of its combined territory. These buildout commitments go far toward bringing broadband and all its economic opportunities to those the company will serve in rural America.

Further, the combined company will reduce competitors' costs of negotiating interconnection agreements by using template contracts and granting more opt-in rights. The combined company will also use pre-merger "best practices" to ensure that the new company's wholesale operations improve upon – not simply combine – legacy systems. The record is heavy with complaints that CenturyTel's largely manual OSS and number porting processes thwart competition. Today's commitments will bring Embarq's automated processes to the CenturyTel region.

Finally, I am especially pleased that the parties have agreed to additional commitments on key wholesale products. The parties have agreed to make their retail ADSL offerings available on a wholesale basis at prices at or below retail, thereby addressing a major competitive concern. The parties have also agreed for 12 months to not seek either forbearance for UNE loops and transport, nor to seek pricing flexibility for special access throughout their combined region. These commitments ensure a measure of stability for competitors and consumers alike.

With these commitments, today's action is a win for consumers that would not have happened without Chairman Copps leading from the top the type of merger review that has been missing from the Commission for quite a while now. I also want to thank the Wireline Competition Bureau for the detailed analysis that made the quality of this item and the voluntary commitments possible.

STATEMENT OF
COMMISSIONER ROBERT M. McDOWELL

RE: *Applications Filed for the Transfer of Control of Embarq Corporation to CenturyTel, Inc.*, WC Docket No. 08-238

I am pleased to support this merger and look forward to the consumer benefits that will result from the combination of Embarq and CenturyTel. The merger will benefit consumers in many ways, including creating synergies that will spur network investment and speeding the roll-out of broadband and other advanced services throughout the combined entity's service area.

I am, however, concerned by the nature of some of the conditions that are attached to this merger. I have repeatedly stated, and our precedent requires, that conditions should be narrowly-tailored to remedy only merger-specific harms, not to implement policies that are better addressed in a rulemaking of general applicability.

Finally, as we work to reform FCC processes going forward, I hope that the Commission will endeavor to meet its 180-day "shot clock" for merger reviews more consistently.

CASE: UM 1484
WITNESS: Jon Cray

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 600

Reply Testimony

September 3, 2010

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Jon Cray. I am the Program Manager for the Residential Service Protection Fund (RSPF) of the Public Utility Commission of Oregon (Commission). My business address is 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2551.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. My Witness Qualification Statement is found in Exhibit Staff/601. For the previous four years, I have served as the manager for the Oregon Telephone Assistance Program (OTAP)/Lifeline. I am responsible for monitoring and enforcing compliance among all thirty-three telecommunications carriers that provide Oregon Telephone Assistance Program (OTAP)/Lifeline services, including CenturyLink and Qwest Communications.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide to the Commission an informed analysis of whether CenturyLink demonstrates that it is prepared to assume and facilitate its collective responsibilities of all Operating Companies, especially Qwest Communications (Qwest), with respect to the provision of OTAP/Lifeline customer support and services.

Q. DID YOU PREPARE AN EXHIBIT FOR THIS DOCKET?

A. Yes. I prepared Exhibit Staff/602, consisting of 2 pages.

Q. WHAT IS THE OTAP?

A. The OTAP is the state-mandated corollary of the Federal Communication Commission's (FCC) Lifeline program. It is one of four telephone assistance programs established and funded under the Residential Service Protection law. The OTAP is set forth and explained in both state statute and in Commission rules. *See* generally Oregon Laws 1987, chapter 290, Sections 1 through 8; Oregon Administrative Rule (OAR) Chapter 860, Division 033. The OTAP offers reduced local exchange rates to eligible low-income residential customers. It is an addition to the support available from the Federal Universal Service Fund (FUSF). The maximum combined support an eligible customer can receive is $13.50 - $3.50 from the OTAP and $10.00 from the FUSF.

Q. HAS CENTURYLINK DEMONSTRATED IT IS ABLE TO COMPLY WITH ALL OTAP/LIFELINE REQUIREMENTS IF THE MERGER OR TRANSACTION IS APPROVED BY THE COMMISSION?

A. Generally, yes.

Q. DOES STAFF HAVE SPECIFIC CONCERNS ABOUT THE MERGER'S EFFECT ON THE OTAP/LIFELINE?

A. Yes. CenturyLink and its Operating Companies (e.g. Embarq), excluding Qwest, provides OTAP/Lifeline services to approximately 3,280 customers. As of June 2010, Qwest served 28,557 OTAP/Lifeline customers. CenturyLink will succeed Qwest as the largest OTAP/Lifeline provider, serving more than 31,000 OTAP/Lifeline customers as a result of the combined operation.

Therefore, Staff broaches the subject of CenturyLink's ability to manage this tenfold increase.

Q. WHAT ARE THE SPECIFIC CONDITIONS STAFF PROPOSES TO REMEDY THESE CONCERNS?

A. Staff recommends the following specific conditions to mitigate these concerns and explains why each is imperative. The specific conditions are included in Staff 100, pages 45, 56, and 57 (Conditions 5 and 46 through 53).

- Prior to the closing of the Transaction, customer notification of the merger and change of parent company will be given to all local exchange and long distance customers and comply with any Oregon and FCC rules and regulations. This notice will include notification to all existing and acquired OTAP/Lifeline customers that the acquisition will not affect their OTAP/Lifeline credits and that there is no action required on their part. Prior to the notification, CenturyLink will submit a draft of the OTAP/Lifeline portion to the OTAP Manager for review.

CenturyLink agrees with Staff that written communication to all existing and acquired customers is essential to minimize customer confusion or apprehension that their OTAP/Lifeline credits may be disrupted as a result of the Transaction, if approved. According to CenturyLink, OTAP/Lifeline customers with respect to their credits, rates, services, etc. will not be affected by the merger because its Operating Companies, including Qwest, will continue as independent subsidiaries.

- CenturyLink will designate a representative to serve on the Commission's Oregon Telecommunications Relay Service (OTRS) Industry Advisory Committee which generally convenes on a quarterly basis should the incumbents representing Qwest and CenturyLink respectively, vacate their seats as a result of the merger.

CenturyLink communicated to Staff its acceptance of this condition. The Commission created the OTRS Industry Advisory Committee on January 17, 1995, pursuant to Order No. 95-087. *See* Exhibit 602. The initial purpose of this advisory committee, mainly comprised of telecommunications industry representatives, was to address issues relating to the quality and cost of the OTRS, one of the four telephone assistance programs created in accordance with the Residential Service Protection law. Since its inception in 1995, the role of advisory committee has evolved in which Commission Staff solicits the advice and expertise of committee members in an effort to control and minimize costs to customers who pay for the quality delivery of all the Residential Service Protection telephone assistance programs. Customers who have telecommunications service with telecommunications utilities (e.g. CenturyLink), radio common carriers, telecommunications cooperatives, competitive telecommunications services providers support these programs in the form of a line-item surcharge. CenturyLink and Qwest have designated representatives on the advisory committee because both carriers provide OTAP/Lifeline services, collect the surcharge from its subscribers and thus, have a vested interest in continued participation and representation for its respective industry's views and customers.

- Prior to any billing system consolidations or changes, CenturyLink will notify the OTAP Manager and Administrative Specialist with a description of how the OTAP credits are listed on customer bills. CenturyLink will also provide the OTAP Manager and Administrative Specialist a sample copy of a customer's bill that lists the OTAP/Lifeline credits. The OTAP Manager and Administrative

Specialist will accept a redacted copy in which the customer's personal identifying information is protected.

CenturyLink is in agreement with Staff and understands the importance of this condition. Descriptions of the credits on customers' billing statements are varied among the thirty-three companies that provide OTAP/Lifeline services. Staff relies on these carriers' sample billing statements to perform the duties of their position in which they explain to eligible applicants where they can expect to see the credits listed. Staff also directs approved customers to the appropriate page on their billing statement if they claim the OTAP/Lifeline credits are not listed. Otherwise, Staff contacts the telecommunications carrier for immediate resolution. Access to this vital information promotes efficient customer service delivery and minimizes the need for future contacts on behalf of the customer to either the Commission or telecommunications carrier.

- CenturyLink will maintain staffing levels for its existing territories and its newly acquired territory for daily communications with Commission Staff regarding daily OTAP/Lifeline questions and concerns and OTAP/Lifeline reporting issues. Prior to any billing system consolidations or changes, CenturyLink will provide notice to the OTAP Manager of any of its staffing level changes, including staff for filing with the Commission OTAP reimbursement reports, in any of its territories.

Commission Staff is available via inbound telephone support to an average of 2,000 customers per month. In addition, Staff receives and processes approximately 2,500 applications each month. This volume of calls and applications generates many miscellaneous questions and circumstances that requires Staff to rely on the telecommunications carrier to address. This functions as a joint effort to ensure that all customers receive expeditious and quality service. Daily communications between staff and the telecommunications carrier's personnel consist of and includes but is not limited to the customer's OTAP/Lifeline status. For instance, Staff may ask if the customer's name appears on the billing statement[1] or require the carrier to apply, remove or verify if the customer is receiving the OTAP/Lifeline credits.

Pursuant to OAR 860-033-0046, all Operating Companies must maintain accounting records so that costs associated with OTAP/Lifeline are justified when the Commission reimburses the carrier for the revenue it foregoes when it applied the discount to OTAP/Lifeline customers. Staff again relies on the telecommunications carrier to address any issues that may arise when performing reconciliatory tasks for the disbursement of OTAP/Lifeline funds to the telecommunications carrier. For these reasons, it is essential that CenturyLink maintain staffing levels for its existing territories and newly acquired Qwest territory for daily communications with Staff.

- If legacy Embarq or CenturyTel personnel identify an approved OTAP/Lifeline customer for the other's territory on a Commission-approval report due to Staff error, legacy personnel may either:

    a. Notify the OTAP Manager and Administrative Specialist of the discrepancy on the No Match report[2]
    b. Contact personnel (and the OTAP Manager and Administrative Specialist) of the customer's respective territory to apply the OTAP/Lifeline credit to their account.

[1] OAR 860-033-0030(6) states that "The name of the applicant or recipient must appear on the billing statement for the telecommunications service in order for that recipient to qualify for OTAP benefits. The Commission may waive this requirement if it determines that good cause exists."

[2] OAR 860-033-0046 lists the telecommunications carrier's reporting requirements including the No Match report: "When the Commission notifies the Eligible Telecommunications Provider of customers who meet eligibility criteria, the Eligible Telecommunications Provider must notify the Commission of any discrepancy that prevents a customer from receiving the OTAP benefit. Notification of discrepancies may be submitted electronically in a format accessible by the Commission."

> Note this does not apply to Qwest transactions due to its automated systems.

If the Commission approves the Transaction, Staff will modify the OTAP/Lifeline application (hard copy and online) to reflect all Operating Companies as CenturyLink. However, the legal names of Operating Companies will not be adjusted in the Commission database because each will remain as an independent subsidiary. This becomes a concern, especially for OTAP/Lifeline reporting purposes, because Staff must bear the burden of differentiating the legacy territories for customers who list CenturyLink on their OTAP/Lifeline applications to ensure that the information is disseminated to the appropriate subsidiary for action. To alleviate Staff concerns, CenturyLink offered a single point-of-contact for all Operating Companies to review for accuracy all Commission issued weekly and monthly reports that require the telecommunications carrier to either apply or remove OTAP/Lifeline from customers' accounts. For instance, a legacy Embarq customer listed on the report intended for Qwest would be removed and added to the legacy Embarq report before it is allocated to legacy Embarq personnel for proper action. CenturyLink's proposal, unfortunately, will disrupt the mechanized OTAP/Lifeline reporting systems that have been customized to accommodate the size of OTAP/Lifeline customers with Qwest. Rather than require CenturyLink to integrate its OTAP/Lifeline customers into the Qwest system as initially proposed, Staff suggests two options as listed in the condition above.

Staff assumes CenturyLink will be receptive to this condition as legacy Embarq and CenturyLink personnel exercise the second alternative.

- Before the close of transaction, CenturyLink will designate at least one liaison for higher level discussions with the OTAP Manager should the incumbents representing Qwest and CenturyLink respectively, vacate their positions as a result of the merger.

Designated liaisons for CenturyLink and Qwest are currently available to the OTAP Manager. CenturyLink acknowledges this condition if these incumbents vacate their positions as a result of the Transaction. Higher level discussions are reserved for policy development, implementation and integration as well as compliance related matters or issues that affect the overall OTAP/Lifeline operations (e.g. Changes in FCC Regulations or Amendments to the Oregon Administrative Rules).

- Post merger, CenturyLink will advise the OTAP Manager of any impending OTAP/Lifeline marketing and outreach efforts (e.g. radio public service announcements). In addition, CenturyLink will provide the OTAP Manager electronic copies of its OTAP/Lifeline advertising collateral.

Pursuant to Federal Communications Commission regulations, all Lifeline telecommunications carriers are required to "publicize the availability of Lifeline in a manner reasonably designed to reach those likely to qualify for the service." *See* generally FCC 47 C.F.R. §§ 54.405(b), 54.411(d). Although there is no Oregon Administrative Rule that requires telecommunications carriers to advise Staff of impending OTAP/Lifeline marketing and outreach efforts or provide its OTAP/Lifeline advertising collateral, CenturyLink and Staff are in agreement with respect to this condition. CenturyLink acceptance's of this condition demonstrates its collaborative approach and notification from CenturyLink of its impending marketing campaigns for OTAP/Lifeline will help Staff prepare for the projected increase in workload (e.g. customer phone calls and applications).

- Prior to the merger, CenturyLink including Embarq and Qwest will have no outstanding debt to the Commission with respect to the RSPF surcharge collection, remittance and reporting requirements.

To date, all Operating Companies have no outstanding debt to the Commission with respect to the RSPF surcharge provisions. When Staff reported to Qwest its financial penalties for RSPF surcharge delinquencies, Qwest guaranteed immediate payment. Despite repeated attempts, Staff was unable to collect from the firm that Qwest employs for tax return preparatory services. Consequently, Qwest submitted payment and has assured Staff that it will address the issue internally with the tax return preparatory services firm to prevent future occurrences. Staff appreciates and recognizes Qwest's swift response. Staff proposes this condition as a cognizant measure for all Operating Companies to comply with all statutory and Oregon Administrative Rules pertaining to the RSPF surcharge collection, remittance and reports. *See* generally Oregon Laws 1987, chapter 290, Sections 7; Oregon Administrative Rule (OAR) Chapter 860, Division 033.

- CenturyLink will provide notice to and obtain input from the OTAP Manager prior to making material changes to the existing Qwest mechanized OTAP reporting system.

As noted above, Qwest is the current largest OTAP/Lifeline provider that has mechanized reporting systems to accommodate the continuous activity of over 28,000 OTAP/Lifeline subscribers. Although CenturyLink has no immediate plans to consolidate the billing systems of all Operating Companies, any material changes to the existing automated Qwest reporting systems will impact the Commission's database and OTAP/Lifeline operations. For instance, Qwest e-mails a monthly standardized "Order Activity Report"[3] in a Microsoft Excel file to the Commission. This report includes information about which customers no longer have service and current customers who have moved or changed phone numbers. Using the data contained in the Order Activity report, the Commission's Information Systems Staff automatically updates the OTAP/Lifeline customer records in the Commission database. Prior to this feature, Staff was required to manually update several hundred to a few thousand OTAP/Lifeline customer records in a given month. For several years, the report was neglected due to staffing and time constraints, resulting in a culmination of inaccurate records. Service to the OTAP/Lifeline customer was delayed due to the need for Staff to investigate the discrepancy with the telecommunications carrier before resolving and updating the obsolete data in the customer's record. Staff and Qwest personnel invested a substantial amount of time (one year) and effort to devise and implement an ongoing reporting solution that effectively synchronizes both entities' OTAP/Lifeline

[3] OAR 860-033-0046(3) defines an Order Activity Report as "a listing of all OTAP customers whose service was disconnected. The Commission may also require additional information such as a listing of all OTAP customers whose telephone numbers or addresses have changed."

records. When the Commission assigns its weekly and monthly reports, the Qwest system, without human intervention, extracts the data and applies and removes the OTAP/Lifeline credit to and from the customer's account if all information between the two entities' respective databases matches. Overt discrepancies are automatically reported to the Commission for action on the No Match report. Other obscure discrepancies are sent to Qwest Communications personnel for manual research before the final results are provided to the Commission. CenturyLink has communicated to Staff that it supports automation and is willing to provide notice to Staff before implementing material changes to the Qwest systems. However, Staff asserts that in addition to such notification, CenturyLink must obtain feedback from Staff prior to any anticipated changes that potentially curtail the reporting solutions arranged by Staff and Qwest. Staff will advise CenturyLink in an effort to enhance or ensure that these mechanized reporting mechanisms remain accessible and compatible with the Commission's database and reporting infrastructure.

Q. WHAT IS YOUR OVERALL RECOMMENDATION TO THE COMMISSION WITH RESPECT TO THE EFFECT ON OTAP/LIFELINE IF IT AUTHORIZES THE CENTURYLINK AND QWEST MERGER?

A. CenturyLink is in agreement with Staff on most conditions. Based on its collaborative and productive efforts with Staff, CenturyLink has demonstrated its commitment in providing continued support to all the OTAP/Lifeline customers it will acquire as a result of the Transaction, if approved by the

Commission. Therefore, Staff recommends that the Commission impose all conditions on CenturyLink to mitigate Staff concerns regarding the provision of overall OTAP/Lifeline customer support and services.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

CASE: UM 1484
WITNESS: Jon Cray

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 601

Witness Qualification Statement

September 3, 2010

WITNESS QUALIFICATION STATEMENT

NAME:	Jon Cray
EMPLOYER:	Public Utility Commission of Oregon
TITLE:	Residential Service Protection Fund Program Manager, Central Services Division
ADDRESS:	550 Capitol Street NE, Suite 215 Salem, OR 97301-2115
EDUCATION:	MS in Communication Sciences and Disorders East Carolina University, 2002
	BS in Communication Sciences and Disorders East Carolina University, 2000

PROFESSIONAL EXPERIENCE:

Program Manager, Residential Service Protection Fund, Public Utility Commission of Oregon,2006 – Present
Manage the Oregon Telephone Assistance Program, Telecommunication Devices Access Program and Oregon Telecommunications Relay Service

Contact Center Manager, Communication Service for the Deaf, 2005 – 2006
Managed the California Telephone Access Program call center for the California Public Utilities Commission

Contact Center Supervisor, Communication Service for the Deaf, 2003 – 2006
Managed a team of customer service representatives for the California Telephone Access Program

CASE: UM 1484
WITNESS: Jon Cray

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 602

Exhibits in Support
Of Direct Testimony

September 3, 2010

ORDER NO. 95-087

ENTERED JAN 17 1995

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 733

In the Matter of the Creation of an Industry Advisory Committee for the Oregon Telecommunications Relay Service.	)))	ORDER

DISPOSITION: OREGON TELECOMMUNICATIONS RELAY SERVICE INDUSTRY ADVISORY COMMITTEE CREATED

At its public meeting on December 20, 1994, the Commission considered its staff's recommendation to create an industry advisory committee on the Oregon Telecommunications Relay Service (OTRS). The Commission seeks to create a collaborative process with those interested in such issues. The committee also will assist in fulfilling the requirements of the Americans with Disabilities Act of 1990 (ADA).

The ADA basically makes the industry itself ultimately responsible for providing the service. Given the number of companies, it has been administratively simpler for the Commission to manage the program and collect funding from the local exchange companies as provided by statute. The costs are primarily driven by usage, and usage has seen steady growth to the point that the current statutory level of funding is inadequate. The Commission is currently seeking authority to expand the funding base for the program. As usage continues to increase and the funding base expands, it becomes more important that the industry gain a greater understanding of the program and how it works. In addition, industry expertise can be utilized to help contain costs and maintain service quality. The industry will have a greater financial interest in the service than it currently does, and since it has the legal responsibility to make sure the service is provided, the Commission finds it appropriate to create this advisory committee.

The committee will address issues relating to the quality and cost of the OTRS. The committee will facilitate the sharing of information among those providing and using the OTRS and with the Commission and its staff. The committee will focus on operational issues and will pursue ways to make the OTRS as cost-effective as possible. It will seek ways to ensure a high quality of service while keeping the costs as low as possible.

The Commission wants the committee's membership to be broad-based and inclusive, thereby enhancing the sharing of information and expertise. The Commission does not want to establish at this time the number of members to be on the committee or any particular interests they represent. The Commission intends to appoint members not only from local exchange telephone companies, but also others from the industry who have an interest in how the OTRS functions.

The Commission is committed to a relay service that effectively serves the hearing-, mobility-, and speech-impaired, as well as those who communicate with them. The Commission wants that service to be provided without creating undue costs on those who pay for the service. The committee created by this order will assist the Commission in meeting these goals.

CONCLUSIONS

1. The Commission should create an industry advisory committee on the telecommunications relay service;

2. The Commission should appoint members of the committee who have an interest in the cost and quality of service provided by the OTRS.

ORDER

IT IS ORDERED that:

1. An Oregon Telecommunications Relay Service Industry Advisory Committee is created.

2. The Commission will appoint members of the committee who have an interest in the optimal functioning of the telecommunications relay service.

Made, entered, and effective **JAN 17 1995**.

Joan H. Smith
Chairman

Ron Eachus
Commissioner

Roger Hamilton
Commissioner

CERTIFICATE OF SERVICE

UM 1484

I certify that I have this day served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-13-0070, to the following parties or attorneys of parties.

Dated at Salem, Oregon, this 3rd day of September, 2010.

Kay Barnes

Kay Barnes
Public Utility Commission
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UM 1484
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