

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UM 1484

In the Matter of

CENTURYLINK, INC.

Application for an Order to Approve the
Indirect
Transfer of Control of

QWEST CORPORATION

[ERRATA] TESTIMONY IN SUPPORT OF STIPULATION

**BY THE
PARTIES TO THE STIPULATION**

**CENTURYLINK, INC.
QWEST COMMUNICATIONS INTERNATIONAL, INC.
STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON
CITIZENS' UTILITY BOARD OF OREGON**

December 10, 2010

1 **I. INTRODUCTION**

2 **Q. WHO IS SPONSORING THIS TESTIMONY?**

3 A. This testimony is jointly sponsored by CenturyLink, Inc. (“CenturyLink”); Qwest
4 Corporation (“Qwest”) (CenturyLink and Qwest, collectively, the “Applicants”); Staff of
5 the Public Utility Commission of Oregon (“Staff”); and the Citizens’ Utility Board of
6 Oregon (“CUB”). In this Joint Testimony, the parties are referred to collectively as “the
7 Parties.”

8

9 **Q. PLEASE STATE YOUR NAMES.**

10 A. Our names are: John Jones and Michael Hunsucker (CenturyLink); Michael Dougherty
11 (Staff); and Bob Jenks (CUB). John Jones will be addressing the retail conditions and
12 Michael Hunsucker will be addressing the wholesale conditions on behalf of the
13 Applicants.

14

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

16 A. Our joint testimony describes and supports all provisions of the Stipulation and attached
17 conditions agreed upon by the parties on December 2, 2010, and filed with the
18 Commission on December 2, 2010 (“Stipulation”). Separate testimony was filed on
19 December 8, 2010 by each of the Parties addressing two additional conditions proposed
20 by Staff that were not agreed to as part of this Stipulation. Specifically, Staff proposed a
21 most favored state condition (“Most Favored State Commitment”) and a broadband

1 trouble report complaint reporting, on DSL lines, condition (“Broadband Trouble Report
2 Complaint Reporting Condition”).

3 As explained in greater detail below, under the Stipulation, the Parties acknowledge that
4 the Applicants’ Application will satisfy the “in the public interest, no harm” standard
5 (described in Order No. 09-169) upon resolution of the “Most Favored State
6 Commitment” and the “Broadband Trouble Report Complaint Reporting Condition”
7 issues, the only issues not resolved by the Stipulation. The Parties request that the
8 Commission issue an order approving the Stipulation and providing the approvals
9 requested by the Applicants once it resolves the two issues stated above.

10 **II. BACKGROUND**

11 **Q. PLEASE BRIEFLY DESCRIBE THE HISTORY OF THE PROCEEDING.**

12 A. On May 24, 2010, CenturyLink filed an Application and supporting testimony seeking
13 Commission approval of the indirect merger of CenturyLink’s and Qwest
14 Communications International, Inc.’s regulated Oregon incumbent local exchange carrier
15 subsidiaries, which operate as telecommunications utilities in the state of Oregon. On the
16 same day, Qwest filed an intervention in the docket and testimony supporting the
17 Application. The Applicants requested approval under ORS 759.375, ORS 759.380,
18 OAR 860-027-0025, and any other applicable law or rule the Commission deems
19 necessary to effect the Transaction. On June 22, 2010, CenturyLink and Qwest filed
20 direct testimony addressing wholesale issues.

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1 On August 24, 2010, the Intervenors (Parker Communications, Joint CLECs [Integra
2 Telecom, tw telecom of Oregon, Advanced Telecom, Electric Lightwave, Eschelon,
3 Oregon Telecom, United Telecom dba Unicom, Covad, Level 3 and Charter Fiberlink],
4 CUB, 360networks and Sprint) filed reply testimony. On September 3, 2010, Staff filed
5 reply testimony. CenturyLink and Qwest filed rebuttal testimony on September 21, 2010.
6 Certain Intervenors filed supplemental testimony on November 12, 2010. CenturyLink
7 and Qwest filed supplemental rebuttal testimony on November 19, 2010. Collectively,
8 the Parties have filed thousands of pages of testimony and exhibits. In addition, the
9 Applicants have responded to more than 450 discovery requests.

10 The Parties and other intervenors in this proceeding, including Joint CLECs, Staff, CUB,
11 Parker Communications, TRACER, the City of Lincoln City, Lincoln County and
12 Tillamook County, have engaged in numerous settlement discussions, including
13 settlement conferences held on August 3, August 30, September 8, September 27,
14 October 12, October 21, and November 28, 2010. These discussions resulted in the
15 Stipulation that is now before the Commission.

16 After much discussion, negotiation and compromise, the Parties entered into the attached
17 Stipulation. This Stipulation provides that the Applicants will have satisfied the “public
18 interest, no harm” standard as described in Order No. 09-169 when the Commission
19 adopts the Stipulation and rules on the remaining two outstanding issues. The Stipulation
20 includes 53 enumerated and agreed-upon conditions some of which are subdivided with
21 the subdivisions containing additional condition provisions.

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- 1 • Conditions 1-12, and 14 – This group of conditions covers general compliance
2 with law or Oregon rule in addition to providing consumer protection in the event
3 of tariff, service or rate changes that may occur after the close of the Transaction.
4 This provides an assurance that Oregon customers will not be impacted by
5 changes in rates or services resulting from the Transaction and confirms that the
6 Commission will have ongoing access to documents, data, records, and
7 information about material changes to the Transaction, as well as other general
8 matters;
- 9 • Condition 13 is a broadband commitment by CenturyLink, which includes
10 investment levels, timing, and reporting criteria for Oregon broadband
11 deployment;
- 12 • Conditions 15-19 are financial conditions, which include CenturyLink’s
13 commitment to notify Staff regarding the leverage resulting from the Transaction,
14 assurances that the Oregon assets will not be encumbered without seeking
15 Commission approval, a commitment that customers will not be obligated to pay
16 for any acquisition premium and adjustments to the Qwest price plan to ensure the
17 Commission will have approval authority for future transactions involving
18 CenturyLink or Qwest properties in the state;
- 19 • Conditions 20-23 address service quality standards, including CenturyLink’s
20 commitments related to certain Commission reporting requirements in the areas of
21 service quality metrics, the condition of specific network assets and planned
22 capital expenditures;

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- 1 • Conditions 24-26 are conditions relating to safety, including compliance with all
2 applicable federal and Oregon standards and requirements, commitments to honor
3 CenturyLink’s previous safety-related obligations and a commitment by
4 CenturyLink to construct a physical communication link between Lincoln City
5 and Newport;
- 6 • Condition 27 addresses retail and wholesale Operating Support Systems (“OSS”),
7 including commitments by CenturyLink regarding the transition of retail and
8 wholesale operating systems, and specific sharing of information with the
9 Commission and CLECs regarding the software and systems transitions. There
10 are also commitments by CenturyLink with regard to Qwest wholesale OSS to
11 ensure stability and continuity for wholesale customers.
- 12 • Conditions 28-41 address wholesale conditions designed to ensure stability in
13 rates, terms, conditions and service quality for wholesale customers.
- 14 • Condition 42 pertains to long distance service and it preserves rights that
15 consumers have with regard to notification of long distance carrier changes and
16 provides a period of time for waiver of change charges.
- 17 • Conditions 43-50 address OTAP reporting and communication commitments to
18 ensure the preservation of the exchange of data. In addition, the conditions
19 require continued CenturyLink participation on the OTAP advisory board to
20 retain the current working relationship between the company and the OTAP staff.

- 1 • Conditions 51-53 address Affiliated Interests, which assures the Commission that
2 CenturyLink will comply with all applicable affiliated interest reporting
3 requirements.

4 **III. DISCUSSION OF CONDITIONS AND IMPLICATIONS FOR PUBLIC INTEREST**

5 **Q. IN GENERAL, WHAT ARE THE PARTIES' VIEWS OF THE TRANSACTION**
6 **AND THE NECESSITY FOR CONDITIONS TO ITS APPROVAL?**

7 A. The parties disagree as to the need for conditions in order for this Transaction to meet the
8 “in the public interest, no harm” standard. In order to expeditiously settle all the issues in
9 this proceeding, CenturyLink and Qwest agreed to the conditions discussed in and
10 appended to the Stipulation. Staff and CUB agree to the conditions set forth in the
11 stipulation and have additionally submitted testimony related to two outstanding,
12 disputed conditions.

13
14 **Q. WHAT PROTECTIONS ARE PROVIDED TO OREGON CUSTOMERS IN**
15 **CONDITIONS 1-12 AND 14 IN THE STIPULATION?**

16 A. The Parties believe that the conditions pertaining to reporting requirements provide the
17 Commission with sufficient access to the books of account, all documents and data
18 regarding the Transaction, and information regarding material changes, in order to allow
19 the Commission and Staff to effectively monitor the performance and financial condition
20 of CenturyLink. This set of conditions also provides other commitments that confirm
21 certain protections to Oregon customers in terms of regulated rates or services following
22 the Transaction. Specifically, CenturyLink has committed that it will not discontinue any

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1 Commission regulated intrastate service offered by Qwest for three years; it will honor all
2 promotional discount offers made by the pre-merger Qwest; it will not advocate for a
3 higher cost of capital in rates as a result of the Transaction; and that no retail or wholesale
4 rates will include any Transaction related costs. In addition, customers will be notified of
5 the merger and change of parent company with OTAP customers receiving notice that
6 there will be no impact to their OTAP credits. Finally, CenturyLink has agreed to
7 enhanced reporting of integration activities, expected cost savings, and anticipated
8 impacts on Oregon operations and customers. The Parties believe that this set of
9 conditions will provide adequate assurances to the Commission that Oregon customers
10 will not be harmed by Transaction-related rate or service impacts, and that the
11 Commission will have the information necessary to properly monitor and regulate
12 CenturyLink after the Transaction is completed.

13
14 **Q. PLEASE ADDRESS THE SPECIFIC BROADBAND COMMITMENTS MADE BY**
15 **CENTURYLINK UNDER THE STIPULATION.**

16 A. As explained above, to demonstrate CenturyLink's commitment to the ongoing provision
17 of broadband services and to maintenance of its network, CenturyLink agrees to expend
18 \$45 million in broadband deployment in CenturyLink and Qwest areas in Oregon over a
19 five (5) year period beginning January 1, 2011 and ending December 31, 2015.

20 CenturyLink will commit to expend twenty-five (25%) of the \$45 million broadband
21 investment by December 31, 2012.

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1 Beginning on the date of the first anniversary of the close of the Transaction and
2 continuing annually until the \$45 million broadband commitment is completed,
3 CenturyLink will submit to the Commission Staff: 1) a broadband deployment plan that
4 details the planned investments for the year, including the geographic areas targeted for
5 investment and the estimated number of customers that would benefit; and 2) a report that
6 identifies the previous calendar year's progress in broadband deployment including: a) a
7 list of all wire centers and broadband speeds currently available in each wire center by
8 speed and number of lines capable showing wire centers where broadband investment
9 was made, b) the additional number of households capable of receiving broadband; and
10 c) the prior year's and cumulative amounts expended towards the \$45 million broadband
11 commitment.

12 CenturyLink will provide a semi-annual update to the broadband deployment plan
13 outlining progress made and identifying any impediments that may prevent the
14 completion of the planned projects.

15 The testimony of certain other parties, including Staff and CUB, raised concerns about
16 whether, in the post-Transaction period, CenturyLink would have the financial capacity
17 to invest in the Oregon communications network and the sufficiency of funds to dedicate
18 to Oregon-specific investment. The Parties believe that CenturyLink's broadband
19 commitment under the Stipulation provides the Commission with a high degree of
20 certainty that CenturyLink will commit sufficient capital to maintain and enhance its
21 Oregon network, and thereby alleviates any previously-raised concerns.

22

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1 Finally, CenturyLink has committed to file confidential comprehensive semi-annual
2 reports with the Commission for three years following closing, and those reports will
3 detail the company's broadband deployment progress. The outstanding issue in this
4 regard is the Trouble Report Complaint reporting condition which CUB and Staff support
5 but the Companies do not. Separate testimony has been filed in regard to this issue by the
6 parties. The Companies believe that this new level of accountability and reporting, as
7 included in the Stipulation, will permit the Commission, Staff, and CUB to monitor
8 CenturyLink's progress in fulfilling its broadband commitments. Staff and CUB believe
9 that this new level of accountability and reporting, as included in the Stipulation, will
10 permit the Commission, Staff, and CUB to monitor CenturyLink's progress in fulfilling
11 its broadband commitment upon the appropriate resolution of the outstanding, disputed,
12 Trouble Report Complaint reporting condition.

13
14 **Q. CAN THE PARTIES DESCRIBE THE SPECIFIC FINANCIAL CONDITIONS**
15 **TO WHICH CENTURYLINK HAS AGREED AS A RESULT OF THE**
16 **STIPULATION?**

17 A. Yes. CenturyLink has agreed not to encumber the assets of its Oregon operating
18 companies without seeking the approval of the Commission. CenturyLink will file
19 quarterly financial reports for three years so the Commission can review the financial
20 health of the company and will also provide post-merger EBITDA, credit rating agency
21 reports and the price per share of both companies immediately prior to the closing date.
22 Finally, CenturyLink will not seek recovery of any acquisition premium in Oregon

1 intrastate regulated rates, nor will the company include in wholesale or retail rates any
2 Transaction related costs. As with certain previously described conditions, this final
3 financial condition serves to provide further assurances to the Commission that Oregon
4 customers will not be impacted by costs of the Transaction in any relevant rate
5 proceedings.

6
7 **Q. ARE THE FINANCIAL CONDITIONS AS PROPOSED SUFFICIENT TO**
8 **PROVIDE ADEQUATE ASSURANCE TO THE COMMISSION THAT THE**
9 **PUBLIC INTEREST WILL BE SERVED?**

10 A. Yes, they are substantial. When viewed in light of the comprehensive nature of all of the
11 commitments subject to the Stipulation, upon resolution of the two outstanding disputed
12 issues there will be adequate assurance that the Transaction meets the public interest, no
13 harm standard.

14
15 **Q. HOW DO THE SERVICE QUALITY CONDITIONS IN THE STIPULATION**
16 **RESOLVE THE CONCERNS RAISED BY STAFF AND CUB?**

17 A. All CenturyLink and Qwest ILECs in Oregon will provide monthly service quality
18 reports after the close of the Transaction. This includes CenturyTel of Oregon and
19 CenturyTel of Eastern Oregon entities which currently have a waiver from filing service
20 quality reports. Thus, the Commission's ability to monitor and enforce the service
21 quality required of the combined company will not be diminished as a result of the
22 Transaction. Additionally, CenturyLink will provide to the Commission within one year

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1 of closing a status report on its switching infrastructure including any switch
2 replacements, upgrades or retirements made in the previous year plus any known changes
3 for the next year. CenturyLink will also provide to the Commission a confidential report
4 for the previous calendar year detailing Oregon regulated capital expenditures as a
5 percentage of total system expenditures and a comparison of the amount of regulated
6 capital expenditures per Oregon access line with the amount of regulated capital
7 expenditures per CenturyLink system-wide access line. This will enable the Commission
8 to gain more insight into CenturyLink's investments in Oregon relative to its capital
9 commitments in the broader CenturyLink system. Finally, for three years, CenturyLink
10 has agreed to provide Staff with the detailed Form-477 information, which is submitted to
11 the FCC. Form 477 is a report regarding specific broadband information, including
12 geographic deployment data. As such, the Stipulation provides the Commission and Staff
13 with specific service quality and capital expenditure reporting and incremental reports
14 based on federal filings.

15
16 **Q. WHAT SAFETY-RELATED CONDITIONS DID CENTURYLINK AGREE TO?**

17 A. CenturyLink has agreed to comply with all applicable federal and state safety standards
18 and requirements, including affirmative explanations of its understanding of certain laws
19 related to the state's authority. CenturyLink will also provide primary and secondary
20 points of contact within the company for safety and pole attachment matters. Finally,
21 CenturyLink has agreed to construct a physical communication link between the Cities of
22 Lincoln City and Newport, Oregon within 24 months following the close of the

1 Transaction. CenturyLink will meet with Staff and other interested parties during the
2 engineering phase to make certain that Staff is satisfied that the facility is sized
3 adequately to handle the expected demand. This commitment will address 911 network
4 concerns raised by Staff, CUB and other Intervenors.

5
6 **Q. WHAT ARE THE CONDITIONS IN THE STIPULATION TO ADDRESS**
7 **CONCERNS RAISED REGARDING CHANGES TO THE EXISTING OSS?**

8 A. With regard to retail OSS, CenturyLink has committed to provide notice to the
9 Commission 90 days in advance of the conversion of major Qwest or CenturyLink retail
10 OSS that impact Oregon operations. The notification will consist of a description of the
11 systems involved, the action to be taken, the timelines associated with the system
12 conversion and a description of customer impacts. As this Transaction is an acquisition
13 of Qwest in total, CenturyLink is not forced to integrate systems at a point certain. This
14 commitment provides the ability for the Commission to monitor CenturyLink's measured
15 and careful approach to integration of systems, thereby providing the Commission greater
16 confidence that customer impacts will be minimal.

17 With respect to wholesale OSS, the Applicants have agreed to retain the Qwest wholesale
18 OSS in the Qwest service territory for two years from the date of merger close, or until
19 July 1, 2013, whichever is later and thereafter provide wholesale customers with OSS
20 wholesale service quality that is not less than, and is functionally equivalent to, the OSS
21 wholesale service quality provided by Qwest prior to the merger close. Further, the
22 Stipulation provides numerous protections for CLECs and CMRS carriers in the event the

1 Merged Company¹ does decide to replace or integrate the Qwest wholesale OSS
2 including a 270-day notice period, the submission of a detailed plan, and continued
3 applicability of the Qwest Change Management Process. If any Qwest OSS interface is
4 retired or replaced, CLEC and CMRS carriers are assured of joint testing for operational
5 acceptance of any new interface, and detailed provisions governing this joint testing and
6 acceptance process are set forth in the Stipulation.

7
8 **Q. BEFORE DESCRIBING THE CONDITIONS IN THE STIPULATION RELATED**
9 **TO WHOLESALE ISSUES, PLEASE PROVIDE THE COMMISSION SOME**
10 **BACKGROUND ON THESE CONDITIONS.**

11 A. As described earlier, the Parties and other intervenors in this proceeding have been
12 engaged in settlement discussions for several months. Those settlement discussions
13 included a comprehensive set of conditions, including conditions addressing wholesale
14 issues that were proposed by the Commission Staff in their September 3, 2010, Reply
15 Testimony. On November 9, 2010, the Applicants filed with the Commission a multi-
16 state and federal Settlement Agreement that it reached with Integra. Because the Integra
17 Settlement Agreement addressed many, but perhaps not all, of the major wholesale issues
18 that were included in Staff's proposed wholesale conditions, the Commission Staff and
19 the Applicants continued negotiations in an attempt to address the remaining Commission
20 Staff wholesale issues. The wholesale conditions in the Stipulation are the product of

¹ The term "Merged Company" refers to the post-merger company (CenturyLink and its operating companies, collectively, after the Closing Date).

1 these negotiations, and fully address the wholesale concerns of Commission Staff and
2 CUB.

3

4 **Q. PLEASE DESCRIBE THE WHOLESALE CONDITIONS RELATED TO**
5 **EXTENSIONS OF EXISTING CONTRACTUAL AGREEMENTS WITH CLECs,**
6 **CMRS AND WHOLESALE CARRIERS IN THE QWEST ILEC TERRITORY**
7 **(CONDITION 28).**

8 A. CenturyLink has agreed to not terminate an existing Qwest interconnection agreements
9 (“ICAs”) for three years ensuring a non-changing operational relationship between Qwest
10 Corporation and all CLECs and CMRS carriers in Oregon for that time period, insofar as
11 interconnection and the mutual exchange of traffic are concerned. CenturyLink has made
12 a similar guarantee for a period of 18 months for Qwest Wholesale and Commercial
13 agreements and 12 months for Qwest Intrastate wholesale tariffs.

14 The Stipulation permits the use of a CLEC or CMRS carriers’ existing Oregon ICA as the
15 basis for negotiating the initial successor ICA. This condition also allows a CLEC or
16 CMRS carrier to adopt any existing Oregon Qwest ICA whose initial term has expired
17 and is in “extended” status, and the condition also assures any CLEC or CMRS carrier
18 that is currently negotiating an ICA that the Merged Company will not seek to restart
19 negotiations based on a new template ICA.

20

1 **Q. PLEASE DESCRIBE THE WHOLESALE CONDITIONS THAT PROVIDE**
2 **STABILITY OF SERVICES AND RATES FOR CLEC AND CMRS CARRIERS**
3 **(CONDITIONS 29 AND 30).**

4 A. CenturyLink agreed not to increase the rates in the Qwest ICAs for a three-year period
5 and not to assess fees for certain functions that are not currently assessed in the Qwest
6 ILEC service territory without Commission approval. CenturyLink will continue to
7 provide intrastate transit service in the Qwest ILEC service territory subject to the same
8 rates, terms and conditions for a three-year period.

9
10 **Q. PLEASE DESCRIBE THE CONDITIONS RELATED TO WHOLESALE**
11 **SERVICE QUALITY (CONDITIONS 34 AND 35).**

12 A. In the legacy Qwest ILEC service territory, the Merged Company has agreed to comply
13 with all wholesale performance requirements and associated remedy or penalty regimes
14 for all wholesale services. The Merged Company agrees to maintain the Qwest
15 Performance Assurance Plan (“QPAP”) and Performance Indicator Definition (“PID”)
16 without reduction or modification for eighteen months and will not seek to eliminate or
17 withdraw the QPAP for at least three years. In addition, the Merged Company will
18 provide measurement standards to compare pre- and post-merger performance and will
19 conduct root cause analysis on service performance deficiencies and develop proposals to
20 remedy such deficiencies.

21

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1 The Merged Company has also committed to continue to provide monthly wholesale
2 performance reports to Staff, and to provide the Staff with comparison data for both the
3 legacy Qwest ILEC service territory and the legacy Embarq ILEC service territory.

4
5 **Q. ARE THERE OTHER WHOLESALE CONDITIONS INCLUDED IN THE**
6 **STIPULATION?**

7 A. Yes. CenturyLink has committed to several other conditions that address issues raised by
8 Staff and other CLECs in this proceeding:

- 9 1) The Merged Company will not seek to recover through wholesale service rates or
10 other fees paid by CLECs the costs associated with the merger (Condition 10);
- 11 2) The Merged Company agrees to maintain service provisioning intervals in Qwest
12 ILEC service territory (Condition 33);
- 13 3) All ILEC affiliates of the Merged Company will comply with the requirements of
14 Sections 251 and 252 of the Telecommunications Act and in the legacy Qwest
15 ILEC service territory, the Merged Company will not seek to avoid any
16 obligations based on rural exemption provisions (Condition 31);
- 17 4) Qwest will continue to be classified as a BOC and subject to BOC requirements,
18 including Sections 271 and 272 of the Telecommunications Act (Condition 32);
- 19 5) The Merged Company shall provide to wholesale carriers up-to-date escalation
20 information, contact lists, and account manager information (Condition 36);
- 21 6) The Merged Company will make available to each wholesale carrier in the legacy
22 Qwest ILEC service territory the types and level of data, information, and

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1 assistance that Qwest currently makes available concerning Qwest's wholesale
2 OSS functions and wholesale business practices and procedures (Condition 37);

3 7) The Merged Company will ensure that wholesale and CLEC operations are
4 sufficiently staffed and supported by employees who are trained on Qwest and
5 CenturyLink systems and processes (Condition 38);

6 8) Qwest will not seek to reclassify as "non-impaired" any Qwest wire centers for a
7 period of time (Condition 39);

8 9) The Merged Company will engineer and maintain its network in compliance with
9 federal and state law and terms of applicable ICAs (Condition 41); and

10 10) Subject to approval of the Settlement Agreement filed by CenturyLink, Qwest and
11 Integra in this docket, the line conditioning amendment including all rates, terms and
12 conditions related to condition 14 of that Settlement Agreement will be made available to
13 any CLEC requesting the line conditioning amendment (Condition 40).

14
15 **Q. PLEASE SUMMARIZE THE PARTIES' POSITION WITH RESPECT TO THE**
16 **WHOLESALE CONDITIONS INCLUDED IN THE STIPULATION.**

17 A. The Parties assert that these wholesale service commitments, coupled with CenturyLink's
18 commitments related to the transition of wholesale systems, will assure the Commission
19 that Oregon wholesale customers will not be negatively impacted as a result of the
20 Transaction.

21

1 **Q. WHAT CONDITIONS IN THE STIPULATION APPLY TO LONG-DISTANCE**
2 **SERVICES AND HOW DO THE PROPOSED CONDITIONS POSITIVELY**
3 **IMPACT OREGON CONSUMERS?**

4 A. If CenturyLink changes the carriers its uses to provide intrastate long distance service to
5 customers in either the pre-merger CenturyLink or the pre-merger Qwest areas, the
6 company will notify each of the affected Oregon intrastate long distance customers at
7 least 30 days in advance of the change. For 90 days following the customer transfers,
8 CenturyLink will waive any change charges (e.g., PICs), for customers choosing to
9 change carriers.

10

11 **Q. WHAT HAS CENTURYLINK PLEDGED IN TERMS OF THE ELECTRONIC**
12 **OREGON TELEPHONE ASSISTANCE PROGRAM (“OTAP”), LIFELINE, AND**
13 **LINK-UP PROGRAMS?**

14 A. CenturyLink is committed to continue its strong working relationship with the OTAP
15 Commission Staff by agreeing to eight conditions that preserve the existing reporting and
16 communication functions between the company and Commission Staff. CenturyLink has
17 agreed to provide additional notice in the event of system or personnel changes so that
18 Staff can provide input on any material changes and CenturyLink will continue to
19 actively participate on the OTAP Industry Advisory Committee.

20 **Q. AS PART OF THE STIPULATION, HAS CENTURYLINK AGREED TO**
21 **COMPLY WITH ALL APPLICABLE STATUTES AND REGULATIONS**
22 **REGARDING AFFILIATED INTEREST TRANSACTIONS?**

1 A. Yes. CenturyLink has also agreed to file with the Commission within 12 months of the
2 close of the Transaction affiliated interest agreements including an updated Cost
3 Allocation Manual. In addition, CenturyLink and Qwest will report any changes
4 affecting their certificates as Competitive Providers in Oregon, in compliance with
5 applicable statutes and regulations. The Parties believe that these affiliated interest
6 commitments will provide the Commission adequate ability to monitor intra-company
7 transactions among CenturyLink’s Oregon ILECs and its other operations.

8 **IV THE STIPULATION ADDRESSES STAFF’S INITIAL CONCERNS**

9 **Q. DOES STAFF SUPPORT THE STIPULATION BETWEEN THE PARTIES**
10 **THAT WAS FILED DECEMBER 2, 2010?**

11 A. Yes.

12
13 **Q. PLEASE GENERALLY EXPLAIN WHY STAFF SUPPORTS THE**
14 **STIPULATION WHEN IN REPLY TESTIMONY STAFF RECOMMENDED**
15 **THAT THE COMMISSION REJECT THE TRANSACTION.**

16 A. In Staff/100, Dougherty/2, Staff witness Dougherty stated:

17 The Commission could approve the transaction subject to the Applicants
18 voluntarily offering or agreeing to conditions or commitments that either reduce
19 the numerous risks of the transaction or offset the risks.

20 As part of the Stipulation, CenturyLink offered 53 conditions that mitigate many of the
21 risks highlighted by Staff and other parties to the docket; and that will result in the
22 transaction meeting the “in the public interest, no harm” standard required of the

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1 transaction upon resolution of the two outstanding disputed issues by the Commission.

2 Many of these conditions mirror and enhance Staff's conditions included in Staff/100,

3 Dougherty/45-58, and include:

- 4 • Records/Rates/Tariffs/Access to Books
- 5 • Broadband
- 6 • Financial
- 7 • Service Quality and Safety – Retail
- 8 • Operations Support Systems
- 9 • Long Distance
- 10 • Wholesale Services (Competitive Carriers)
- 11 • OTAP/Lifeline
- 12 • Affiliated interests

13
14 **Q. PLEASE LIST STAFF'S CONCERNS AS DETAILED IN STAFF REPLY**
15 **TESTIMONY.**

16 A. Staff discussed the following concerns in its reply testimony:

- 17 1. Maintaining a dividend of \$2.90 per share;
- 18 2. CenturyLink taking on increased and substantial debt;
- 19 3. Increased debt leverage, Net Debt/EBITDA² (from approximately 2.0x to 2.4x
20 (2.2x if synergies are achieved));
- 21 4. Potential for CenturyLink debt to fall below investment grade;
- 22 5. CenturyLink taking on steeper access line losses (Qwest currently has an 11
23 percent line loss as compared to CenturyLink's 6.6 percent);
- 24 6. Post-merger CenturyLink being less profitable than pre-merger CenturyLink. The
25 decreased profitability may preempt or halt broadband expansion in legacy
26 CenturyLink territories;

² Earnings Before Interest, Taxes, Depreciation, and Amortization.

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1 7. The inability to effectively ring fence the operating companies from the parent
2 company;

3 8. CenturyLink is still in the process of integrating Embarq (a company that was
4 approximately three times the size of CenturyTel when the merger occurred) and
5 the focus of rapid expansion in a short period may result in a lack of focus in
6 Oregon;

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

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

11 **Q. PLEASE EXPLAIN HOW THE STIPULATION ADDRESSES STAFF’S**
12 **CONCERNS AS LISTED ABOVE.**

13 A. Staff views the conditions as a whole with regards to the ultimate meeting of the statutory
14 “in the public interest, no-harm test.” Additionally, in agreeing to the 53 conditions
15 outlined in the Stipulation, Staff believes that with the resolution of the last two disputed
16 issues, CenturyLink will have adequately addressed its commitment to Oregon.

17 Specifically:

- 18 • Investment and Focus in Oregon - The broadband Condition 13 requires
19 CenturyLink to expend \$45 million in Oregon with 25 percent of the \$45 million
20 being spent prior to December 31, 2012. This significant broadband capital
21 expenditure in Oregon is at least 20 percent greater on a per access line basis than

³ Bell Operating Company.

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1 the Company has committed to other states to date. The condition also requires
2 the Company to report on the status of broadband expansion in Oregon. The
3 capital plan Condition 22 requires the Company to report on capital expenditures
4 in Oregon. Additionally, Condition 26 requires CenturyLink to construct a
5 physical communication link between the Cities of Lincoln City and Newport
6 within 24 months following the close of the transaction. These three conditions
7 ensure that funds will continue to be invested in Oregon despite the higher debt
8 level, increased dividends, and synergy savings.

- 9 • Operations Support Systems (OSS) - The OSS Condition 27 maintains the current
10 Qwest OSS for wholesale services for at least two years. In addition,
11 CenturyLink will not replace or integrate Qwest systems without first establishing
12 a detailed transition plan that includes very specific procedures. A functional
13 OSS will allow business as usual and not cause a decline in revenue that could be
14 attributable to an OSS failure.
- 15 • Line Losses – Staff believes that the increased broadband penetration and the
16 potential for additional customer offerings (IPTV, other) has the potential to
17 mitigate revenue decreases due to line loss and allow the Company to gain
18 incremental revenue.
- 19 • OTAP/Lifeline – CenturyLink has offered eight specific OTAP/Lifeline
20 conditions that will help to maintain strong, robust programs in Oregon.

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- 1 • Qwest Price Plan – Condition 18 removes the Qwest price plan exemption from
2 ORS 759.380 and 759.375 except for property sales of less than \$10,000,000.
3 Further, ORS 759.375 applies for the sale of any Qwest exchange, regardless of
4 the sales price. This is an additional protection that is not currently available due
5 to the existing price plan exemption. Additionally, the price plan is removed for
6 enhanced reporting (Condition 11) and the requirement to seek Commission
7 approval prior to encumbering assets of the Oregon Operating Companies that are
8 necessary and useful in the performance of their duties to the public.
- 9 • Long Distance – Condition 42 mitigates Staff’s concern over the transaction’s
10 potential impacts on long distance customers.
- 11 • Competitive Carriers and BOC - Conditions 27-41 alleviate Staff’s concern over
12 the transaction’s potential impacts on competitive carriers and CenturyLink’s lack
13 of experience as a BOC. Additionally, the additional stipulation between the
14 Applicants and Integra allows confidence that the concerns of competitive carriers
15 were adequately addressed by CenturyLink.
- 16 • Records/Rates/Tariffs/Reporting – Conditions 1-12 and 14-19 adequately address
17 Staff’s concerns surrounding records, rates, tariffs, and reporting, including
18 financial reporting. Staff has written additional, separate testimony concerning a
19 broadband trouble report complaints reporting condition that was not included as
20 part of the Stipulation.

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- 1 • Retail Service Quality and Safety – Conditions 20-26 adequately address Staff’s
2 initial concerns surrounding retail service quality and safety.
- 3 • Affiliated Interests - Conditions 51-53 adequately address Staff’s initials concerns
4 surrounding affiliated interests.
- 5 • Most Favored State Commitment – Although not included in the Stipulation, Staff
6 has written additional separate testimony concerning a most favored state
7 condition.
- 8 • Trouble Report Complaint Reporting – Although not included in the Stipulation,
9 Staff has written additional separate testimony concerning a Trouble Report
10 Complaint Reporting condition.

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

12 A. Yes.

13

CERTIFICATE OF SERVICE
UM-1484

I certify that on December 10, 2010, a true and correct copy of the **[Errata] Testimony in Support of Stipulation** was served on the following parties via electronic mail. CenturyLink or Qwest will serve any parties requiring U. S. Mail service on Monday, December 13, 2010.

W Charles L Best - **HC**
Attorney At Law
1631 NE Broadway #538
Portland, OR 97232-1425
chuck@charleslbest.com

W Michel Singer Nelson
360networks (USA) Inc.
370 Interlocken Blvd Ste 600
Broomfield, CO 80021-8015
mnelson@360.net

W Penny Stanley
360networks (USA) inc.
370 Interlocken Blvd Ste 600
Broomfield, CO 80021-8015
penny.stanley@360.net

W Arthur A Butler - **C/HC**
Ater Wynne LLP
601 Union Street, Ste 1501
Seattle, WA 98101-3981
aab@aterwynne.com

W Joel Paisner
Ater Wynne LLP
601 Union St Ste 1501
Seattle, WA 98101-2327
jrp@aterwynne.com

W Richard Stevens
Central Telephone Inc.
PO Box 25
Goldendale, WA 98620
rstevens@gorge.net

W John Felz
CenturyLink
5454 W 110th St KSOPKJ0502
Overland Park, KS 66211
john.felz@centurylink.com

W Michael R. Moore
Charter Fiberlink OR – CCVII, LLC
12405 Powerscourt Dr.
St. Louis, MO 63131
michael.moore@chartercom.com

W Gordon Feighner - **C**
Citizens Utility Board of Oregon
610 SW Broadway, Ste 400
Portland, OR 97205
gordon@oregoncub.org

W Robert Jenks - **C/HC**
Citizens Utility Board of Oregon
610 SW Broadway, Ste 400
Portland, OR 97205
bob@oregoncub.org

W G. Catriona McCracken – **C/HC**
Citizens Utility Board of Oregon
610 SW Broadway, Ste 400
Portland, OR 97205
catriona@oregoncub.org

W Raymond Myers – **C/HC**
Citizens Utility Board of Oregon
610 SW Broadway, Ste 400
Portland, OR 97205
ray@oregoncub.org

W Kevin Elliott Parks – **C/HC**
Citizens Utility Board of Oregon
610 SW Broadway, Ste 400
Portland, OR 97205
kevin@oregoncub.org

W Douglas R. Holbrook
Holbrook & Seifert, LLC
PO Box 2087
Newport, OR 97367
doug@lawbyhs.com

W Marsha Spellman
Converge Communications
10425 SW Hawthorne Ln.
Portland, OR 97225
marsha@convergecomm.com

Katherine K. Mudge
Covad Communications Co.
7000 N Mopac Expwy 2nd Fl
Austin, TX 78731
kmudge@covad.com

Rex M. Knowles
XO Communications Services, Inc.
7050 Union Park Ave – Ste 400
Midvale, UT 84047
rex.knowles@xo.com

Jason W. Jones – **C/HC**
Department of Justice
Assistant Attorney General
1162 Court St NE
Salem, OR 97301-4096
jason.w.jones@state.or.us

W Gregory Merz – **C/HC**
Gray Plant Mooty
500 IDS Center
80 S. Eighth St.
Minneapolis, MN 55402
gregory.merz@gpmlaw.com

W David Hawker
City of Lincoln City
801 SW Highway 101
Lincoln City, OR 97367
davidh@lincolncity.org

W Charles Jones
Communication Connection
14250 NW Science Park Dr. – Ste B
Portland, OR 97229
charlesjones@cms-nw.com

W Frank G Patrick
Corporate Lawyers PC
PO Box 231119
Portland, OR 97281
fgplawpc@hotmail.com

W K C Halm – **C/HC**
Davis Wright Tremaine, LLP
1919 Pennsylvania Ave NW 2nd Fl
Washington DC 20006-3458
kchalm@dwt.com

W Mark P. Trincherro – **C/HC**
Davis Wright Tremaine, LLP
1300 SW Fifth Ave Ste 2300
Portland, OR 97201-5682
marktrincherro@dwt.com

W Judith Endejan – **C**
Graham & Dunn PC
2801 Alaskan Way, Ste 300
Seattle, WA 98121
jendejan@grahamdunn.com

W Karen L. Clauson - **C**
Integra Telecom, Inc.
6160 Golden Hills Dr.
Golden Valley, MN 55416-1020
klclauson@integratelecom.com

W	<p>Greg L. Rogers – C Level 3 Communications LLC 1025 Eldorado Blvd Broomfield, CO 80021 greg.rogers@level3.com</p>	W	<p>Wayne Belmont Lincoln County Legal Counsel 225 W Olive St., Rm 110 Newport, OR 97365 wbelmont@co.lincoln.or.us</p>
W	<p>Adam Lowney - C/HC McDowell Rackner & Gibson PC 419 SW 11th Ave, Ste 400 Portland, OR 97205 adam@mcd-law.com</p>	W	<p>Wendy McIndoo - C McDowell Rackner & Gibson PC 419 SW 11th Ave., Ste 400 Portland, OR 97205 wendy@mcd-law.com</p>
W	<p>Lisa F. Rackner - C McDowell Rackner & Gibson PC 419 SW 11th Ave., Ste 400 Portland, OR 97205 lisa@mcd-law.com</p>	W	<p>Greg Marshall Northwest Public Comm. Council 2373 NW 185th Ave - #310 Hillsboro, OR 97124 gmarshall@corbantechologies.com</p>
W	<p>Randy Linderman Pacific Northwest Payphone 2373 NW 185th Ave Hillsboro, OR 97124-7076 rlinderman@gofirestream.com</p>	W	<p>Edwin B. Parker Parker Telecommunications PO Box 402 Gleneden Beach, OR 97388 edparker@teleport.com</p>
W	<p>Kelly Mutch – C PriorityOne Telecommunications Inc. PO Box 758 La Grande, OR 97850-6462 managers@p1tel.com</p>	W	<p>Bryan Conway – C/HC Public Utility Commission of Oregon PO Box 2148 Salem, OR 97308-2148 bryan.conway@state.or.us</p>
W	<p>Michael Dougherty – C/HC Public Utility Commission of Oregon PO Box 2148 Salem, OR 97308-2148 michael.dougherty@state.or.us</p>		<p>Patrick L. Phipps – C/HC QSI Consulting, Inc. 3504 Sundance Dr. Springfield, IL 62711</p>
	<p>Alex M. Duarte – C Qwest Corporation 310 SW Park Ave. 11th Fl Portland, OR 97205-3715 alex.duarte@qwest.com</p>		<p>Mark Reynolds Qwest Corporation 1600 7th Ave Rm 3206 Seattle, WA 98191 mark.reynolds3@qwest.com</p>

W Diane Browning
Sprint Communications Co. LP
6450 Sprint Pkwy
Overland Park, KS 66251
diane.c.browning@sprint.com

W Kristin L. Jacobson – C
Sprint Nextel
201 Mission St. Ste 1500
San Francisco, CA 94105
kristin.l.jacobson@sprint.com

W William Sargent
Tillamook County Counsel
1134 Main Ave.
Tillamook, OR 97141
wsargent@oregoncoast.com

Barbara Young
CenturyLink
902 Wasco St ORHDRA0305
Hood River, OR 97031
barbara.c.young@centurylink.com

W Kenneth Schifman
Sprint Communications Co. LP
6450 Sprint Pkwy
Overland Park, KS 66251
kenneth.schifman@sprint.com

Dave Conn
T-Mobile USA, Inc.
12920 SE 38th St.
Bellevue, WA 98006
dave.conn@t-mobile.com

Lyndall Nipps – C
tw telecom of Oregon, LLC
9665 Granite Ridge Dr. – Ste 500
San Diego, CA 92123
lyndall.nipps@twtelecom.com

W Adam Haas
WSTC
10425 SW Hawthorne Ln
Portland, OR 97225
adamhaas@convergecomm.com

/s/

Alex M. Duarte

W – waived paper service
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