BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

UM 1484

In the Matter of

CENTURYLINK, INC.

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

QWEST CORPORATION

DIRECT TESTIMONY

OF

JUDITH A. PEPPLER

QWEST COMMUNICATIONS INTERNATIONAL, INC.

MAY 24, 2010

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I. IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION WITH QWEST.

A. My name is Judith A. Peppler and my current business address is 421 SW Oak Street, Room 8S3, Portland, OR 97204. After June 30, 2010, my address will be 310 SW Park Avenue, 11th Floor, Portland, OR 97205. I am employed by Qwest as the Oregon State President for Qwest Corporation ("QC") and other Qwest regulated companies.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EMPLOYMENT EXPERIENCE.

A. I received a B.S. in Business Management from Arizona State University in 1987 and an M.B.A. in 1995 from Boise State University. My professional experience in the telecommunications industry spans 23 years working for Qwest and its predecessors, U S WEST Communications, Inc. ("U S WEST"), Northwestern Bell and Mountain Bell. I have held various positions in network, human resources, community affairs and public policy for U S WEST. I have been the Oregon President since 2000 with responsibility for Qwest's Oregon operations, including oversight and integration of sales, marketing, network, regulatory, media and legislative strategies for Qwest in the state.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THIS COMMISSION?

A. No.

II. INTRODUCTION

Q. ON WHICH PARTY'S BEHALF ARE YOU FILING TESTIMONY IN THIS PROCEEDING?

A. My direct testimony is prepared on behalf of Qwest Communications International, Inc. ("QCII" or "Qwest"), which has petitioned to intervene in this proceeding. An application ("Application") under ORS 759.375 has been filed by CenturyLink, Inc. ("CenturyLink") for approval of the indirect transfer of control of QC, which is a regulated telecommunications utility in the state of Oregon. The Application is being concurrently filed by CenturyLink, which is the parent company of several other telecommunications utilities operating in Oregon, and which is merging with QCII, the parent company of QC.

As Qwest explained in its petition to intervene, filed concurrently with this testimony, Qwest did not join as a formal applicant for the transaction because neither ORS 759.375 nor ORS 759.380 apply to Qwest due to the Commission's approval of QC's price plan in Order No. 08-408 in Docket UM 1354, which included the waiver of those statutes as to QC. Nevertheless, as an intervenor and party, Qwest will respond to all relevant discovery and otherwise participate fully in this proceeding.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my direct testimony is to demonstrate to the Commission that the proposed merger transaction between CenturyLink and Qwest (the "Transaction") is in the public interest and should be approved.

Q. WHAT OREGON LEGAL STANDARDS DOES YOUR TESTIMONY ADDRESS?

A. It is my understanding that the Commission considers whether the Transaction causes no harm and thus, whether it is consistent with the public interest. If the Transaction causes no harm, the application satisfies the standard for approval. Qwest believes that the Transaction will not only cause no harm, but will provide significant benefits to the customers of the combined company, and thus is in the public interest.

As described below, the Transaction will be transparent to customers, and all of Qwest's current regulatory and customer obligations will be met on a going-forward basis. The Transaction will create a financially strong and stable provider that has an enhanced ability to invest in local and national networks, deploy broadband and other advanced services, and provide outstanding service quality to its customers. The combined company will be positioned to compete effectively for customers in the increasingly competitive telecommunications market, in Oregon and nationally. Competition—particularly intermodal competition—is widespread, with wireless and wireline carriers competing vigorously for customers with a wide array of voice, video and data offerings. As a result of this robustly competitive market environment, carriers such as Qwest and CenturyLink face unique pressures and must have the strategic flexibility to bring new products and expanded services to the marketplace quickly to enhance the customer experience. The Transaction will result in a company with the financial strength and flexibility and increased scale and scope to better compete against cable companies and other intermodal competitors within its local regions, and nationally, allowing it to meet the unique needs of residential, business, wholesale and government customers.

Q. ARE OTHER WITNESSES OFFERING TESTIMONY IN THIS PROCEEDING?

A. Yes. Three other witnesses are presenting testimony in this proceeding. John Jones, CenturyLink's Vice President of State Government Affairs, will describe the merger transaction, and demonstrate that CenturyLink has the managerial, operational and technical ability and experience to manage the combined company in the public interest. Todd Schafer, CenturyLink's President of the Mid-Atlantic Region, will provide a brief overview and history of CenturyLink and describe the company's demonstrated ability to successfully complete the integration process in previous acquisitions. Mr. Schafer will also testify about CenturyLink's localized "go to market" service delivery model. G. Clay Bailey, CenturyLink's Senior Vice President and Treasurer, will describe the compelling financial features of the Transaction, and demonstrate that the merger will result in a company that will have the financial resources necessary to invest in infrastructure to better serve the customers of Oregon. The Transaction results in no new debt, contains no complicated "financial engineering," and will result in a company with solid debt coverage ratios and sufficient liquidity.

Q. PLEASE DESCRIBE THE QWEST ENTITIES OPERATING IN OREGON THAT ARE IMPACTED BY THIS TRANSACTION.

A. The Qwest entities operating in Oregon are Qwest Corporation ("QC"), Qwest LD Corp ("QLDC"), and Qwest Communications Company, LLC ("QCC"). Each of those entities is a direct subsidiary of Qwest Services Corp., which is a subsidiary of Qwest Communications International Inc. ("QCII"). QCII is a publicly-traded holding company with subsidiaries providing incumbent local exchange carrier operations in 14 states, including Oregon, and nationwide competitive local exchange and interexchange operations.

QCII is the indirect sole shareowner of QC, which provides telecommunications services in Oregon and 13 other states. QC provides regulated retail and wholesale service under the jurisdiction of this Commission. QC also provides interconnection") service to Competitive Local Exchange Carriers ("CLECs") through numerous interconnection agreements under the auspices of the Telecommunications Act of 1996 (the "Act"), all of which are approved by this Commission. QCII is the indirect sole shareowner of QLDC, which provides resale interexchange services under the regulation of this Commission. QLDC is the entity formed by Qwest as part of the approval processes under Section 271 and 272 of the Act to provide interLATA interexchange services originating in Oregon. QCC provides long distance and competitive local exchange services and provides facilities-based and resold interexchange and competitive local exchange services nationwide, including in Oregon.

Q. ARE THE PARTIES SEEKING EXPEDITED APPROVAL OF THE MERGER TRANSACTION?

A. Yes. Expedited treatment is requested to allow the companies to more quickly integrate the companies in order to bring the benefits described in my testimony to consumer, business and wholesale customers sooner.

III. <u>THE TRANSACTION</u>

Q. PLEASE BRIEFLY DESCRIBE THE CENTURYLINK-QWEST MERGER TRANSACTION.

A. On April 21, 2010, Qwest and CenturyLink entered into an Agreement and Plan of Merger to consummate the Transaction. The Transaction is a tax-free, stock-for-stock transaction 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 completion of the Transaction, the shareholders of pre-merger CenturyLink will own approximately 50.5% of post-merger CenturyLink, and the shareholders of pre-merger QCII will own approximately 49.5% of post-merger CenturyLink. CenturyLink will issue new stock to acquire QCII and the Transaction does not involve the payment of cash. The Transaction is not financed through debt or any sort of complex financing tools used in some other recent telecommunications merger transactions. Finally, the Transaction does not result in the transfer of assets, exchanges or operations to a wholly different provider. QCII will become a wholly-owned subsidiary of CenturyLink. QCII's operating subsidiaries, QC, QCC and QLDC, will remain subsidiaries of QCII. As such, the structure and financing of the Transaction are simple. Exhibit A attached to the Application shows the pre- and post-transaction corporate structure.

Q. MR. BAILEY DESCRIBES THE FINANCIAL IMPACTS OF THE TRANSACTION. HAS QWEST REDUCED ITS LEVEL OF NET DEBT OVER THE PAST FEW YEARS?

A. Yes. Qwest has steadily reduced its level of net debt over the past several years. As of the end of 2009, Qwest's net debt as reported in its fourth quarter 2009 earnings announcement was $11.8 billion,[1] which represents more than a 23% reduction from Qwest's $15.4 billion net debt at the end of 2004.[2] Qwest has continued to lower its net debt in the first quarter of 2010, with a reduction to $11.7 billion.[3] Qwest plans to reduce debt further prior to the closing of the Transaction.

[1] See http://investor.qwest.com/earningsarchive.
[2] See Form 10-K of Qwest Communications International for the fiscal year ended December 31, 2005.
[3] See http://investor.qwest.com/earningsarchive.

IV. IMPACT ON CURRENT REGULATORY AND CUSTOMER OBLIGATIONS

Q. HOW WILL THE MERGER IMPACT QWEST'S OPERATIONS IN OREGON?

A. The Transaction involves a parent-level transfer of control of QCII only. QC, QCC and QLDC will continue to operate as separate carriers, and each will continue to provide services to their customers under the same regulatory regime in existence prior to the merger. After the transaction is completed, there may be a change in the names under which the companies are doing business (i.e., the "d/b/a" name), and certain billing operations may be combined, but otherwise the transaction will be transparent for customers.[4] Retail end-user and wholesale customers will continue to receive service from the same carrier that serves them today. In sum, when the transaction is completed, the regulated entities will have a new indirect owner in CenturyLink, but all else will remain as it is today.

Q. WILL THE POST-MERGER REGULATED ENTITIES CONTINUE TO COMPLY WITH EXISTING REGULATORY OBLIGATIONS?

A. Yes. The new company, and its regulated entities, will abide by all applicable local, state and federal regulatory obligations.

Q. WILL THE POST-MERGER QWEST REGULATED COMPANY CONTINUE TO OPERATE UNDER THE TERMS OF QC'S PRICE PLAN ("PRICE PLAN") APPROVED BY THE COMMISSION?

A. Yes. On August 8, 2008, the Commission issued Order No. 08-408 in Docket UM 1354, accepting the stipulation of the parties, including Commission Staff and the Citizens' Utilities Board ("CUB"), and approving QC's Price Plan, with

[4] Appropriate customer notice will be provided if a company name change occurs in the future.

certain conditions. This Price Plan has a five-year term, and the post-merger company will continue to comply with all pricing, service quality, reporting and other requirements as defined in the Price Plan. For example, Qwest will continue to abide by the price caps for first-line residential (1FR) and business (1FB) lines, its $4 million infrastructure obligation, its service quality obligations, and the provisions for review and renewal of the plan. The Price Plan will be up for review after the end of the fourth year (August 8, 2012). During this period, QC will provide the Commission's Staff ("Staff") with financial information, and the company and Staff will conduct a review of the provisions of the Price Plan to determine if changing conditions warrant its modification.

In sum, nothing in the merger transaction will change *any* of the terms of the QC Oregon Price Plan. The Merger will not result in customer disruption or confusion; the combined entity's services will continue to be offered under the same regulatory regime that exists today. Any changes to such services will require the same regulatory approval that applies to those services pre-merger.

Q. WILL THE POST-MERGER REGULATED COMPANY PROVIDE SERVICES TO RETAIL CUSTOMERS IN OREGON IN ACCORDANCE WITH THE SAME TARIFFS, PRICE LISTS, CATALOGS AND RATE SCHEDULES THAT WERE IN EFFECT PRIOR TO THE COMPLETION OF THE TRANSACTION?

A. Yes.[5]

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[5] For QC, QCC and QLDC, these tariffs, price lists, catalogs and rate schedules include:

Tariffs – Exchange and Network Services; Statement of Interconnection and Unbundled Network Elements; Access Services Tariff; Private Line Transport Services Tariff No. 31;

Price Lists – Exchange and Network Services Price List; Advanced Communications Services Price List; Access Services Price List; Private Line Transport Services Price List;

Q. WILL THE MERGER TRANSACTION IMPACT QWEST'S WHOLESALE RELATIONSHIP WITH OTHER CARRIERS?

A. No. Currently, Qwest has Commission-approved Interconnection Agreements with many CLECs, and these agreements will not be impacted by the Transaction. All prices, terms and conditions of these agreements will remain in effect until such time as they are renegotiated or expire by their own terms. In addition, Qwest's Oregon access services tariff, PUC No. 32, will remain in effect after the merger is consummated. In sum, 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.

Q. WILL THE MERGER HAVE ANY IMPACT ON QWEST'S APPLICATION FOR A GRANT FROM THE BROADBAND INITIATIVES PROGRAM (BIP) ADMINISTERED BY THE RURAL UTILITIES SERVICE?

A. No. On March 25, 2010, Qwest filed an application for a federal stimulus grant from the Broadband Initiatives Program ("BIP"), a program of the U.S. Department of Agriculture ("USDA"), to extend broadband at speeds of 12 to 40 Mbps to rural communities throughout its local service region, including Oregon. The total cost of the proposed deployment would be $467 million, and Qwest is requesting a grant for $350 million (75% of deployment costs) region-wide. Of this $350 million, Qwest is seeking $44 million in Oregon to fund projects totaling $59

Catalogs – Exchange and Network Services Catalog; Advanced Communications Catalog; Private Line Transport Service Catalog; Access Services Catalog No 4; QCC Local Exchange Service Catalog; and

Rate Schedules – QCC Interexchange Telecommunications Services Rate Schedule No. 1; QLDC Interexchange Telecommunications Services Rate Schedule No 1.

million for the deployment of broadband services to more than 71,000 new living units. The Transaction will not have any impact on this request.

V. THE MERGER IS IN THE PUBLIC INTEREST

A. Economies of Scale and Scope

Q. PLEASE BRIEFLY DESCRIBE THE ATTRIBUTES OF THE COMBINED COMPANY.

A. The combined company at the end of 2009 had an enterprise value (market capitalization and debt) of approximately $37 billion ($19 billion from Qwest and $18 billion from CenturyLink). For 2009, the two companies reported combined revenues of approximately $20 billion. The combined company will operate a fiber network of approximately 180,000 miles and serve more than 5 million broadband customers and 17 million access lines. In Oregon, Qwest currently serves more than 802,000 total access lines, with more than $3.3 billion in investment, and it employs more than 800 people throughout the state. CenturyLink serves approximately 109,000 total access lines, with more than $590 million in investment, and it employs almost 500 people throughout Oregon. The Qwest and CenturyLink networks are largely complementary, with Qwest serving many of the larger urban areas in Oregon, including Portland, Salem, Eugene, Medford and Bend, along with many other mid-size cities and rural areas. CenturyLink serves many more rural areas, particularly in central and western Oregon.

Q. DO YOU BELIEVE THAT THE PROPOSED MERGER OF CENTURYLINK AND QWEST IS IN THE PUBLIC INTEREST?

A. Yes. The merger is in the public interest and will provide a number of benefits to current customers of CenturyLink and Qwest in Oregon. First, as described by Mr. Bailey, the combined Qwest-CenturyLink entity will be stronger and more stable from a financial perspective than either entity would be on its own. As a result, the combined entity will have access to the necessary capital to invest in a network capable of providing enhanced products and services. For example, the post-merger company will be able to more aggressively pursue deployment of its Fiber to the Cell Tower ("FTTCT") and Fiber to the Node ("FTTN") facilities. This fiber-rich network will increase broadband speeds to consumers, and allow the company to further develop new video choices to better serve customers. The post-merger company will be well positioned to make the investments necessary to compete more effectively in the rapidly-changing and increasingly competitive telecommunications market.

Second, the combined company will have a strategic focus to offer products and services at rates, terms and service quality levels that provide differentiation in the market. Even a carrier that knows its customers' preferences cannot compete effectively in today's marketplace without sufficient size and scope to match those preferences with suitable products or services offered at affordable rates. The post-merger enterprise will be able to focus more strategically and rapidly respond to customer preferences to provide a full portfolio of quality, advanced communications services that will differentiate the company in the markets it serves.

Third, the merging of CenturyLink's regional operating model and targeted marketing focus with Qwest's industry-leading network and strong position in the business, government and wholesale markets will result in the continued provision of high-quality services to retail and wholesale customers in Oregon. Finally, all of these benefits will undoubtedly serve to make the market in Oregon even more competitive, thereby improving choice, prices and service quality for consumers in the state.

Q. WILL THE POST-MERGER COMPANY BE ABLE TO TAKE ADVANTAGE OF INCREASED ECONOMIES OF SCOPE AND SCALE?

A. Yes. The Transaction will result in a combined enterprise that can achieve greater economies of scale and scope[6] than the two companies operating independently. It is readily apparent that the areas served by Qwest and CenturyLink in Oregon are generally complementary, and that the combination of the serving areas will provide for increased economies of scope and/or scale. In many cases, the networks are adjacent or within close proximity to one another, and this will make it easier to implement operating efficiencies and infrastructure improvements. The combination of these networks will allow the combined company to optimize network capacity, benefiting both companies' customers through the deployment of additional bandwidth-intensive services such as broadband service and advanced business products. The increased size of the combined entity is also likely to enhance the purchasing power of the company, which may lead to a reduction in input costs. In addition, the combined company will be able to gain the ability to partner more effectively with other providers, such as satellite TV and wireless providers.

Q. WILL THE COMBINED ENTITY BENEFIT FROM THE COMBINATION OF URBAN AND RURAL ASSETS?

A. Yes. As noted above, the merger will result in a combination of urban and rural assets nationally and in each of the states where Qwest and CenturyLink currently operate, resulting in a more balanced urban and rural footprint. This combination

[6] Economies of scale are the cost advantages that a business obtains due to increased size. Increased efficiency may lower costs because fixed costs are distributed over a greater quantity. Economies of scope are conceptually similar to economies of scale. Whereas economies of scale primarily refer to efficiencies associated with supply-side changes, such as increasing or decreasing the scale of production of a *single product type*, economies of scope refer to efficiencies primarily associated with demand-side changes, such as increasing the scope of marketing and distribution of *different types of products*.

increases the diversity of revenue sources, providing increased company stability, which benefits all customers, including those in Oregon. CenturyLink's distinctive expertise in serving smaller, rural areas, combined with Qwest's industry-leading experience serving enterprise business customers, with its national fiber-optic network and data centers, will position the post-merger entity to capitalize on its collective knowledge of its local customers' preferences, and to deliver innovative technology and product offerings to both its urban and rural markets.

Q. WHAT TYPES OF SERVICES DOES QWEST OFFER TO ENTERPRISE BUSINESS CUSTOMERS?

A. Qwest offers a full portfolio of services to enterprise business and governmental customers, with an increasing focus on offering new state-of-the art "strategic" services. Qwest's business markets customers use its strategic services to access the Internet and Internet-based services, as well as to connect to private networks and to conduct internal and external data transmissions, such as transferring files from one location to another. Qwest also provides value-added services and integrated solutions that make communications more secure, reliable and efficient for its business markets customers. These services include primarily private line, Qwest iQ Networking, hosting, broadband and VoIP services. Qwest hosting services include providing space, power, bandwidth and managed service in 16 hosting centers in 12 metropolitan areas.

B. <u>Enhanced Ability to Compete</u>

Q. WILL THE COMBINED ENTITY BE BETTER ABLE TO COMPETE IN THE NATIONAL TELECOMMUNICATIONS MARKET?

A. Yes. First, from a national perspective, the combined company will be significantly larger than each company alone, and as described above and in the testimony of Mr. Bailey, will have significantly more financial resources and an enhanced ability to attract capital. These resources, along with increased scale and scope, will allow the combined company to adapt to changes in the marketplace, and to better compete nationally with the larger well-capitalized players in the market, such as AT&T, Verizon, Comcast and others. In particular, the post-merger entity will have more resources to compete against AT&T and Verizon in the enterprise business market. For total year 2009, Qwest total Business Markets Group revenues were $4.093 billion, compared to business revenues of $14.74 billion for AT&T and $14.99 billion for Verizon.[7] In terms of business revenues for 10 of its top competitors,[8] Qwest's share of the business market is less than 10%, compared to 33% each for AT&T and Verizon. The Transaction will provide the post-merger entity with the additional financial strength, scale and scope economies and geographic coverage to better compete against these providers, offering state-of-the-art innovative services to large business and government customers throughout the country.

Q. WILL THE LEVEL OF COMPETITION IN THE STATE OF OREGON BE LESSENED BY THE MERGER OF QWEST AND CENTURYLINK?

A. No. Since Qwest and CenturyLink serve complementary service areas in Oregon, residential and business customers will not see the elimination of telephone service provider options in their local areas due to the merger. While in some cases Qwest's and CenturyLink's ILEC subsidiaries serve adjacent areas, the local exchange boundaries of these ILEC subsidiaries do not overlap in Oregon, and I am not aware of any situations in which the companies' ILEC operations in Oregon are

[7] See 2009 10K reports for Qwest at http://qwest.investorroom.com/qcii-sec-filings, Verizon at http://investor.verizon.com/sec/index.aspx and AT&T at http://phx.corporate-ir.net/phoenix.zhtml?c=113088&p=irol-sec&control_selectgroup=Show%20All.

[8] Includes AT&T, Verizon, Sprint, Cbeyond, Cogent, Global Crossing, Level 3, PAETEC, tw telecom and XO Communications.

serving business or residence customers in each other ILEC territories. Thus, the Transaction will not lessen competition in the business/enterprise or residential markets in Oregon. In addition, all of the customers in the Qwest and CenturyLink ILEC exchanges will continue to have multiple intramodal and intermodal competitive options to meet their telecommunications needs—from CLECs, cable providers, wireless providers and VoIP providers—as described below.

Q. WILL THE COMBINED ENTITY BE BETTER ABLE TO COMPETE AGAINST INTRAMODAL AND INTERMODAL COMPETITORS IN THE OREGON TELECOMMUNICATIONS MARKET?

A. Yes. Qwest is facing intense competitive pressures in Oregon, and the level of this competition is increasing rapidly. Between December 2001 and December 2009, Qwest residential and business access lines in Oregon declined more than 50%.[9] Over this same time period, the population of Oregon grew 24%,[10] and it may be conservatively assumed that demand for telecommunications services has, at a very minimum, increased apace over the past decade. Declining access lines in the context of a growing marketplace demonstrates that Qwest's Oregon operations are facing increasing competition from cable telephony providers, wireless providers, VoIP providers and CLECs. Line losses can result in the reduction of economies of scale—a process that can be stemmed by the combination of the two companies. Completing the Transaction would result in increased economies of scale, as well as scope, as described above.

Q. WHAT TYPES OF COMPANIES COMPETE AGAINST QWEST TODAY IN OREGON?

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[9] Based on Qwest billing data.

[10] See http://www.census.gov/popest/states/states.html (population percentage change from June 2001 to June 2009).

A. A diverse group of companies compete against Qwest throughout Oregon markets, offering competing voice and broadband services. Voice competitors include: (1) CLECs and cable TV companies such as Comcast, (2) wireless providers such as AT&T and Verizon Wireless, and (3) VoIP providers such as Vonage and Google. In the broadband market, Qwest is competing with cable TV companies such as Comcast and wireless broadband companies such as AT&T, Verizon and Clearwire.

Q. PLEASE DESCRIBE COMPETITION FROM CABLE COMPANIES IN OREGON.

A. Comcast is the major cable company operating in Oregon. Comcast now offers digital telephone and broadband service to customers in many parts of Oregon, including most of the major cities and towns served by Qwest, especially along the I-5 corridor, from Portland, Salem, Eugene and Medford, as well as other areas in Oregon. Nationally, Comcast now has digital voice service available to 48.4 million - or 95% - of the 51.2 million homes it passes, and now serves 7.6 million voice customers, 15.9 million high-speed Internet customers, and 23.6 million video customers.[11]

Cable companies have been investing in upgrading their networks to the DOCSIS 3.0 standard, which allows far greater broadband speeds. According to the *Broadband in America Report*, "[c]able broadband upgraded to DOCSIS 3.0 is becoming widely available today at advertised speeds as high as 50 Mbps downstream (with one firm advertising 101 Mbps speeds)," and 20 Mbps

[11] Comcast 2009 Annual Report (10K), page 2. See http://files.shareholder.com/downloads/CMCSA/789830167x0xS1193125-10-37551/1166691/filing.pdf.

upstream.[12] Comcast has been particularly aggressive in adding DOCSIS 3.0 capability to its network, which it claims allows much higher broadband speeds of up to 100 Mbps.[13] As of the end of the third quarter of 2009, Comcast had deployed DOCSIS 3.0 "Wideband" capability to 65% of its footprint.[14] Comcast is a large, well-capitalized company that has facilities in place to compete against Qwest in most areas. As a company, in 2009, Comcast reported $35.8 billion in revenue—compared to $12.3 billion for Qwest. As noted earlier, the 2009 pro forma revenues for the combined Qwest-CenturyLink entity are less than $20 billion—still lower than Comcast, but much closer in terms of the competitive scale of the companies.

The post-merger company will have the financial, operational and managerial strength to better compete against Comcast and other cable providers. For example, approval of the Transaction would allow the combined entity to leverage CenturyLink's development of IPTV and Qwest's experience deploying FTTN to provide enhanced entertainment and broadband offerings that compete against cable's DOCSIS 3.0-based offerings. Qwest has been investing significant sums to increase its broadband capability through its FTTN initiative, which allows Qwest to offer broadband services at significantly higher speeds up to 40 mbps downstream and 20 mbps upstream. According to Qwest's first quarter 2010 Earnings Announcement, "Qwest continued to expand its fiber to the node

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[12] *Broadband in America*, Columbia Institute for Tele-Information, released November 11, 2009 ("*Broadband in America Report*"), at 21 and 33. This report, which was prepared for the FCC, is available at http://www.broadband.gov/docs/Broadband_in_America.pdf.

[13] Comcast Comments at Bank of America-Merrill Lynch Conference, September 9, 2009. *See* http://files.shareholder.com/downloads/CMCSA/789830167x0x321428/bb736678-a561-44d5-bece-b201ec4e3cd3/CMCSA-Sep_9,_2009.pdf.

[14] Comcast 3Q09 Earnings call, November 4, 2009. *See* http://files.shareholder.com/downloads/CMCSA/789830167x0x330658/aa0c31f6-483d-4d68-9641-cedb2998de64/Comcast_Q309_Transcript.pdf.

(FTTN) footprint in the quarter, and services are now available to more than 3.8 million residential households." In the first quarter, 64,000 customers added high-speed Internet services that utilize the fiber network.[15] Consumers in Oregon will benefit because the post-merger entity will have the increased financial strength to aggressively pursue such efforts in the future. In addition, Qwest previously announced it would begin development of its next generation of backbone facilities to "provide 100 Gbps speeds across the network when fully implemented over the next year."[16] Such initiatives will be enhanced with the additional financial resources resulting from the merger.

Q. IS COMPETITION FROM WIRELESS PROVIDERS FLOURISHING IN OREGON?

A. Yes. According to the FCC's Local Competition Report, as of June 2008, there were more than 3.0 million wireless subscribers in Oregon, while there were only 1.7 million wirelines (both ILEC and CLEC).[17] In fact, wireless lines have increased almost 140%, from only 1.3 million in June 2001.[18] The FCC data show that the wireless share of the total access line market has grown significantly over this time frame, and wireline access lines now account for less than 40% of all wireline/wireless connections in Oregon.[19]

Most Oregon consumers, except those in extremely remote areas, have wireless options, and the majority has multiple wireless options. The decline in Qwest landlines, coupled with the dramatic increase in wireless connections,

[15] Press Release, Qwest 1Q10 Earnings Report, May 5, 2010.

[16] *Id*.

[17] *Local Telephone Competition: Status as of June 30, 2008,* Industry Analysis and Technology Division, Wireline Competition Bureau, July 2009, Tables 7 and 14.

[18] *Id*., Table 14.

[19] *Id*.

demonstrates that Oregon customers increasingly view wireless phones as a substitute for wireline service.[20] Wireline providers must have the resources to compete effectively against increasingly diverse and advanced wireless options in the marketplace so that customers can continue to benefit from robust competition between the platforms. The post-merger company will have those resources.

Wireless broadband, which includes mobile broadband, fixed-wireless broadband and satellite-based broadband options, is experiencing significant growth, as carriers are making the investment necessary to increase speeds, availability and quality. Increasingly, customers see wireless broadband as a competitive option to wireline broadband services. As wireless broadband speeds increase and wireless devices evolve, it is likely that more and more broadband customers will be tempted to "cut the cord" as they have done with voice services.

Mobile wireless technologies are evolving rapidly. While Internet access was first provided over Second Generation (2G) technology, 2G was supplanted by the 3G technologies that are used to provide mobile broadband in many areas today. 3G can be used to provide downstream speeds of up to 7.2 mbps (using HSPA 7.2).[21] In order to support faster 3G HSPA technology, AT&T is investing heavily in bringing fiber facilities to its cell sites.[22] Many wireless companies, including AT&T and Verizon, are also working towards a 4G Long Term Evolution (LTE)

[20] In fact, a significant number of customers have "cut the cord" and no longer subscribe to wireline service, and this trend is accelerating. According to a survey conducted by the National Center for Health Statistics ("NCHS"), in the last 6 months of 2009, 24.59% of U.S. households did not have a traditional landline telephone, but did have at least one wireless telephone. In addition, another 14.9 % of households are "wireless mostly" and use their wireless phone for nearly all calling. In total, these wireless only and "wireless mostly" households make up almost 40% of households. *Centers for Disease Control and Prevention, National Center for Health Statistics, Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, July-December 2009*, released May 12. 2010, page 1.

[21] *Broadband in America Report*, at 23.

[22] *Id.* at 27.

standard that will allow faster wireless broadband speeds than are available on the current 3G network -- with projected speeds of about 10 mbps.[23] Clearwire, whose investors include Sprint Nextel, Comcast, Time Warner Cable, Google and Intel, has already implemented its “CLEAR” 4G WiMax solution in several cities, including Portland and Salem. CLEAR provides average mobile download speeds of 3 to 6 mbps, with bursts over 10 mbps.[24]

When customers disconnect wireline voice and/or broadband services (i.e., “cut the cord”) in favor of wireless voice and broadband services, additional pressure is placed on landline carriers such as Qwest and CenturyLink. The combined post-merger company will be better equipped to offer innovative voice and broadband services in a more efficient and cost-effective manner, with, for example, greater broadband speeds and reach than either company could achieve alone. Thus, the Transaction better positions the combined company to provide the portfolio of products that can better compete against the many wireless options that are available to customers today and that will be available in the future. Customers will derive a direct benefit from the Transaction since it will help assure that they will continue to have the ability to choose from a wide variety of wireline options to meet their diverse needs.

In addition, the increasing use of wireless broadband has created a significant demand for FTTCT connectivity from wireless carriers. It is in the interests of all consumers that providers like the post-merger company have the resources and capabilities to build fiber infrastructure to cell towers to meet burgeoning wireless broadband demand. The demand for wireless bandwidth is exploding, as customers increasingly rely on wireless devices such as the iPhone and the BlackBerry for

[23] *Id.* at 23.
[24] *Id.*

web access and to download and send files. New applications that demand additional bandwidth are being developed on a continuous basis. This is creating a dramatic increase in the demand for high-speed "fiber to the cell tower" facilities, and Qwest views this as a major growth opportunity. There are approximately 18,000 cell sites in the 14-state Qwest region, and Qwest has already contracted to provide fiber to 4,000 locations.[25] The combined company will have increased resources to take advantage of this significant growth opportunity.

C. Specific Customer Benefits

Q. WHY WILL OREGON CUSTOMERS BENEFIT FROM THE APPROVAL OF THE TRANSACTION?

A. The Transaction will result in a combined enterprise that can achieve greater economies of scale and scope than the two companies operating independently. Customers will benefit from the efficiencies and synergies realized by the combined company. The Transaction will also result in a financially strong and stable company that is able to attract the capital necessary to invest in its network, systems and employees, and to reach more customers with a broad range of high-quality state-of-the-art products—including voice, data and entertainment services—over an advanced network. The post-merger company will be better positioned to effectively compete against cable, wireless and other voice and broadband options, to the direct benefit of customers who will have more choices to meet their needs.

Q. PLEASE DETAIL HOW CONSUMERS WILL BENEFIT FROM THE MERGER TRANSACTION?

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[25] See http://investor.qwest.com/analyst-meeting.

A. Consumers will benefit from CenturyLink's localized "go to market" approach, and the combined company's enhanced ability to develop new and innovative services. For example, current Qwest customers will benefit from knowledge and skills gained in CenturyLink's IPTV markets. Current CenturyLink customers will benefit from Qwest's experience in building out its FTTN network. The combined company's financial resources will allow the company to better meet the challenge of providing broadband to more customers at higher speeds. CenturyLink's rural customers also will benefit from the combined companies' fiber backbone, which will be able to achieve greater transport economies and thus provide more advanced services to rural customers. In addition, more resources will be available to develop new services using platforms such as VoIP.

Q. PLEASE DISCUSS HOW BUSINESS CUSTOMERS WILL BENEFIT FROM THE MERGER TRANSACTION.

A. CenturyLink's regional operating model and targeted marketing focus, coupled with Qwest's industry-leading network and strong business, government and wholesale focus, will position the combined company to improve and expand deployment of innovative advanced products and services to business customers nationally and in Oregon. The combination creates a robust, national fiber network backbone network of approximately 180,000 miles, with a distribution network serving more than 17 million access lines across 37 states. The combined entity will be able to deliver strategic and customized product solutions to business, wholesale and government customers throughout the nation by combining Qwest's significant national fiber-optic network and data centers and CenturyLink's core fiber network. The company will have increased ability to serve the needs of local, regional and national businesses and government agencies.

Q PLEASE SUMMARIZE HOW WHOLESALE CUSTOMERS WILL BENEFIT FROM THE MERGER TRANSACTION

A. The additional financial resources, combined network capacity and geographic reach afforded by the merger will allow the combined company to continue to serve wholesale customers by providing a much broader footprint than either company can currently offer independently. For example, as the demand for broadband wireless services has mushroomed, the need for additional fiber capacity to serve cellular tower sites (often referred to as wireless backhaul) has increased dramatically. As noted above, Qwest is already committing significant resources to serve the increased demand from wireless carriers in its region, and the combined entity will provide the resources to continue this investment.

VI. <u>CONCLUSION</u>

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. CenturyLink has filed an application under ORS 759.375 that seeks this Commission's approval of the Merger Agreement of CenturyLink and Qwest. In reviewing this Transaction, the Commission considers whether the Transaction causes no harm, and thus is consistent with the public interest. My testimony on behalf of intervenor Qwest, a party to the Transaction, has addressed a number of the customer benefits associated with the Transaction that demonstrates the merger is in the public interest.

The merger will not result in customer disruption or confusion; the combined entities' services will continue to be offered under the same regulatory regime that exists today in Oregon. The new company will abide by all regulatory obligations that were in place in Oregon before the merger, including QC's Oregon Price Plan obligations. Additionally, CLECs and IXCs will continue to receive high-quality wholesale services from the post-merger company at the rates, terms and conditions that are contained in current interconnection agreements and access tariffs.

The Transaction will also result in a combined enterprise that can achieve greater economies of scale and scope than the two companies operating independently. The areas served by Qwest's and CenturyLink's ILEC subsidiaries in Oregon are complementary, and the combination of the serving areas will make it easier to implement operating efficiencies and infrastructure improvements. The combination of the company's strengths will also allow the post-merger company to optimize network capacity that facilitates the deployment of additional bandwidth-intensive services, such as broadband service and advanced business products.

Finally, the increased scale and scope afforded by the merger will allow the combined entity to better compete nationally with the larger well-capitalized players in the market, such as AT&T, Verizon, Comcast and others. This improved competitive positioning benefits customers by giving them more choices for their communications needs. Consequently, the Commission should approve the Transaction, as it is consistent with the public interest.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.