

1

BEFORE THE

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PUBLIC UTILITY COMMISSION OF OREGON

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UM 1484

4

5 In the Matter of

6

7 CENTURYLINK, INC.

8

9 Application for Approval of Merger between

10 CenturyTel, Inc. and Qwest Communications

11 International, Inc.

12

13

SPRINT

14

SUPPLEMENTARY TESTIMONY

15

OF

16

JAMES A. APPLEBY

17

18

REDACTED VERSION

19

20 November 11, 2010

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is James A. Appleby. My business address is 6450 Sprint Parkway,
Overland Park, Kansas 66251.

Q. What is your position and who are you representing in this proceeding?

A. I am employed as a Regulatory Policy Manager for Sprint United Management
Company, and I am testifying on behalf of Sprint Communications Company L.P.,
Sprint Spectrum, L.P., Nextel West Corp., and NPCR, Inc. (collectively, "Sprint
Nextel" or "Sprint"). Sprint Nextel is a provider of wireline long distance service,
wireless communications services, and wholesale services to cable providers in
Oregon.

Q. Please summarize your educational background and business experience.

A. I hold a Bachelor of Science degree in accounting from Shippensburg University in
the state of Pennsylvania, and I became a Certified Public Accountant in
Pennsylvania in 1989. I have been employed by Sprint since 1989. I began working
with Sprint's Regulatory Policy Group in 1996, and in my current position as
Regulatory Policy Manager I am responsible for the development of state and federal
regulatory and legislative policy for all divisions of Sprint Nextel. I am also
responsible for the coordination of regulatory policy across business units. The
policy issues I oversee include, among others, intercarrier compensation, universal
service support, service pricing, access charge reform, reciprocal compensation, and
local competition.

1 **Q. Have you previously testified before other state Commissions?**

2 A. Yes. In my position as a manager of regulatory policy issues I have testified before
3 the Public Service Commission of South Carolina, the Missouri Public Service
4 Commission, the Indiana Utility Regulatory Commission, the Michigan Public
5 Service Commission, the New Jersey Board of Public Utilities, the Virginia State
6 Corporation Commission, the Nebraska Public Service Commission, the Kansas
7 Corporation Commission, the Arizona Corporation Commission, the Illinois
8 Commerce Commission, the Pennsylvania Public Utility Commission, the Minnesota
9 Public Utilities Commission, and the Iowa Utilities Board. I have also testified
10 before various state legislative committees on regulatory issues. Additionally, I
11 routinely work with the Commission staffs in the states where Sprint Nextel provides
12 services, as well as with the staff of the Federal Communications Commission
13 ("FCC").

14 **II. PURPOSE AND SUMMARY OF TESTIMONY**

15 **Q. What is the purpose of your supplemental responsive testimony?**

16 A. The purpose of this testimony is to provide insight and additional information as
17 permitted by the ALJ's October 15 and November 4 Rulings based upon my review
18 of the Hart-Scott-Rodino Act ("HSR") documents produced in this docket by Joint
19 Petitioners Qwest and CenturyLink ("Petitioners")¹.

20 **Q. Please summarize your testimony.**

¹ By letter dated October 26, 2010 CenturyLink agreed to allow Sprint to use the HSR documents produced in the Washington merger proceeding (Docket No. UT-100820) in this proceeding.

1 A. The Petitioners' internal communications about their proposed merger demonstrate
2 that they well understand the market power the Merged Firm will possess. A merger
3 of two ILECs that not only results in the combination of their extensive local
4 networks but also the addition of a comprehensive national long distance network
5 creates significant opportunities to wield market power above and beyond that
6 typically seen in an ILEC-ILEC merger. In addition, the Merged Firm's combined
7 network is not just a voice network – it is a platform for the Merged Firm to provide
8 many other non-voice products. Specifically, the combined network will enable
9 significant revenue opportunities such as broadband internet service, internet protocol
10 television, and Fiber-to-the-Cell (FTTC). This, plus the advantageous “owner's
11 economics” associated with the Merged Firm's ability to avoid the excessively high
12 access charges that it imposes on all competitors using its now hugely expanded local
13 network, increases its market power even more. Finally, the Merged Firm's internal
14 communications demonstrate it acknowledges and anticipates regulatory intervention
15 to control its ability to wield market power.

16 **Q. Do you sponsor any exhibits with your testimony?**

17 A. Yes. I cite to a wide variety of the HSR documents Petitioners have designated as
18 highly confidential pursuant to the Highly Confidential Protective Order. I attach the
19 cover page and the relevant page(s) of the HSR documents to this testimony as
20 highly confidential exhibits to this testimony.

1 **III. THE MERGED FIRM WILL ENJOY**
2 **UNWARRANTED MARKET POWER THAT NEEDS TO BE ADDRESSED TO**
3 **AVOID SIGNIFICANT COMPETITIVE HARM**
4

5 **Q. Do Petitioners recognize that as a result of the increased magnitude of its**
6 **operations, regulatory agencies' will closely evaluate whether the merger will**
7 **lead to increased market power that could harm the competitive marketplace?**

8 **A. Yes. CenturyLink states that as a result of the proposed merger [Begin Confidential**
9 **Data] [REDACTED]**
10 **[REDACTED] [End**
11 **Confidential Data].”²**

12 **Q. Do the merging companies recognize the strategic value of adding a facilities-**
13 **based interexchange carrier network to the CenturyLink Corporation?**

14 **A. Yes. The Petitioners internal communications [Begin Confidential Data] [REDACTED]**
15 **[REDACTED]**
16 **[REDACTED] [End Confidential**
17 **Data].³ Petitioners also note that [Begin Confidential Data] [REDACTED]**
18 **[REDACTED] [End Confidential**
19 **Data].⁴**

20 **Q. Mr. Frentrup testified that the Qwest IXC network provides the Merged Firm**
21 **with both expense savings and revenue opportunities. Do Petitioners agree?**

² CenturyLink Production- Attachment 4 (c) – 29 (Sprint/5).

³ CenturyLink Production- Attachment 4 (c) – 21 Key Transaction Benefits and Consideration, 4-12-10 (Sprint/6); Attachment 4 (c) – 28 Network Due Diligence, 4-19-10 (Sprint/7).

⁴ Qwest Production - Attachment 4 (c) – 31 Rating Agency Presentation, 4-20-10 (Sprint/8).

1 A. Yes. Numerous internal documents discuss the incremental expense savings and
2 revenue opportunities that are available with the CenturyTel and Embarq merger. The
3 following section of testimony documents the Merged Firm's understanding of
4 revenue opportunities and then the expense savings that would result from this
5 merger.

6 **Q. What are the revenue opportunities available to the Merged Firm?**

7 A. As discussed in Mr. Frentrup's testimony, the Merged Firm will have increased sales
8 opportunities in the residential and enterprise customer (business) market.⁵ And as I
9 discuss further in Section IV below, the expanded network opens up additional
10 revenue opportunities to provide broadband and entertainment services either as
11 stand-alone services or bundled with traditional local/long distance voice services.

12 **Q. Please explain the expense savings associated with the Merged Firm owning the**
13 **Qwest IXC.**

14 A. The Merged Firm will generate saving in two distinct areas of its network. First, the
15 Merged Firm will save money on long distance transport by moving traffic from a
16 third party network onto the Merged Firm's long distance network. Second, the
17 Merged Firm's interexchange carriers will also save money on local termination costs
18 by moving their traffic off of a third party's network onto its own network for
19 termination to the customer. In both cases, the Merged Firm will own the network
20 components and enjoy the economic benefits of that ownership.

21 **Q. What does the term "owner's economics" refer to?**

⁵ Frentrup Direct Testimony pp. 5-7.

1 A. "Owner's economics" is a commonly used term referring to the economic benefit of
2 network functions that are available only to the owner of the network facilities. The
3 owner of network facilities, in this case the Merged Firm, incurs only the actual
4 economic cost of the functions the network provides. All other companies
5 unaffiliated with the Merged Firm using those network functions will continue to pay
6 whatever wholesale rates the Merged Firm chooses to charge, one example being the
7 bloated rates CenturyLink currently charges for switched and special access services.
8 Qwest IXC will no longer incur the bloated access charges of the legacy CenturyLink
9 ILECs but instead, as an affiliated company of the Merged Firm, will incur only the
10 much lower actual cost of the legacy CenturyLink ILEC's network functionality. Mr.
11 Frentrup explained this concept in his testimony but did not use the term owner's
12 economics.⁶

13 **Q. Will the Merged Firm enjoy owner's economics with respect to long distance**
14 **transport?**

15 A. Yes. The Merged Firm will realize owner's economics on the incremental amount of
16 long distance traffic that it can move from third-party long distance transport
17 providers currently handling it to the Qwest long distance transport network. These
18 long distance transport savings are calculated by comparing the price the Merged
19 Firm's entities pay other carriers for long distance transport versus Qwest's cost to
20 carry the incremental traffic on its long distance transport network. When a company
21 self-provisions, the economic cost is the actual cost the company incurs to provide the
22 service to itself. On the other hand, when a company must purchase the function

⁶ Frentrup Direct Testimony pp. 6-7

1 from another carrier, the actual cost is the price the company must pay the other
2 carrier.

3 **Q. Will the Merged Firm also enjoy owner's economics with respect to the costs of**
4 **local termination, namely switched access and special access services?**

5 A. Yes. As previously noted, Mr. Frentrup discussed this topic in detail in his direct
6 testimony. He explained how the Merged Firm can use its market power against all
7 other unaffiliated providers.⁷

8 **Q. Do Petitioners acknowledge that as a result of the merger they will realize the**
9 **economic benefits of reduced local termination and long distance transport costs**
10 **identified in Mr. Frentrup's testimony?**

11 A. Yes. [Begin Confidential Data] [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED] [End
17 Confidential Data].⁸

18 **Q. Do the Petitioners acknowledge that they will have an increased sales**
19 **opportunity in the enterprise market?**

20 A. Yes. [Begin Confidential Data] [REDACTED]
21 [REDACTED] [End

⁷ Frentrup Direct Testimony p. 7

⁸ CenturyLink Production - Attachment 4 (c) - 28 (Sprint/9).

1 Confidential Data].⁹ The sales opportunity is primarily [Begin Confidential Data]
2 [REDACTED] [End

3 Confidential Data].¹⁰ This is because [Begin Confidential Data] [REDACTED]
4 [REDACTED] [End Confidential Data].¹¹

5 Q. Do Petitioners recognize that this opportunity is based on the economic
6 advantages associated with its ownership of an expanded local network?

7 A. Yes. [Begin Confidential Data] [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED] [End Confidential Data].¹²

16 Q. Do Petitioners recognize this is a significant form of market power?

17 A. Yes. [Begin Confidential Data] [REDACTED]
18 [REDACTED]
19 [REDACTED]

⁹ CenturyLink Production - Attachment 4 (c) - 21 Key Transaction Benefits and Consideration, 4-12-10 (Sprint/10).

¹⁰ CenturyLink Production - Attachment 4 (c) - 29 Wholesale Diligence Update 4-19-10 (Sprint/11).

¹¹ CenturyLink Production - Attachment 4 (c) - 3 (Sprint/12).

¹² CenturyLink Production - Attachment 4 (c) - 37 (Sprint/13).

1 [REDACTED]

2 [REDACTED] [End Confidential Data].¹³

3 Q. Mr. Frentrup testified that the accounting of costs and revenues within the
4 Merged Firm means it will no longer be concerned with the access prices that the
5 Qwest IXC will be charged by its affiliated ILECs.¹⁴ Do Petitioners internal
6 communications support this testimony?

7 A. Yes. [Begin Confidential Data] [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED] [End

15 Confidential Data].¹⁵ This of course follows from the fact that the Merged Firm's
16 accounting will completely offset the excessive access rates the Qwest IXC will pay
17 to it's ILEC affiliates with the revenues those excessive rates raise for the ILEC
18 affiliates.

19 Q. What should the Commission do to control the Merged Firm's market power
20 that results from its owner's economic advantage of the local termination
21 facilities?

¹³ CenturyLink Production - Attachment 4 (c) - 21 (Sprint/14).

¹⁴ Frentrup Direct Testimony p. 6 line 4-10

¹⁵ CenturyLink Production - Attachment 4 (c) - 22 (Sprint/15).

1 A. Sprint has proposed a merger condition in Mr. Frentrup's testimony with respect to
2 local termination facilities :

3 1) No later than 30 days after the closing date of the merger, all legacy
4 Century Link ILECs in Oregon (CenturyTel, Embarq ILECs) must reduce
5 their intrastate switched access rates to mirror the intrastate access rates
6 and rate structure of the Qwest ILEC in Oregon; and

7 2) No later than 120 days after the closing date of the Merger, all
8 CenturyLink ILECs in Oregon (CenturyTel, Embarq and Qwest ILECs)
9 must reduce their intrastate switched access rates to mirror the interstate
10 switched access rates and rate structure of Qwest.

11 **Q. Why is this merger condition necessary?**

12 A. Sprint's merger condition is just that---a condition that this Commission
13 should impose to alleviate the competitive harm that will be caused by the
14 merger, if approved. By proposing this Sprint is not asking this Commission
15 to engage in major access charge reform. This condition would be no
16 different than other conditions the Commission could impose to protect other
17 stakeholders in this proceeding, such as a limit on basic consumer rate
18 increases. Sprint, as a major wholesale customer and competitor to the
19 Merged Firm, will be harmed if it must absorb in its rates costs that the
20 Merged Firm can avoid by virtue of the merger due to "owner economics."
21 This real competitive harm can be alleviated by requiring access rate parity
22 between the Joint Applicants, as Sprint proposes.

1 Q. If the Commission agrees with these conditions, would Oregon be the only state
2 in which the Merged Firm's intrastate rates have been changed to reflect the
3 market changes?

4 A. No. CenturyLink explained that its access revenues will be impacted by past
5 regulatory and legislative rulings in the states of Virginia, New Jersey, Missouri,
6 Washington, Kansas, Michigan and Wisconsin. Access revenues will be reduced by
7 these mandated rate reductions by [Begin Confidential Data] [REDACTED]
8 [REDACTED] [End Confidential Data].¹⁶ There
9 are also regulatory rulings pending in at least two other states, Pennsylvania and
10 Arizona that may reduce the subsidies embedded in the Merged Firm's intrastate
11 access rates even further. Ohio has just started a review of intrastate switched access
12 service. Many other states have recognized the need to address the market distortions
13 caused by bloated intrastate switched access rates. The condition Sprint requests
14 would be consistent with activities in other states.¹⁷

15 IV. THE MERGED FIRM'S MARKET POWER IS NOT
16 LIMITED TO VOICE SERVICES

17 Q. What does Mr. Frentrup's testimony say about how the Commission should
18 view the Merged Firm's expanded local and long distance network?

19 A. The network is not just providing local and long distance voice service as it did in the
20 past, but providing that and the transmission of all other data necessary to provide
21 internet, video, and entertainment services. This transition cannot be ignored if the

¹⁶ Qwest Production - Attachment 4 (c) - 44 (Sprint/16).

¹⁷ The FCC has addressed access rates in merger proceedings before. The FCC's interstate switched access rate benchmark also recognizes that larger ILECs should have lower access rate levels. 47 C.F.R. § 61.3 (qq). Bell Operating companies rates are set at \$.0055, middle-size ILECs are \$.0065, and the smaller price cap carriers rates are set at \$.0095.

1 public interest is to be served. The financial viability of the ILEC holding companies
2 cannot be evaluated by examining the trend in local access lines, as ILECs often ask
3 Commissions to do. The Commission must take into consideration all of the services
4 currently provided, as well as the future revenue opportunities associated with
5 services that will be provided, on the network.

6 **Q. Do Petitioners recognize that the Merged Firm will continue to be the dominant**
7 **provider of landline service within its service area?**

8 A. Yes. Petitioners' internal communications show [Begin Confidential Data] [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED] [End Confidential Data].¹⁸ It is also important to note that in its
12 long-range plan, Qwest is forecasting [Begin Confidential Data] [REDACTED]
13 [REDACTED] [End Confidential Data].¹⁹

14 **Q. Do the Petitioners recognize that additional non-voice services will help the**
15 **Merged Firm to compete in the market?**

16 A. Yes. The Merged Firm believes [Begin Confidential Data] [REDACTED]

17 [REDACTED] [End Confidential Data] in a competitive
18 retail market.²⁰ Specifically, the addition of internet protocol television ("IPTV")

¹⁸ CenturyLink Production - Attachment 4 (c) - 10 (Sprint/17).

¹⁹ CenturyLink Production - Qwest Long-Range Plan, March 23, 2010 (Sprint/18).

²⁰ CenturyLink Production - Attachment 4 (c) - 59 (Sprint/19).

1 [Begin Confidential Data] [REDACTED]

2 [REDACTED] [End Confidential Data].²¹

3 **Q. Generally, how have Petitioners' ILECs transitioned their networks from**
4 **providing only voice to also providing broadband and entertainment services?**

5 A. The ILEC copper network that was built to provide quality voice service was
6 augmented with DSL technology over the past ten years to provide broadband
7 services. This involved installing electronic components to the network to connect
8 customers' local loops to transport facilities that connect to the internet. The distance
9 between the electronic device and the customer's location determines the bandwidth
10 or speed of the customer's internet connection. As customers demanded faster
11 internet connections and the ILECs identified other services such as video
12 entertainment that can be provisioned over those broadband networks, the ILECs
13 have extended fiber facilities closer to the customers (fiber to the node) and then
14 installed electronics closer to the customers to connect that fiber to the copper loops.

15 **Q. Has the Merged Firm acknowledged the existing network in place will facilitate**
16 **the latest transition to provide IPTV?**

17 A. Yes. CenturyLink explains [Begin Confidential Data] [REDACTED]

18 [REDACTED]
19 [REDACTED]
20 [REDACTED] [End Confidential Data]²² Similarly,

21 the Network President of CenturyLink states [Begin Confidential Data] [REDACTED]

²¹ Qwest Production - Attachment 4 (c) - 42 (Sprint/20).

²² Qwest Production - Attachment 4 (c) - 42 (Sprint/21).

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2

[REDACTED]

[REDACTED] [End Confidential Data].²³

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4

Q. According to the Petitioners, do the retail customers view Qwest solely as a provider of local voice service?

5

A. No. Qwest tracks the trends of what service packages the customers are purchasing.

6

7

In its analysis, Qwest tracked what product package the new customers (1-30 days in tenure) purchased. Of those customers, [Begin Confidential Data] [REDACTED]

8

9

[REDACTED]

[REDACTED] [End Confidential Data].²⁴

10

Based on this data, [Begin Confidential Data] [REDACTED]

11

[REDACTED]

12

[REDACTED] [End Confidential Data]. Clearly, the customers of

13

14

Qwest do not view Qwest as only a voice provider or as the only voice provider in the market. In fact, the customers view Qwest as a broadband provider as much as they

15

view it as a voice service provider based on their purchase decisions.

16

17

Q. What effect do the additional services have on the average revenue per user (ARPU)²⁵?

18

19

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A. For Qwest, the mass market ARPU has increased from \$45.83 in the first quarter of 2005 to \$61.64 in the first quarter of 2010, a 34.5% increase.²⁶ In a similar period, legacy Embarq reported consumer ARPU increasing from \$49.60 in the first quarter

²³ CenturyLink Production - Attachment 4 (c) - 28 (Sprint/22).

²⁴ CenturyLink Production- Attachment 4 (c) - 4 (Sprint/23).

²⁵ ARPU is the average revenue per user in a given month.

²⁶ Qwest quarterly public financial statements.

1 of 2005 to \$56.71 in the first quarter of 2009, a 14.3% increase.²⁷ CenturyTel to my
2 knowledge has never reported such information publicly and does not report the post-
3 merger data for legacy Embarq areas either. In discovery, however, CenturyLink
4 revealed its consumer ARPU for all ILEC areas will approximate [Begin
5 Confidential Data] [REDACTED] [End Confidential Data] in 2010, and legacy Embarq has
6 increased its ARPU to approximately [Begin Confidential Data] [REDACTED] [End
7 Confidential Data] increase from 2005.²⁸

8 Q. What is the ARPU by service sold?

9 A. CenturyLink revealed it is currently generating [Begin Confidential Data] [REDACTED]
10 [End Confidential Data] for a combination local and long distance voice services,
11 [Begin Confidential Data] [REDACTED] [End Confidential Data] for broadband internet
12 service, and [Begin Confidential Data] [REDACTED] [End Confidential Data] on the
13 limited number of customers that have purchased IPTV.²⁹ The Merged Firm
14 forecasts broadband penetration to grow [Begin Confidential Data] [REDACTED]
15 [REDACTED] [End Confidential Data],³⁰ and its penetration in IPTV markets to reach [Begin
16 Confidential Data] [REDACTED] [End Confidential Data].³¹ Clearly, the Merged Firm
17 has opportunities to increase ARPU given Qwest's acknowledgment that [Begin
18 Confidential Data] [REDACTED] [End

²⁷ Embarq quarterly public financial statements.

²⁸ Qwest Production - Attachment 4 (c) - 53 (Sprint/24).

²⁹ Qwest Production - Attachment 4 (c) - 44 (Sprint/25).

³⁰ *Id.*

³¹ CenturyLink Production - CenturyLink HSR No. 23, IPTV Quartz Review Sensitivities, April 15, 2010 (Sprint/26).

1 Confidential Data]³² and [Begin Confidential Data] [REDACTED]
2 [REDACTED] [End Confidential Data].³³

3 Q. Did the Petitioners' higher revenues contribute to higher profit margins in the
4 mass markets?

5 A. Yes. Qwest's profit margin on mass market revenues increased from [Begin
6 Confidential Data] [REDACTED] [End Confidential Data] from 2007 to 2009.³⁴

7 Q. What other facts about broadband high speed internet service are important for
8 the Commission to understand when evaluating the financial strength of the
9 Merged Firm?

10 A. The cost of Qwest's high-speed internet service in 2009 was [Begin Confidential
11 Data] [REDACTED] [End
12 Confidential Data].³⁵ This type of cost efficiency will clearly drive margin
13 improvements, especially if the Merged Firm is able to penetrate the broadband
14 market more deeply, as it forecasts it will.

15 Q. What percentage of Qwest households is covered by the Fiber-to-the-Node
16 (FTTN) technology that makes higher-speed broadband and IPTV possible?

³² CenturyLink Production - Attachment 4 (c) - 1 (Sprint/27).

³³ CenturyLink Production - Attachment 4 (c) - 3 (Sprint/28).

³⁴ Qwest Production - Attachment 4 (c) - 59 (Sprint/29).

³⁵ *Id.*

1 A. Qwest will have deployed FTTN to [Begin Confidential Data] [REDACTED]
2 [REDACTED] [End Confidential Data] households in its local service areas by year-
3 end 2010.³⁶

4 Q. How much incremental revenue is the Merger Firm forecasting from IPTV from
5 2010 to 2013?

6 A. The Merged Firm forecasts it will increase IPTV revenue from [Begin Confidential
7 Data] [REDACTED]
8 [REDACTED] [End Confidential Data].³⁷ The Merged Firm plans to sell IPTV [Begin
9 Confidential Data] [REDACTED] [End Confidential Data].³⁸ This will
10 be the second non-regulated product the Merged Firm offers over the local connection
11 that was originally built to provide voice service that has a [Begin Confidential
12 Data] [REDACTED] [End Confidential Data] ARPU than the original voice product.³⁹ As a
13 result, the Merged Firm will have more than [Begin Confidential Data] [REDACTED] [End
14 Confidential Data] the revenue it can collect on its network. Still, the Merged Firm
15 argues it is entitled to burden all competing carriers with access charges that are far
16 above the cost of the function provided.

17 Q. Does CenturyLink plan to offer IPTV service in Oregon?

³⁶ Qwest Production - Attachment 4 (c) - 63 (Sprint/30).

³⁷ Qwest Production - Attachment 4 (c) - 44 (Sprint/31).

³⁸ *Id.*

³⁹ Qwest Production - Attachment 4 (c) - 44 (Sprint/32).

1 A. [Begin Confidential Data] [REDACTED]
2 [REDACTED] [End
3 Confidential Data].⁴⁰

4 Q. The other big opportunity the Merged Firm has identified for future growth is
5 Fiber-to-the-Cell site (FTTC). What did the Merged Firm disclose about its
6 FTTC plans?

7 A. Qwest only agrees to build FTTC [Begin Confidential Data] [REDACTED]
8 [REDACTED] [End Confidential Data].⁴¹ Seldom do
9 companies entertain business opportunities with paybacks beyond this timeframe. Of
10 the estimated [Begin Confidential Data] [REDACTED] [End Confidential Data]
11 that will have bandwidth requirements that justify FTTC deployment by [Begin
12 Confidential Data] [REDACTED] [End Confidential Data], Qwest already has contracts for
13 [Begin Confidential Data] [REDACTED] [End Confidential Data].⁴² The Merged Firm
14 targets cell sites that have [Begin Confidential Data] [REDACTED] [End
15 Confidential Data] of special access services today, and a spend of [Begin
16 Confidential Data] [REDACTED] [End Confidential Data] per cell tower per year.⁴³
17 With paybacks likely guaranteed as a result of [Begin Confidential Data] [REDACTED]
18 [REDACTED] [End Confidential Data] and [Begin
19 Confidential Data] [REDACTED] [End Confidential Data].⁴⁴ of the market addressed to
20 date in Qwest's service area, the Merged Firm can use its near monopoly market

⁴⁰ CenturyLink Production - HSR No. 23 (Sprint/33).

⁴¹ Qwest Production- Attachment 4(c) - 63 (Sprint/34).

⁴² *Id.*

⁴³ Qwest Production - Attachment 4 (c) - 44 (Sprint/35).

⁴⁴ Qwest Production - Attachment 4(c) - 63 (Sprint/36).

1 share of local access facilities to continue to dominate the wireless backhaul market
2 into the future.

3 **Q. Is wireless backhaul essential to today's wireless services industry and to the**
4 **continued development of wireless data services?**

5 A. Yes. Wireless services are only truly wireless for a very small portion of the end-to-
6 end communications path, from the customer's handset to the wireless cell tower.
7 After that point they usually traverse landline facilities. In addition, wireless
8 customers are demanding more and more bandwidth for the services that today's
9 smart phones can provide - email, texting, and streaming mobile video - and to meet
10 this demand wireless carriers are augmenting the bandwidth between their cell sites
11 and the mobile carriers' first switching location. Wireless carriers rely on special
12 access for these connections. The Merged Firm's investment in FTTC means more
13 opportunity for it to raise revenues from the captive wireless carriers in this market.
14 And while we are not asking for the Commission to regulate special access rates our
15 point is once again, the market power the Merged Firm has as a result of the
16 substantial service opportunities its ubiquitous local networks create.

17 **Q. Please summarize this section of your testimony.**

18 A. The Merged Firm is not just a provider of voice services. The customers of the
19 Merged Firm demonstrate this with their purchase decisions. The Merged Firm has
20 **[Begin Confidential Data]** [REDACTED] **[End Confidential Data]** the potential
21 revenue it can generate from many its retail customers. The Merged Firm also has
22 significant opportunities to provide wholesale services such as FTTC into the future.

1 All of these changes demonstrate the Commission should recognize the regulation of
2 the ILEC must change. Specifically, continuing to permit the Merged Firm to burden
3 all competing carriers with high switched access rates is not necessary financially,
4 and is anti-competitive. If the Commission is inclined to approve the merger, it
5 should order Sprint's proposed limitations on the Merged Firm's access charges as a
6 condition of its approval.

7 V. HISTORY SUGGESTS LITTLE BENEFIT TO CUSTOMERS, RETAIL
8 OR WHOLESALE AS A RESULT OF THIS MERGER

9 Q. In his direct testimony⁴⁵ Mr. Frentrup explained the significant returns the
10 equity shareholders of CenturyLink receive via dividends. Did the Merged
11 Firm's discovery responses provide further clarity as to the returns of the
12 CenturyLink shareholders?

13 A. Yes. CenturyLink demonstrated that it returned more than [Begin Confidential Data]
14 [End Confidential Data] of the cumulative free cash flows to shareholders
15 during the period from 2004 to third quarter 2009. A total of [Begin Confidential
16 Data] [End Confidential Data] was shared with shareholders, [Begin
17 Confidential Data] [End Confidential Data] in dividends and [Begin
18 Confidential Data] [End Confidential Data] in stock repurchases
19 occurred during the period.⁴⁶ This history demonstrates retail and wholesale
20 customers are not likely to benefit unless the Commission prescribes conditions on
21 this merger, should it be approved.

⁴⁵ Frentrup Direct Testimony pp. 17-18

⁴⁶ Qwest Production of Attachment 4(c) – 73 (Sprint/37).

Q. What conclusions have you drawn from reviewing Petitioners' internal communications about the proposed merger?

A. First, Petitioners clearly realize that the regulatory agencies will recognize the Merged Firm's enhanced size raises market power issues. Second, that Sprint and the other competing carriers who have intervened in this proceeding are correct that the Merged Firm will indeed have enhanced market power and intends to exercise that power. And finally, if the Commission is inclined to approve the merger Sprint's proposed conditions are necessary to preserve the public interest.

Q. Does this conclude your testimony?

A. Yes.

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1484

In the Matter of

CENTURYLINK, INC.

Application for Approval of Merger between
CenturyTel, Inc. and Qwest Communications
International, Inc.

) Docket No. UM 1484

) **EXHIBITS TO SUPPLEMENTAL**
) **RESPONSIVE TESTIMONY OF**
) **JAMES A. APPLEBY OF SPRINT**
) **NEXTEL CORPORATION**

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/5

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/6

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/7

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/8

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/9

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/10

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/11

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/12

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/13

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/14

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/15

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/16

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/17

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/18

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/19

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/20

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/21

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/22

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/23

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/24

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/25

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/26

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/27

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/28

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/29

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/30

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/31

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/32

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/33

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/34

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/35

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/36

IS REDACTED IN ITS ENTIRETY

**SUPPLEMENTAL RESPONSIVE TESTIMONY OF JAMES A. APPLEBY OF
SPRINT NEXTEL CORPORATION**

EXHIBIT SPRINT/37

IS REDACTED IN ITS ENTIRETY