BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

Joint Application of Qwest Communications International, Inc. and CenturyTel, Inc. for Approval of Indirect Transfer of Control of Qwest Corporation, Qwest Communications Company, LLC, and Qwest LD Corporation DOCKET NO. 10-049-16

REBUTTAL TESTIMONY

OF

JERRY FENN

QWEST COMMUNICATIONS INTERNATIONAL, INC.

September 30, 2010

1Q.PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION WITH2OWEST CORPORATION.

A. My name is Jerry Fenn, and I am Utah State President for Qwest. My business address is
250 E. 200 S., Suite 1614, Salt Lake City, Utah 84111-2003.

5 Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY ON MAY 27, 2010 IN 6 THIS PROCEEDING?

7 A. Yes.

8 Q. WHAT IS THE PURPOSE FOR YOUR REBUTTAL TESTIMONY?

9 A. The purpose of my rebuttal testimony is to address certain intervenor testimony that was 10 filed on August 30, 2010. I address various alleged issues, concerns or conditions that 11 the Utah Division of Public Utilities ("DPU"), the Utah Office of Consumer Services ("OCS"), the Salt Lake Community Action Plan ("SLCAP") and the United States 12 Department of Defense ("DOD") have raised. Additionally, I address in general terms 13 14 the alleged issues, concerns or conditions that the CLECs raise. My rebuttal testimony 15 demonstrates that, despite the various parties' opposition, the Commission should find 16 that the merger transaction between the CenturyLink and Qwest parent companies ("the 17 Transaction") is in the public interest, and therefore, that the Commission should approve it without any conditions. 18

Q. ARE OTHER WITNESSES OFFERING REBUTTAL TESTIMONY IN THIS PROCEEDING ON BEHALF OF THE JOINT APPLICANTS?

Yes. Five other witnesses present rebuttal testimony in response to the other parties. For 1 A. 2 CenturyLink, Jeremy Ferkin will primarily discuss operations issues, and Michael R. Hunsucker will primarily respond to the CLECs' and the DPU's proposed wholesale 3 4 conditions. For Qwest, Robert Brigham will primarily respond to the Joint CLECs' 5 arguments about "market power" and the DOD's incorrect information about competition in Utah. Karen Stewart will respond to several of the Joint CLECs' proposed wholesale 6 conditions, and Michael Williams will discuss the Qwest Performance Assurance Plan 7 8 ("QPAP") and will respond to the Joint CLECs' proposal for an "additional" PAP."

9 Q. IN HIS DIRECT TESTIMONY, DPU WITNESS CASEY COLEMAN STATED: 10 "CONSUMERS IN UTAH HAVE MANY DIFFERENT OPTIONS WHEN 11 DECIDING HOW TO BEST MEET THEIR TELECOMMUNICATIONS NEEDS. 12 AS A RESULT OF THE VARIETY OF CHOICES, COMPETITION IN THE 13 RETAIL MARKET IS ROBUST."¹ DO YOU AGREE?

14 A. Yes, I agree with Mr. Coleman that competition in the retail telecommunications market in Utah is robust. This competitive environment is more fully described in my direct 15 testimony and in Mr. Brigham's rebuttal testimony. What I find to be inconsistent, 16 17 however, is that even though it takes a position that competition in the retail telecommunications market is "robust," the DPU nevertheless advocates retail conditions 18 19 that would only be applicable to Qwest and not to any other competitors. As described later in this testimony, the DPU's proposed conditions are simply unnecessary to protect 20 21 customers in a competitive Utah marketplace.

¹ Direct Testimony of Casey J. Coleman ("Coleman Direct"), p. 5, lines 102-105.

IN HIS DIRECT TESTIMONY, MR. COLEMAN STATES: "OWEST AS THE Q. 1 2 BOC IN THE STATE OF UTAH PLAYS A VARIETY OF ROLES IN EACH OF THESE AREAS MAKING IT POSSIBLE FOR PEOPLE TO ACCESS THE 3 INTERNET, COMPLETE CALLS BOTH LOCALLY AND OUT OF STATE, 4 AND EVEN TO A CERTAIN EXTENT, PROVIDING THE BACKBONE TO 5 TRANSPORT CELLULAR CALLS AND COMPLETE THE TRANSFER OF 6 7 DATA AND VOICE MESSAGES. WITHOUT A HEALTHY, INNOVATIVE COMPANY FULFILLING THESE VARIOUS ROLES, CONSUMERS IN UTAH 8 COULD BE AFFECTED NEGATIVELY."² PLEASE RESPOND. 9

10 A. It is true that Qwest provides the various services described in the above statement. It is 11 also true that other facilities-based providers such as Comcast, XO, Level 3, Integra, First 12 Digital and other CLECs also provide various combinations of these same services. As 13 described in my direct testimony and in Mr. Brigham's rebuttal testimony, the 14 telecommunications market in Utah is very competitive and Utah business and residential 15 customers have choices.

As I described in my direct testimony, the post-merger company will have the financial and operational resources to provide high-quality innovative services to Utah consumers and businesses. However, if the post-merger company is saddled with unreasonable, onerous and unnecessary conditions, it could make the company less competitive, and customers could be harmed by having fewer meaningful choices for voice, internet and video services. The best way to advance a framework where the combined company can be "healthy" and "innovative" is for the Commission to reject the intervenors' various

² Coleman Direct, pp. 4 and 5, starting at line 85.

requests and thus refuse to impose unreasonable, onerous and unnecessary conditions
which would only apply to the combined company and not equally to any other
competitors. Such competitive imbalance could have impacts in the marketplace that
would adversely impact the combined company.

Q. IN HIS TESTIMONY, MR. COLEMAN STATES THAT "BECAUSE OF THIS EVOLVING MARKETPLACE, CONSUMERS HAVE A VARIETY OF CHOICES, WHICH MEANS IN SOME INSTANCES THE BOC MAY NOT BE THE MONOPOLY PROVIDER OF SERVICES."³ PLEASE RESPOND.

9 A. I agree that "consumers have a variety of choices," but I disagree with Mr. Coleman to
10 the extent that his statement implies that in some instances Qwest, as a BOC, remains a
11 monopoly provider. Any such implication would completely ignore competitors such as
12 Comcast and many other facilities-based competitors that serve in Qwest's service
13 territory in Utah.

14 Utah customers have a variety of choices, and only in very few situations are customers 15 limited to one telecommunications provider. Consumers and business customers have a number competitive choices available to them. In most areas where it serves, Qwest is 16 17 not the only facilities-based provider as cable companies also offer many of the same 18 services. In almost all areas customers also have various wireless options available to them. The term "monopoly provider" simply no longer has relevance in today's evolving 19 and highly-competitive telecommunications market and thus should not be applied to 20 21 Qwest or to the combined company.

³ Coleman Direct, p. 6, lines 120-122.

1Q.THE DPU, OCS AND DOD ALL PROPOSE CONDITIONS THAT WOULD2FREEZE PRICES OF VARIOUS SERVICES CONTAINED IN QWEST'S PRICE3LIST THAT HAVE BEEN GRANTED PRICING FLEXIBILITY. DOES THE4COMMISSION NEED TO IMPOSE CONDITIONS FREEZING ANY OF5QWEST'S RETAIL PRICES?

No. Through various legislative actions, Qwest has been granted pricing flexibility over 6 A. 7 the past several years for all of its retail public telecommunication services in Utah. For example, in 2005, Senate Bill 108 granted Qwest pricing flexibility for all retail public 8 9 telecommunications services, with the exception of basic residential service. Last year, 10 House Bill 216 eliminated the cap on basic residential service. In granting that pricing 11 flexibility, the Utah Legislature has acknowledged the that market for telecommunications services is competitive and that competition will act as a regulator 12 13 for pricing. Because the Utah Legislature has already granted such pricing flexibility, I do not believe the Commission would have the authority to impose these types of 14 proposed conditions. I believe that any attempt to do so could violate Utah law and 15 would certainly undermine the intent of the Utah Legislature.⁴ Pursuant to statute, the 16 Commission can impose an upper limit on prices, applicable to all telecommunications 17 corporations holding a certificate of public convenience and necessity. The Commission 18 can also revoke a telecommunications corporation's authority to offer a public 19 telecommunications service pursuant to a price list or competitive contract, or adopt 20 21 conditions or restrictions on a telecommunications corporation's pricing flexibility. 22 These safeguards that the Utah Legislature imposed adequately address any possible

⁴ Both Senate Bill 108 and House Bill 216 were passed unanimously on the House and Senate floors, demonstrating the very strong support for these changes.

concern about what might happen to Qwest's prices after the merger.⁵ Further, this
merger will not alter the consumer retail market at all in the state of Utah because the
merger will result in the addition of only about nine Utah access lines being served out of
a wire center in a neighboring state. Thus, even if it were lawful to do so in this merger
proceeding, I do not believe that any rate freezes are necessary to protect customers from
any "harm" as a result of the Transaction.

Finally, even if these safeguards were not in place, my direct testimony and Mr.
Brigham's rebuttal testimony explains how competitive the telecommunications market
in Utah is today. Market forces resulting from competition will keep the combined
company's rates in Utah reasonable and competitive.

Q. THE DPU PROPOSES A CONDITION THAT WOULD PREVENT THE COMBINED COMPANY FROM DISCONTINUING FOR A PERIOD OF AT LEAST ONE YEAR ANY REGULATED INTRASTATE RETAIL SERVICE. SHOULD THE COMMISSION ADOPT THIS CONDITION?

A. No, this condition is not necessary. The combined company will continue to offer retail public telecommunication services pursuant to its Utah price lists, and there are no immediate changes to service offerings anticipated at the present time. Any condition that limits the combined company's flexibility would undermine the Utah Legislature's previous actions. There is simply no evidence to justify this condition. Even if there was any such evidence, this proceeding is not within the statutory parameters for the Commission to take such action. Simply put, the market in Utah should be allowed to

⁵ Utah Code Ann., § 54-8b-2.3 (Pricing Flexibility).

operate without unnecessary intervention by the Commission to remove the flexibility the
 combined company needs to respond to changing competitive pressures.

Q. THE DPU PROPOSES CUSTOMER NOTIFICATION OF THE MERGER AND CHANGE OF THE PARENT COMPANY AS OUTLINED IN ITS CONDITION 1. DO THE JOINT APPLICANTS AGREE?

6 A. No, this condition is not necessary. The combined company will continue to comply with 7 all state and federal law regarding any customer notification requirements with the change in ownership at the parent level. It is therefore redundant to have a condition that 8 9 the combined company will comply with existing law. The Transaction involves a 10 parent-level transfer of control of the Qwest parent company, Qwest Communications 11 International, Inc. ("QCII"), only. The other Qwest entities, Qwest Corporation, Qwest Communications Company, LLC and Qwest LD Corp, will continue to operate in Utah as 12 13 separate subsidiaries, and each will continue to provide services to their customers under 14 the same Utah regulatory framework that was in existence pre-merger. After the 15 Transaction is completed, there may be a change in the names under which the 16 companies are doing business (i.e., the "d/b/a" name), and certain billing and back-office 17 operations may be combined, but otherwise, the Transaction will be transparent for customers.⁶ Retail end-user and wholesale customers will continue to receive service 18 19 from the same carrier that serves them today, and the associated legal and contractual 20 obligations will be unaffected by the Transaction.

⁶ Appropriate customer notice would be provided if a company name change occurs in the future, as well as filing updated tariffs and price lists with the Commission.

Q. IN ITS RECOMMENDED CONDITION 6, THE DPU PROPOSES ADDITIONAL REPORTING REQUIREMENTS. DOES QWEST AGREE WITH THIS REQUIREMENT?

A. No, additional reporting requirements are not necessary, and in the competitive market in
Utah, it would be improper to single out one provider and impose conditions and
regulatory burdens that do not also apply to all other providers. There is no basis for
unnecessarily micro-managing the combined company, reversing the deregulatory trend
of reduced reporting requirements that is appropriate in a competitive environment.
There is no indication that such reporting would be needed, or what such information
would be used for that would justify its need to be provided.

Q. IN ITS CONDITIONS, THE DPU PROPOSES VARIOUS BROADBAND DEPLOYMENT AND REPORTING CONDITIONS. SHOULD THE COMMISSION IMPOSE BROADBAND CONDITIONS?

14 A. No. First, I do not believe the Commission has jurisdiction over broadband services because broadband services are not public telecommunications services. Moreover, even 15 if the Commission had any such authority, broadband deployment conditions are not 16 17 necessary. Broadband is already a very competitive service. Other providers, including 18 the Joint CLECs in this proceeding and Comcast, provide competitive alternatives to 19 Qwest's broadband offerings today, and will continue to do so after the merger. If the Commission were to adopt this proposed condition, it could require the combined 20 company to make significant uneconomic investments in order to meet a "definite 21 22 percentage goal."

Further, for more than 12 years, Qwest has been investing in broadband in Utah, and has 1 2 increased significantly the areas where broadband is now available. Qwest has invested in Utah based on rational economic principles, including an anticipated return on 3 4 investment. For the most part, any remaining locations in Qwest's service territory without Qwest-provided broadband services are locations where making such 5 deployments may not be economically sound or feasible. Some of the areas that Qwest 6 does not serve, however, may already be served by another broadband provider, such as, 7 for example, Comcast. Forcing the combined company to make uneconomically-sound 8 9 or less than prudent investments would harm the combined company in the competitive 10 market. If policymakers are concerned about expanding broadband availability to un-11 served areas, there are other ways to address these issues, such as the federal stimulus program, additional appropriations to the Utah Rural Broadband Service Fund,⁷ or 12 13 expanding universal service to include broadband deployment. Again, any required broadband commitment would be an attempt to micro-manage the combined company, 14 and would impose deployment and reporting conditions on the combined company that 15 would not apply to any of the combined company's competitors. 16

17Q.ON PAGE 5 OF ITS PROPOSED CONDITIONS, THE DPU RECOMMENDS18OTHER SERVICE QUALITY REPORTING CONDITIONS. DOD WITNESS19CHARLES W. KING ALSO RECOMMENDS INCREASED SERVICE QUALITY20REPORTING. SHOULD THE COMMISSION REQUIRE ADDITIONAL21SERVICE QUALITY REPORTING BY THE COMBINED COMPANY?

⁷ The Utah Rural Broadband Service Fund is a program that the Utah Legislature established when it passed Senate Bill 268 during the 2007 General Session to help support broadband deployment in areas not currently served by any provider.

No. The reporting requirements of the existing Commission service quality rule are more 1 A. 2 than sufficient. Mr. Coleman, in discussing the existing reports that Qwest provides to the Commission, stated that "[t]hese reports demonstrate that Owest has been exhibiting a 3 high level of customer service over the last few years.⁸ He also stated that "[t]he 4 5 Division believes that the existing rules for retail service quality are adequate to ensure a high level of customer service post-merger."⁹ Despite these positive statements, 6 7 however, the DPU nevertheless recommends the imposition of additional reporting requirements upon the combined company. Such action is unwarranted. 8

9 The existing requirements originated more than 10 years ago. The telecommunications market, however, has changed dramatically since that time, and as indicated in this 10 11 testimony, my direct testimony, and Mr. Brigham's rebuttal testimony, the telecommunications market is very competitive today, in Utah and elsewhere. 12 The provisions of Commission Rule R746-340-8 and R746-340-9 apply only to Qwest. The 13 14 DPU has provided no evidence to justify the need to create a wider gap in regulatory 15 parity by increasing the combined company's service quality reporting requirements. In 16 a robustly-competitive environment, it makes no sense to single out the combined 17 company for additional reporting requirements. If anything, the existing rules should at 18 some point be eliminated, or if not, then the rules should be changed to apply equally to 19 all providers. Regardless, this is an example of an issue that the Commission should not 20 (and need not) address in this merger proceeding.

⁸ Coleman Direct, p. 9, lines 201-202.

⁹ Coleman Direct, pp. 9-10, starting at line 207.

THE DPU HAS PROPOSED NUMEROUS WHOLESALE CONDITIONS IN THIS 1 Q. 2 PROCEEDING, EVIDENTLY BASED UPON THE PREMISE THAT "THERE IS NO GUARANTEE, AND CENTURYLINK OR QWEST HAVE PROVIDED NO 3 PROOF, THAT INTEGRATION WILL BE FLAWLESS."¹⁰ PLEASE RESPOND. 4 5 If the DPU truly believes that "flawless" should be the standard for integration of the two A. companies, such belief would be erroneous, and any such expectations would be 6 7 fundamentally flawed. I doubt that any provider which has acquired other companies in recent years has been "flawless" in its integrations. 8

9 Regarding the DPU's apparent belief that there must be a "guarantee" or "proof" of a negative (proof that there will not be any problems in integration), the DPU's 10 11 expectations exceed any applicable standard, as do the CLECs' expectations. As Mr. Ferkin addresses in his rebuttal testimony, CenturyLink and Qwest are early in the 12 process of developing integration plans, and for that reason, it is not possible or practical 13 14 to provide the types of specifics about integration that the CLECs or the DPU evidently 15 believe should be provided at this point in time. Much of the integration planning cannot 16 even take place until after the merger has closed as CenturyLink and Qwest must 17 continue to operate as two separate companies until then. It is unreasonable to believe or 18 to expect the Applicants to know all of the details of future integration plans at this time.

19 Nevertheless, based upon my experience and my review of the testimony of the 20 CenturyLink witnesses in this proceeding, I believe this Commission can have confidence 21 in the ability of the combined company's management to successfully carry out the 22 integration and to continue to meet all of its regulatory and legal obligations. As Mr.

¹⁰ Coleman Direct, p. 12, lines 274-277.

1 Oman stated in his direct testimony: "CenturyLink has a significant history of successful 2 acquisitions and integrations during the past ten years."¹¹ This is further reinforced in the 3 direct testimonies of Mr. Glover and Mr. Ferkin of CenturyLink.¹²

4 Q. MR. COLEMAN IN HIS DIRECT TESTIMONY RECOMMENDED THAT THE 5 COMMISSION FOLLOW THE TENET OF "HOPE FOR THE BEST AND PLAN 6 FOR THE WORST." PLEASE RESPOND.

7 The DPU in proposing its conditions is clearly assuming the "worst" by seeking to A. impose a variety of unreasonable conditions that are similar in many ways to the onerous 8 9 and unnecessary conditions that the Joint CLECs propose. It appears that in arriving at 10 its conclusions to support its proposed conditions, the DPU has relied heavily on the 11 CLECs' testimony in other jurisdictions, including Iowa, which Mr. Coleman references 12 in his testimony. However, apart from the fact that there is no basis for the CLECs' 13 requests for their numerous unreasonable, onerous and unnecessary conditions, I note that 14 the intervening CLECs in Iowa have now settled with the Joint Applicants.

15 It is, perhaps, advantageous for the CLECs here to express concerns assuming the worst, 16 especially if this helps them advocate for conditions that either negate or significantly 17 reduce the financial benefits that can be realized by this Transaction. The CLECs, 18 however, are pursuing their competitive self interests, and thus attempting to use the 19 regulatory process to obtain "conditions" that could clearly weaken a competitor and give 20 them certain advantages in competing with the combined company. This is explained in 21 the rebuttal testimony of Mr. Hunsucker for CenturyLink. It is not, however, in the

¹¹ Direct Testimony of Clair Oman, p. 7, lines 97-98.

¹² See Direct Testimony of Jeff Glover, pp. 13-14; Direct Testimony of Jeremy Ferkin, starting at p. 14.

public interest for this Commission to allow such strategic actions by imposing
 unreasonable, onerous and unnecessary requirements on only one provider, and not
 equally to others. The Commission should be pro-competition, and not pro-competitor.

The DPU's support of many of the CLECs' proposed conditions is troubling and 4 5 The DPU fails to explain why existing safeguards, including existing misguided. interconnection agreements and the requirements of Section 251, 252 and 271 of the 6 7 Telecommunications Act are not adequate to ensure that the combined company will continue to meet all of its regulatory and legal obligations to the CLECs in Utah. These 8 9 safeguards have been in place in Utah and the federal level for many years and will continue to be in place after the merger is completed. The DPU does not cite to any 10 11 significant problems that necessitate expanding such requirements. Indeed, these 12 safeguards have been more than adequate to ensure that Qwest has continued to meet its regulatory and legal obligations to CLECs, both in Utah and elsewhere.¹³ There is no 13 14 evidence that these same safeguards would suddenly become inadequate to ensure that 15 the combined company continues to meet all of its regulatory and legal obligations to 16 CLECs in Utah after the merger.

Q. THE SLCAP RECOMMENDS THAT THE COMBINED COMPANY IMPROVE LIFELINE AND LINK-UP OUTREACH. DO THE JOINT APPLICANTS AGREE?

A. No. Even though Qwest and CenturyLink are both committed to Lifeline and Link-Up
 service, it is unnecessary to impose these proposed requirements on the combined

¹³ Mr. Hunsucker for CenturyLink also addresses this issue in his rebuttal testimony.

company. The combined company will remain committed to reasonable Lifeline and 1 2 Link-up outreach activities for qualifying low-income customers. In the past, Commission Staff has conducted meetings to determine appropriate outreach activities. 3 4 Pursuant to Commission Rule R746-341, the combined company will be reimbursed for 5 the "total cost of providing Lifeline telephone service," and the combined company will continue to cooperate with the Commission and carry out reasonable outreach activities. 6 7 For this reason, there is no need to impose specific outreach conditions on the combined company. This is an issue that the Commission does not need to address in the merger 8 proceeding. 9

10 Q. WHAT IS YOUR OVERALL RESPONSE TO THE CLECs' TESTIMONY?

11 A. The volume of testimony that the Joint CLECs provide, and the large number of alleged 12 issues, concerns or conditions that they raise, demonstrate that they apparently believe 13 this proceeding should be used as a type of "catch-all" proceeding for every wholesale 14 issue or alleged grievance that they can raise. Thus, they seek to address a large number 15 of alleged concerns, issues or proposed conditions that are not related to the merger and 16 that should not be addressed in this proceeding, and are more appropriate in a more-17 focused proceeding, such as a general Commission proceeding on these issues or an 18 interconnection complaint if appropriate. The DPU also recommends a number of 19 unnecessary conditions, including many that address alleged concerns or issues similar to the CLECs' conditions. The recommended wholesale conditions, however, have nothing 20 21 to do with the Transaction, and thus should not be addressed in this proceeding. This is 22 especially so since the CLECs have other forums and proceedings in which to raise any 23 legitimate concerns they may have about these issues. Moreover, if the Commission

1 itself has any significant concerns about any of these alleged concerns or issues, it can 2 explore them in other, more appropriately-focused proceedings. Wholesale conditions are simply not necessary here, however, especially because the merger itself does nothing 3 4 to change any of the combined company's existing regulatory and legal requirements. The intervenors have attempted to convince the Commission that the merger would 5 6 somehow create a situation that the Commission would not be able to control through 7 existing regulatory and legal requirements and safeguards, and therefore, that it would be "necessary" to impose conditions. This situation could not be further from the truth. 8

As Mr. Brigham demonstrates in his rebuttal testimony, and as demonstrated in this 9 rebuttal testimony and in my direct testimony, the telecommunications market in Utah is 10 11 a robustly-competitive market environment. The existing federal and Utah regulatory 12 and legal framework has allowed telecommunications competition to thrive in Utah. 13 Carriers such as Qwest and CenturyLink face unique pressures and therefore must have 14 the strategic flexibility to quickly bring new products and expanded services to the 15 marketplace to enhance customer choice. The Transaction will result in a combined 16 company with the financial strength and flexibility, and increased scale and scope, to 17 better compete against cable companies such as Comcast, which has a very strong 18 presence in Utah, as well as other intermodal competitors, both in Utah and nationally. 19 The Transaction will allow the combined company to meet the varying needs of 20 residential, business, wholesale and government customers.

21

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. In my testimony, I have demonstrated why for various reasons it is unnecessary for theCommission to adopt any of the proposed unreasonable, onerous and unnecessary

conditions that other parties in this proceeding have proposed. The Commission should
 find that the Transaction is in the public interest, and therefore, approve it without
 imposing any conditions.

4 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

5 A. Yes, it does.