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

JEREMY FERKIN

ON BEHALF
OF CENTURYLINK INC.

September 30, 2010

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jeremy Ferkin, and my business address is 290 North Main, Kalispell, Montana 59901.

Q. WHO IS YOUR EMPLOYER AND WHAT IS YOUR POSITION?

A. I am employed by CenturyLink, Inc. ("CenturyLink" or the "Company") as the Vice President and General Manager of the Company's operations in the states of Colorado, Montana, Wyoming, Nebraska, New Mexico, and Idaho.

Q. ARE YOU THE SAME JEREMY FERKIN WHO FILED DIRECT TESTIMONY IN THIS DOCKET ON MAY 27, 2010?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I am providing rebuttal testimony concerning the proposed merger of Qwest Communications International, Inc. ("Qwest") and CenturyLink (the "Transaction") in response to the direct testimony of Mr. Casey Coleman[1] and Mr. Clair Oman[2] of the Utah Division of Public Utilities ("DPU"); Mr. Eric Orton of the Utah Office of Consumer

[1] Direct Testimony and Attachments of Casey J. Coleman on Behalf of the Utah Division of Public Utilities, August 30, 2010, In the Matter of the 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 [hereafter "Coleman Direct"].

[2] Direct Testimony and Attachments of Clair Oman on Behalf of the Utah Division of Public Utilities, August 30, 2010, In the Matter of the 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 [hereafter "Oman Direct"].

Services ("OCS");[3] Mr. Timothy Gates, who provided direct testimony on behalf of tw telecom of utah, llc, McLeod USA Telecommunications Services, Inc. d/b/a Paetec Business Services, Integra Telecom, Inc, Electric Lightwave, LLC, Eschelon Telecom of Utah, Inc., and Level 3 Communications, LLC, (collectively, "Joint CLECs");[4] Dr. August H. Ankum, who also provided direct testimony on behalf of the Joint CLECs,[5] and Mr. Charles King, who provided testimony on behalf of the Department of Defense ("DOD").[6] My rebuttal testimony is to be read in conjunction with the rebuttal testimonies provided by other witnesses representing CenturyLink and Qwest. I have reviewed and agree with the rebuttal testimonies presented by the other CenturyLink and Qwest witnesses who more directly address the wholesale and interconnection issues raised by Messrs. Coleman, Oman, Orton, Gates, Ankum, King, and other intervenor witnesses. My rebuttal testimony complements the other CenturyLink and Qwest testimonies, as it responds from CenturyLink's perspective to issues other than the wholesale-specific concerns raised in the intervenor witnesses' testimonies.

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[3] Direct Testimony and Attachments of Eric Orton on Behalf of the Utah Office of Consumer Services, August 30, 2010, In the Matter of the 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 [hereafter "Orton Direct"].

[4] Direct Testimony of Timothy J. Gates on Behalf of tw telecom of utah, llc, McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services, Integra Telecom of Utah, Inc., Electric Lightwave, LLC, Eschelon Telecom of Utah, Inc,, and Level 3 Communications, LLC, August 30, 2010, In the Matter of the 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 [hereafter "Gates Direct"].

[5] Direct Testimony of August H. Ankum, Ph.D., on Behalf of tw telecom of utah, llc, McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services, Integra Telecom of Utah, Inc., Electric Lightwave, LLC, Eschelon Telecom of Utah, Inc,, and Level 3 Communications, LLC, August 30, 2010, In the Matter of the 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 [hereafter "Ankum Direct"].

[6] Direct Testimony and Attachments of Charles W. King on Behalf of the Department of Defense and All Other Federal Executive Agencies, August 30, 2010, In the Matter of the 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 [hereafter "King Direct"].

Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

A. I will respond to the testimonies of Mr. Coleman, Mr. Oman, Mr. Orton, Mr. Gates, Dr. Ankum, and Mr. King concerning the following general matters:

1. The proposed Transaction meets the public interest standard and, in fact, is likely to provide net benefits;
2. The merged company's ability to provide ongoing high-quality service, including in metropolitan areas and to wholesale customers;
3. Concerns regarding financial benefits arising from the Transaction;
4. Certain of the DPU and OCS proposed conditions;
5. The assertion that CenturyLink and Qwest ("the Joint Applicants") should be required to share synergy savings with wholesale and other customers;
6. The claim that the Transaction is similar to certain previous problematic incumbent local exchange carrier ("ILEC") mergers, including those in which there were fundamental issues with developing and deploying new systems that led to bankruptcies;
7. The alleged identification of certain new risks that will result from the Transaction; and
8. Certain conditions proposed by Mr. Gates.[7]

Q. COULD YOU UPDATE THE PUBLIC SERVICE COMMISSION OF UTAH ("COMMISSION") ON THE ACTIVITY IN THE OTHER STATE

[7] See Joint CLECs, Exhibit 8.

PROCEEDINGS OR OTHER APPROVAL PROCESSES REGARDING THE PROPOSED TRANSACTION?

A. Yes. The Transaction requires state commission approvals in 21 states and the District of Columbia. While CenturyLink and Qwest are early in the transaction review process for many of these jurisdictions, the approval process is now (as of September 29, 2010) favorably concluded in ten of the states requiring state commission approval—California, Hawaii, Louisiana, Maryland, Mississippi, Georgia, Virginia, West Virginia, New York, and Ohio—and the District of Columbia.

Moreover, on July 15, 2010, CenturyLink and Qwest were notified by the Department of Justice ("DOJ") and the Federal Trade Commission ("FTC") that the proposed Transaction review was completed early ("Early Termination") under the Hart Scott Rodino Act, and, as such, has clearance from a federal antitrust perspective. On July 16, 2010, CenturyLink filed with the Securities and Exchange Commission ("SEC") a final joint proxy statement-prospectus, which describes the Transaction with Qwest. This final joint proxy statement-prospectus was mailed to shareholders of both CenturyLink and Qwest. Based on the information provided in the joint proxy statement-prospectus, each company held a special meeting on August 24, 2010 at which their respective shareholders voted overwhelmingly to approve the Transaction.

I. THE PROPOSED TRANSACTION MEETS THE PUBLIC INTEREST STANDARD AND, IN FACT, IS LIKELY TO PROVIDE NET BENEFITS.

Q. WHAT IS YOUR UNDERSTANDING OF THE STANDARD OF REVIEW FOR THIS PROCEEDING?

A. While I am not an attorney, I have examined sources related to the Utah standard of review for transfer of control proceedings in the telecommunications industry. I have read the relevant Utah statutes. Based on my review of these materials, I believe that the Utah standard of review requires a finding that the proposed transaction is in the public interest, consistent with Utah Code Ann. Sections 54-4-28, 54-4-29, and 54-4-30.[8] CenturyLink believes the proposed Transaction is demonstrably in the public interest and, therefore, meets the required standard for receiving approval. In fact, while CenturyLink believes that the standard does not state explicitly that a showing of net positive benefits is required, there will be such benefits as a result of the proposed Transaction, as the combined company will be financially stronger, will combine assets to permit CenturyLink to provide a broader portfolio of services to its customers based on the capacity for increased investment and integrated capabilities, and will be more focused on local customers on the basis of CenturyLink's "go-to-market" approach. DPU witness

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[8] **Utah Code Ann., § 54-4-28. Merger, consolidation, or combination.**
No public utility shall combine, merge nor consolidate with another public utility engaged in the same general line of business in this state, without the consent and approval of the Public Service Commission, which shall be granted only after investigation and hearing and finding that such proposed merger, consolidation or combination is in the public interest.

Utah Code Ann., § 54-4-29. Acquiring voting stock or securities of like utility only on consent of commission.
Hereafter no public utility shall purchase or acquire any of the voting securities or the secured obligations of any other public utility engaged in the same general line of business without the consent and approval of the Public Service Commission, which shall be granted only after investigation and hearing and finding that such purchase and acquisition of such securities, or obligations, will be in the public interest.

Utah Code Ann., § 54-4-30. Acquiring properties of like utility only on consent of commission.
Hereafter no public utility shall acquire by lease, purchase or otherwise the plants, facilities, equipment or properties of any other public utility engaged in the same general line of business in this state, without the consent and approval of the Public Service Commission. Such consent shall be given only after investigation and hearing and finding that said purchase, lease or acquisition of said plants, equipment, facilities and properties will be in the public interest.

Oman appears to agree with CenturyLink's assessment, indicating "[i]t is reasonable that there will be a net benefit as a result of the merger …."[9] I note that Dr. Ankum argues that the precedent set in the Qwest combination with US WEST should apply here, which is that the Commission should find that the Joint Applicants should be required to prove a net positive benefit.[10] I rely on the Commission to determine the appropriate standard of review, but the higher threshold in the Qwest-US WEST transaction was applied very shortly after the Telecommunications Act of 1996 and before Qwest had received its Section 271 approvals (2002-2003), and the Commission cited to the absence of "competitive alternatives" in determining that the net benefit standard was appropriate for that transaction.[11] The telecommunications competitive landscape has changed significantly since 2000, when the Qwest-US WEST merger occurred, and therefore the previous ruling requiring a net benefit in that single proceeding should not apply here. Regardless, the Joint Applicants believe that there are net benefits resulting from this Transaction, which are affirmed in the testimonies of the DPU witnesses, Coleman and Oman, and in the testimony of the OCS witness, Orton, who, at the very least, do not oppose the approval but suggest certain conditions allegedly needed to monitor or better ensure the realization of benefits, including the financial benefits explained below.[12]

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[9] Oman Direct, p. 4, lines 41-42.
[10] Ankum Direct, p. 15, line 1 through p. 17, line 2.
[11] *In the Matter of the Merger of the Parent Corporations of Qwest Communications Corporation, LCI International Telecom Corp. and US WEST Communications, Inc.*, Docket No. 99-049-41, Report and Order, June 9, 2000, p. 11.
[12] For example, Mr. Oman testifies in Oman Direct, lines 40-45: "I have reviewed the application and find many of the assertions believable if not compelling. It is reasonable that there will be a net benefit as a result of the merger even though in data requests the merging companies were either unwilling or unable to quantify the net benefits. There are economies of scale to be found in the combination of these two organizations." The witnesses cite the potential value of the Transaction, generally with conditions. See, e.g., Oman Direct, lines 40-59; Coleman Direct, lines 202-206, 263-267; Orton Direct, lines 20-22, 130-133, 142-151; Mr. Orton believes that conditions will "better ensure" the realization of benefits. See also, King Direct, p. 10, lines 23-29, where he affirms CenturyLink's

II. THE MERGED COMPANY'S ABILITY TO PROVIDE ONGOING HIGH-QUALITY SERVICE, INCLUDING IN METROPOLITAN AREAS AND TO WHOLESALE CUSTOMERS.

Q. MR. COLEMAN TESTIFIES THAT TELECOMMUNICATIONS HAS CHANGE AND THAT RETAIL SERVICE QUALITY IS REGULATED IN UTAH PRIMARILY THROUGH THE MONITORING OF QUARTERLY SERVICE REPORTS.[13] CAN YOU COMMENT?

A. Yes. Mr. Coleman's testimony notes the high quality of service provided by Qwest and the expectation that a stock-for-stock merger of CenturyLink and Qwest in their entirety will result "no changes . . . to day to day operations of Qwest, [and] the Division would expect that consumers in Utah should see the same level of service quality after the merger."[14] Mr. Coleman also testifies that the DPU believes it has adequate "existing rules for retail service quality . . . to ensure a high level of customer service post-merger."[15] CenturyLink and Qwest agree with DPU witness Coleman regarding retail service quality in Utah. However, despite Mr. Coleman's acknowledgement that adequate rules already apply, he goes on to recommend the creation of additional reporting requirements for the combined company to permit the DPU to monitor ongoing service quality.[16] CenturyLink intends to abide by the existing service quality rules of

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acquisition history, the structure of the Transaction, and his view that the combination might be in the public interest provided that there are conditions.

[13] Coleman Direct, lines 175-191.
[14] Coleman Direct, lines 201-204.
[15] Coleman Direct, lines 205-206.
[16] Coleman Direct, lines 209-216.

the Commission and to provide a high level of service to Utah customers, but the Company objects to unnecessary expenses associated with new reporting requirements when the DPU witness already has explained how "Qwest has been exhibiting a high level of customer services" and that the existing Utah rules are "adequate."[17] There is no new harm resulting from the Transaction that has been identified, and there is no indicated risk that, absent the proposed condition, the DPU cannot monitor the combined company's retail service quality. In a highly-competitive business, it is inequitable to apply to only one competitor additional reporting requirements which serve no necessary purpose and generate incremental expenses.

Q. MR. COLEMAN INDICATES THAT HE HAS A CONCERN ABOUT WHOLESALE SERVICE QUALITY IN LIGHT OF THE IMPORTANCE OF COMPETITION IN UTAH, AND HE RECOMMENDS ADDITIONAL REPORTING REQUIREMENTS TO ENSURE A SMOOTH PROCESS OF INTEGRATION.[18] PLEASE COMMENT.

A. Mr. Coleman testifies that the Utah wholesale market is functioning "adequately," as he notes that payments for issues arising from Qwest's Performance Assurance Plan ("QPAP") have been reduced significantly.[19] Mr. Coleman explains that "[t]his decrease is a result of Qwest meeting the requirements outlined in the QPAP so no payments are required to CLECs . . . [and] when payments are going down, Qwest is providing a

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[17] Coleman Direct, lines 199-200; 205-206.
[18] Coleman Direct, lines 269-280.
[19] Coleman Direct, lines 258-265.

network that is in parity or better."[20] CenturyLink agrees with Mr. Coleman's assessment of the current state of the Utah wholesale market. In addition, the Company affirms that in general the same Qwest personnel and systems providing wholesale service today will be employed going forward, and that the combined company's wholesale service quality performance levels should be consistent with those for which Mr. Coleman has praise. CenturyLink's commitment is to maintain or improve services to all customers, including wholesale customers in Utah.

Q. SOME OF THE INTERVENOR PARTIES FILING TESTIMONY IN THIS PROCEEDING EXPRESS CONCERN OVER CENTURYLINK'S ABILITY TO ACCOMPLISH AN INTEGRATION OF THIS MAGNITUDE. ARE THESE INTEGRATION CONCERNS VALID?

A. No, they are not, and I believe that those concerns are based more on speculation than fact. CenturyLink has a proven track record of successfully integrating the operations of the companies it acquires—not once or twice, but multiple times over a 20 year period. DPU witness Mr. Oman is clear that "CenturyLink has a significant history of successful acquisitions and integrations during the past ten years."[21] The DOD witness, Mr. King, affirms, as do the Joint Applicants, CenturyLink's proven track record of successfully integrating the operations of the companies it acquires.[22] DPU witness Coleman expresses a related, more limited concern, about how the merged company will transition

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[20] Coleman Direct, lines 262-265.
[21] Oman Direct, p. 7, lines 97-98.
[22] King Direct, p. 10, lines 26-27.

operating support systems ("OSS") that are part of the service to wholesale customers.[23] As I stated in my direct testimony, the senior officers who will lead the combined company are tested leaders in the telecommunications industry with multiple decades of both individual and combined experience. The majority of the CenturyLink leadership team has been together since the 1980s, a fact that highlights the stability and experience of the Company's management. The long historical record is important as it demonstrates convincingly that the CenturyLink leadership team consistently has worked to provide exceptional customer service over an extended period while successfully managing multiple acquisitions and integrations. With respect to the management team's transactional experience, CenturyLink has increased its size over the years through a number of sizeable acquisitions, starting in 1997 with the acquisition of Pacific Telecom, Inc. and most recently with the 2009 acquisition of Embarq Corporation ("Embarq"). As Mr. Oman notes, "[i]ndications are that the Embarq integration is going well."[24] An important by-product of the multiple acquisitions by CenturyLink is the accumulation of experienced employees and critical skill sets needed for successful acquisition and integration outcomes. At times these acquisitions have more than doubled or tripled the size of the Company within a fairly short span of years. In each instance, the integration has been successful in terms of customer service improvements and sound operating results, and there have been no meaningful failures or complaints as far as the Company knows. This proven and uncontested history demonstrates that CenturyLink is accustomed to managing and executing on mergers and acquisitions of varying types,

[23] Coleman Direct, lines 283-293.
[24] Oman Direct, p. 8, lines 107-108.

sizes and complexity, while continuing to operate as a successful service provider in a challenging industry environment. To my knowledge, there is no significant or meaningful basis to suggest otherwise.

More specifically, the preparation for the Qwest integration process is underway, and joint CenturyLink/Qwest integration teams currently are hard at work reviewing all functional areas to determine the best organizational structure for the company post-merger. In addition, there is an early and important focus on integrating various company systems and practices. CenturyLink approaches the systems integration process with an open mind as the Company evaluates and prepares to adopt the best systems of merged companies. This approach to systems integration ensures critical functionality, efficiency and an overall positive customer experience. It is important to note that a key factor in the CenturyTel/Embarq transaction and the proposed Transaction, which sets them apart from other mergers in a very positive way, is that CenturyLink is integrating not partial companies but entire companies. Acquiring total companies such as Embarq and Qwest—personnel, systems, network assets, etc.—provides CenturyLink the ability to operate using dual systems for as long as management believes that is prudent as well as the ability to methodically and carefully evaluate integrations of systems and facilities, without the type of time pressures inherent in a “flash cut” of systems, such as those experienced in the Hawaii Telecom and FairPoint transactions. Preparation is further focused as the employees of both companies are committed to coordinating and transitioning the companies’ operations. Accordingly, there are common integration goals rather than the conflicts of interest that may arise when a company sells only parts of its operations. Additionally, while final staffing decisions have not been made yet, the majority of Qwest employees are expected to be retained to help the merged company achieve its local operational objectives. Through the extensive experience CenturyLink has with merger integrations, we are also mindful of employees and their families nationwide that must deal with various levels of uncertainty until all approvals are granted and the companies are formally allowed to close the transaction. That is why CenturyLink and Qwest have begun post-merger integration planning and are seeking prompt approvals.

Q. CAN YOU GENERALLY DESCRIBE CENTURYLINK'S APPROACH TO THE INTEGRATION PROCESS?

A. Yes, I can. CenturyLink and Qwest are employing a disciplined method to on-going integration planning. Specifically, in the first phase of integration planning, management will: (i) establish guiding principles and strategies for companywide integration planning; (ii) identify and commit resources to integration planning efforts; (iii) resolve and escalate any critical issues as needed; and (iv) track and communicate progress to business leadership. Each functional group then has a leader who heads a functional integration team focused on the organization for which he or she has responsibility. The functional integration teams then, over time, will create objectives and also detailed work plans that assign task owners, deliverables and due dates for integration work. The work plans also will help identify resource constraints, issues and dependencies. Finally, functional sub-teams will be employed to manage integration planning for specific functions within each leader's area of responsibility. This highly-structured and detail-oriented integration process not only demonstrates that any intervenor integration concerns are speculative and not likely to materialize, but also demonstrates the caliber of management planning that will ensure successful integration of the merging companies.

Q. SEVERAL PARTIES EXPRESS FRUSTRATION WITH THE LACK OF DETAILS THAT CENTURYLINK HAS PROVIDED WITH REGARD TO ITS INTEGRATION PLANS WITH QWEST. HOW DO YOU RESPOND?

A. CenturyLink is experienced in large integrations, which require processes that are thorough, well thought-out and customer focused. We understand there may be some frustration with a lack of certain details at this stage, but these processes require deliberate and disciplined efforts to complete. While much integration planning can begin pre-merger, as is the case with the proposed Transaction, most of the final decisions regarding integration cannot be made, and do not need to be made, until after the merger is closed. Additionally, from a sequencing standpoint, we are just now naming Tier 2 leadership with Tier 3 leaders following later this year. These individuals will be responsible for structuring their respective areas, building teams and actually operating many of the systems in question. From our perspective, it makes little sense to select systems without the input of critical, hands-on employee leaders.

This kind of parent-level transaction does not force the Company into short timelines. Rushing the selection and integration of critical systems designed to seamlessly serve millions of retail and wholesale customers is not an option, nor, as I have said, does this type of transaction force CenturyLink to do so. By the same token, mandating arbitrary dates before which implementation of systems integration cannot occur would be just as ill-advised. CenturyLink is committed to follow proven processes that involve careful review of all aspects of the integration to ensure that the merger goes as smoothly as possible for customers, employees and other key stakeholders. Based on its past experience and track record, CenturyLink is confident that it understands the processes that lead to efficient and smooth integrations. If decisions are hurried to benefit one subset of customers, or constrained or limited to the supposed benefit of another subset, such as proposed by the Joint CLECs, it only increases the likelihood that problems will develop to the detriment of a much larger base of residential and business customers and employees.

Q. YOU MENTIONED THE COMPANIES WERE MOVING FORWARD WITH INTEGRATION PLANS AND THAT THE TIER 2 LEADERS WERE IN THE PROCESS OF BEING NAMED. HAS THERE BEEN A RECENT ANNOUNCEMENT REGARDING THE TIER 2 LEADERS?

A. Yes, on Monday, September 20, 2010, Tier 2 leadership appointments were announced in the Operations, Business Markets, Wholesale, Finance, Network Services, Corporate Strategy & Development, Public Policy and Government Relations, Legal, Human

Resources and IT organizations. This announcement also included the alignment of the combined company's Utah Operations into one of six Regions. Utah will be part of the newly formed Mountain Region which also includes operations in the states of Colorado, Montana, and Wyoming. Kenny Wyatt, currently CenturyLink's President of the South Central Region, will become the Mountain Region President upon the close of the Transaction. We believe the creation of a Mountain Region demonstrates CenturyLink's commitment to an increased presence in Utah and a clear focus on meeting the needs of Utah consumers. I have included as Exhibit JF-1 to this testimony a detailed list of the Tier 2 appointments announced.

Q. DPU WITNESS MR. OMAN EXPRESSES SOME CONCERN ABOUT THE CHALLENGES THE CENTURYLINK MANAGEMENT TEAM WILL FACE IN THE METROPOLITAN AREAS WHERE QWEST PROVIDES SERVICE.[25] HOW DO YOU RESPOND?

A. CenturyLink currently provides service in a number of metropolitan areas (such as Las Vegas, Nevada and Fort Myers, Florida) and has managed successfully many of the complex issues in providing service in larger metropolitan areas. CenturyLink employees will combine with experienced Qwest employees who previously have met customer needs in metropolitan areas to continue providing services in these more urban markets after merger. These employees have the knowledge and skill sets, as well as the important relationships with customers, needed to provide high-quality service in metropolitan, suburban and rural areas. CenturyLink's regional "go-to-market"

[25] Oman Direct, p. 12-13.

approach, which I discussed in my direct testimony, pushes accountability and decision-making to the local level. This operating model allows CenturyLink's general managers, such as myself, to manage the business based on a significantly detailed knowledge and understanding of the local market. That local knowledge and understanding, coupled with the existing experience of both CenturyLink and Qwest employees, will translate into successful management of the issues and opportunities associated with providing telecommunications services in larger metropolitan areas.

III. CONCERNS REGARDING FINANCIAL BENEFITS ARISING FROM THE TRANSACTION.

Q. PLEASE RESPOND TO MR. GATES' CONCERN THAT CENTURYLINK IS "TAKING ON MUCH MORE DEBT BY ACQUIRING QWEST THAN IT HAS IN PAST ACQUISITIONS."[26]

A. Mr. Gates notes that CenturyLink "will have *more than quadrupled* its debt load in approximately three years."[27] [Emphasis in the original.] What Mr. Gates fails to acknowledge is that the merged company will be far larger, financially stronger, and capable of generating significantly larger levels of cash flows to service its debt. Therefore, focusing solely on absolute numeric levels of debt provides an incomplete and distorted picture of CenturyLink's post-closing financial condition. Illustrating the proportionate growth in operating cash flow to support investment and debt, CenturyLink's earnings before interest, taxes, depreciation and amortization ("EBITDA")

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[26] Gates Direct, p. 80, lines 9-12.
[27] Gates Direct, p. 80, lines 11-12.

for 2006 and 2007 were $1.2 billion and $1.3 billion, respectively, while pro forma EBITDA for the combined company for 2009 was approximately $8.2 billion.[28] Accordingly, pro forma 2009 EBITDA is higher by 6.9 times compared with 2006 and 6.2 times compared with 2007. Further, the Company expects within three to five years to generate synergies that will result in annual operating cash flows that improve by $575 million and an annual capital expenditure benefit that is estimated at $50 million. Thus, Mr. Gates' alleged concern regarding the four times increase in CenturyLink's debt needs to be properly considered in the context of the greater than six times increase in the Company's EBITDA and associated cash flows. The Company expects to produce operating cash flows that permit incremental reductions of debt and incremental investments in plant and services. This increased capacity to strengthen the merged company's balance sheet is a financial benefit for customers, employees and all the other stakeholders.

Q. ARE THERE OTHER IMPORTANT AND RELEVANT FACTORS THAT MR. GATES FAILED TO DISCLOSE IN HIS CHARACTERIZATION OF CENTURYLINK'S POST-MERGER DEBT LEVEL?

A. Yes. Mr. Gates also failed to acknowledge the improvement in leverage gained by Qwest—which represents almost all Utah customers impacted by the merger—from the proposed Transaction. Qwest's net leverage (Net Debt-to-EBITDA) was approximately

[28] The EBITDA in 2006 (in thousands) was $1,189,044 and in 2007 was $1,329,333; see 2007 CenturyTel SEC Form 10-K, available at http://www.sec.gov/Archives/edgar/data/18926/000001892608000004/form10k2007.htm; 2006 D&A was $523,506 and operating income was $665,538, while 2007 D&A was $536,255 and operating income was $793,078.

2.7 times at the end of 2009, while pro forma 2009 net leverage for the merged company is estimated to be 2.4 times before including the positive impact of expected synergies and 2.2 times after including the full run-rate synergies.[29] The combined company's leverage level is more favorable, even before synergies, than the 2009 net leverage of the two most comparable companies in the incumbent local exchange carrier industry—Windstream Corporation, d/b/a Windstream Communications ("Windstream") and Frontier Communications Corporation ("Frontier").[30] The pro forma 2009 net leverage ratios for the combined company also are not significantly higher than CenturyLink's standalone yearend 2009 net leverage ratio of 2.0 times, providing a more accurate depiction of the change in debt levels as opposed to Mr. Gates' incomplete statement that debt is "quadrupling." If the Commission considers that almost all of the pro forma company's Utah customers will be served by a merged company with a net leverage ratio *below* that of Qwest, the conclusion should be that the combined company leverage ratio is a net benefit for the vast majority of the relevant customer base. It is also important to note that the combined company is not acquiring any new debt as the Transaction is a stock-for-stock merger, and the combined company is positioning itself to generate incremental cash flows through synergies and new revenues based on the combination of CenturyLink and Qwest assets. The result will be higher cash flows that can be used to invest in new service capabilities and reduce debt from current levels, which are affirmative benefits of the merger. In addition, CenturyLink believes that the merged company's market capitalization will provide a larger and more liquid equity base (more

[29] Merger Conference Call, Slide 7.
[30] Merger Conference Call, Slide 12.

shares outstanding and a higher market capitalization). All else being equal, the increase in market capitalization generally improves access to capital markets, which is an important consideration for the Commission in this review process. As Mr. Oman properly summarizes:

> The merged company will have the benefit of a lower net debt to adjusted EBITDA leverage ratio and possibly a higher credit rating than Qwest. This could translate into a lower cost of debt thus enabling the CenturyLink management team to do what it has excelled at in the past which is reduce debt. This in turn will allow some cash flow previously allocated to debt service costs to be allocated to capital expenditures.[31]

Q. PLEASE COMMENT FURTHER ON YOUR ASSERTION THAT THE MERGER RESULTS IN A NET BENEFIT IN TERMS OF THE COMPANY'S FINANCIAL STRENGTH.

A. Qwest serves approximately 680,000 access lines in Utah, and is a major provider of telecommunications services in the state. As has been explained previously, all three of the major credit rating agencies have announced that Qwest's debt possibly could be upgraded in the future as a result of the proposed Transaction. Moody's, at the time of its recent upgrade of Qwest's debt to one step below investment grade, stated that Qwest's ratings *remain* on review for upgrade, as the planned acquisition "could lead to a further improvement in Qwest's credit profile."[32] In addition, Standard & Poor's ("S&P") revised its outlook on Qwest's debt to "CreditWatch Positive" on April 22, 2010, when the Qwest-CenturyLink merger was announced, because of S&P's assessment that the

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[31] Oman Direct, lines 188-194.
[32] "Moody's upgrades Qwest rating," Bloomberg BusinessWeek, August 13, 2010, available at http://www.businessweek.com/ap/financialnews/D9HINI3G0.htm.

combination might result in improved financial characteristics for Qwest.[33] Finally, Fitch Ratings improved its outlook on Qwest's ratings to "Watch Positive" that same day, again as a result of the announced combination.[34] Thus, Qwest, which serves the majority of the pro forma company's customers (as reflected by access lines) nationwide and almost all of the pro forma company's customers in Utah, is on watch *for an upgrade* of its credit rating. As a result, CenturyLink believes the possible improved Qwest credit rating immediately after the close of the proposed Transaction is a demonstrable net benefit that better ensures access to more attractively-priced debt. As DPU witness Mr. Oman concludes, "[f]rom our review of the financial information it appears that the merger of these two companies is a positive transaction and provides Qwest a better financial future picture than is visible absent the merger."[35]

Q. ARE THE PUBLISHED SYNERGY TARGETS FOR THE PROPOSED TRANSACTION ACHIEVABLE?

A. Yes, they are. The reality is that the estimate of $575 million in operating expense savings is approximately 7% of Qwest's 2009 cash operating costs, while the $625 million of total estimated synergies (including capital expenditure synergies) is less than 8% of Qwest's cash operating costs. Further, the synergy target for the proposed Transaction is modest compared with other publicly-available ILEC merger synergy

[33] Standard & Poor's Global Credit Portal, Ratings Direct, "Qwest 'BB' Rating on Watch Positive," April 22, 2010, p. 2.
[34] Fitch Ratings, *Fitch Places CenturyTel's Ratings on Watch Negative; Qwest's Ratings on Watch Positive*, April 22, 2010.
[35] Oman Direct, lines 130-133; Mr. Oman does reference at lines 177-180, without citation, CenturyLink witness Jeff Glover to say that credit ratings have a "significant impact upon debt cost." While costs are higher or lower depending on the credit rating, Mr. Glover does not testify specifically or generally about the magnitude of interest costs at various rating levels.

expectations. For example, the 8% total synergy estimate (operating costs and capital expenditure savings) is reasonable when compared to the 11% expected cost savings announced at the time of the CenturyTel merger with Embarq. In addition, the 8% estimate is also well below other merger-related synergies from ILEC transactions that generally have been 20%+ of the target company's cash operating costs in recent years, as verified by independent financial analysts.[36] CenturyLink believes that the improved cash flows generated by the realization of these achievable cost savings will make it more probable that the Company can respond to market pressures, invest in the network, and improve the merged company's balance sheet over time. These factors are all net benefits of the proposed Transaction.

Q. DOES THE SYNERGY TARGET CREATE AN INCREMENTAL RISK AS SUGGESTED BY MR. GATES?

A. No. Mr. Gates states that the merged company will be seeking "to find synergies [and] it will be under pressure to produce meaningful dividends, pay down debt and invest in advanced services" which might result in making wholesale service a "low . . . priority."[37] CenturyLink's management believes the estimated synergies can be achieved while continuing to provide high-quality service and invest in the network for the benefit of all of its customers. Specifically regarding the cash flow characteristics and priorities arising from the proposed Transaction, using pro forma 2009 financials, *before any expected synergies*, the merged CenturyLink and Qwest would have generated around

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[36] Simon Flannery, *CenturyTel: 1Q10 Preview: Awaiting Embarq Synergy/Integration Update and Additional Color on Qwest Deal*, Morgan Stanley Research, North America, April 29, 2010.
[37] Gates Direct, p. 31, line 17 through p. 32, line 4.

$3.4 billion in free cash flow[38] after all cash operating expenses *and* an estimated $2.4 billion in capital investment. Based on this level of free cash flow, after meeting all operating, capital and financial costs as noted earlier, the combined company expects to have about $1.7 billion in remaining cash flow[39]—without assuming any synergies[40]—that could be allocated to additional investment (beyond the $2.4 billion in capital investment noted above), debt repayment, and other appropriate uses. As such, CenturyLink expects to be financially sound even if no synergies are achieved and, therefore, will not be unduly pressured to achieve the expected synergies by investors or other stakeholders. Further, CenturyLink is committed to providing high-quality service to all of its customers and will not jeopardize its business to manage short-term investor expectations. CenturyLink understands that the failure to meet customer expectations is the prelude to disappointing investors, employees, and other stakeholders. As is clear from the Company's history, including previous acquisitions, CenturyLink understands its business and its priorities are aligned with successfully operating the business in a manner that benefits its customers and other key stakeholders.

Q. DOD WITNESS MR. KING IS CONCERNED THAT THE INTEGRATION WILL REQUIRE INVESTMENT BEFORE THE REALIZATION OF SYNERGIES, AND HE ASKS ABOUT HOW THE COMPANY CAN PAY FOR THOSE

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[38] *See* Merger Conference Call, Slide 8.

[39] Based on 2009 pro forma financial results, before any expected synergies, the combined company generated approximately $5.8 billion in free cash flow before capital expenditures and dividends. After approximately $2.4 billion in capital expenditures and $1.7 billion in pro forma dividend payments, the combined company in 2009 generated $1.7 billion in "discretionary" free cash flow after all operating and capital obligations.

[40] If we were to assume the realization of the full run-rate capital and operating synergies, the free cash flow after meeting all obligations would have been $2.1 billion.

EXPENSES. MR. KING ALSO RECOMMENDS A THREE-YEAR CAP ON BASIC BUSINESS SERVICES.[41] CAN YOU RESPOND?

A. Yes. Mr. King states that he does "not necessarily" oppose the transaction, as CenturyLink is a larger, financially healthier company compared with other acquirers of ILEC properties, and has a "trouble-free" history.[42] However, Mr. King has a concern related to the source of funding for the integration expenses.[43] Mr. King testifies that "costs will be incurred before the benefits of the synergies are felt, so that they represent a new net requirement for funds. Left unstated is where the money for these transition costs will come from . . . . CenturyLink may look to its local operations, including those in Utah, to meet the urgent requirement to increase revenue."[44] Mr. King is concerned that "additional revenue" in the form of rate increases will be required to pay for integration costs.[45] Mr. King is incorrect, as no rate increases will be required to pay for the integration process, and CenturyLink has indicated clearly that rates, if and when they are changed, will be altered only in conformity with any regulatory requirements and negotiated terms, as rate changes were handled before the merger. The simple response to Mr. King's concern is that post-merger CenturyLink will have the ability to pay for one-time integration costs out of cash flow generated by the combined operations, and the customers will not be burdened with these costs. As noted previously, the Company

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[41] King Direct, p. 20, lines 8-10.
[42] King Direct, p. 10, lines 19-27.
[43] King Direct, p. 11, lines 9-12.
[44] King Direct, p. 12, line 12 through p. 13, line 6.
[45] King Direct, p. 15, lines 5-7; "Based on the foregoing, I believe that basic business services are most susceptible to unilateral rate increases motivated by the need to raise revenue to implement the merger." Mr. King also incorrectly alleges that the post-merger company may need to engage in "cost cutting in the form of reduced resources, including capital investment and the manpower devoted to plant maintenance and customer service." King Direct, p. 17, lines 20-22. As indicated, post-merger CenturyLink's free cash flow generation, even before synergies, will be sufficient to cover the integration costs, making Mr. King's cost cutting "concern" moot.

anticipates generating annual "excess" free cash flow that, based on 2009 pro forma results *and before including any synergies*, would be $1.7 billion. This residual cash flow assumes that the Company has paid all operating expenses, *and* invested approximately $2.4 billion in capital plant, *and* met its dividend obligations to equity-holders who supply critical capital. As Mr. King points out, the one-time integration expenses are expected to be $650 million to $800 million, with another $150 million to $200 million in one-time capital costs. Based on the combined company's ability to generate in excess of a billion dollars *per year* in "excess" free cash flow, CenturyLink believes that post-merger it will be able comfortably to fund *one-time* integration costs that at the highest estimated level total $1.0 billion and are expected to be spread over a multi-year period that could extend to five years. Additionally, as has been the experience of the Company in previous transactions, including Embarq, synergies begin to be realized immediately after the consummation of the merger, providing a still larger buffer for the merged company to fund one-time integration costs. Again, rates will not be raised to pay for these integration expenses, as CenturyLink clearly has other sources of funds. As such, Mr. King's proposed condition requiring a three-year cap on basic business services rates is entirely unnecessary as the "concern" Mr. King is attempting to address is nonexistent.

IV. CERTAIN OF THE DPU PROPOSED CONDITIONS.

Q. THE DPU RECOMMENDS THAT THE APPLICANTS SHOULD AGREE TO THIRTY (30) SEPARATE CONDITIONS (WITH ADDITIONAL SUBPARTS)

BEFORE THE COMMISSION COULD APPROVE THE TRANSACTION.[46] CAN YOU COMMENT ON CENTURYLINK'S PERSPECTIVE ON THESE CONDITIONS?

A. Yes. As a foundational matter, CenturyLink may be able to implement a number of DPU's proposed conditions as part of a comprehensive settlement agreement recommending an approval of the proposed Transaction. However, each of the conditions will increase, at some level, the post-merger company's costs to ensure compliance, or will otherwise delay or minimize the public interest benefits of the Transaction. The large number of DPU's conditions (30 conditions, with additional subparts) along with the multiple new tracking and reporting requirements to ensure compliance impose costs that CenturyLink believes in many cases, are unnecessary. The Joint Applicants will address a number of the DPU's proposed conditions in my testimony and the testimonies of Michael Hunsucker of CenturyLink, Jerry Fenn, Michael Williams and Karen Stewart of Qwest. Where appropriate, the testimonies address the risks identified by the DPU, and Joint Applicants' position on the proposed DPU condition.

Q. PLEASE RESPOND TO DPU'S PROPOSED CONDITIONS REGARDING "RECORDS/RATES/TARIFFS/ACCESS TO BOOKS" ("RRTAB").

A. The DPU proposes various conditions which require adherence to Utah and FCC rules and regulations, and to all Qwest agreements with wholesale customers, retail customers,

[46] See Coleman Direct, Attachment CJC1.1, pp. 1-7.

and utility operators and licensees.[47] CenturyLink will continue to abide by all rules and regulations that currently are effective, as well as all agreements entered into by Qwest and CenturyLink that remain in force as of closing. DPU proposed RRTAB conditions 1, 3 and 5 appear to be extensions of current regulation, rates or agreements, and CenturyLink has committed to honoring all such obligations. CenturyLink objects to DPU proposed RRTAB conditions 2 and 6 that provide for modifications to Qwest's operating and pricing practices, which appear to be duly protected under current rules and regulations. There is no defined harm against which the proposed conditions are protecting, and unnecessary conditions could result in the creation of harm by limiting the Company's ability to serve its customers and compete effectively. Specifically, condition 2 proposes limiting the post-merger company's ability to discontinue services for at least one year following the merger close, without Commission approval. Condition 6 imposes new reporting requirements regarding the achievement of synergies company-wide and in Utah, as well as organizational and staff changes in Utah and "impacts on Utah operations and customers."[48] Condition 6 would require the creation of new and potentially costly systems for tracking information, and would result in judgments that are so vague about personnel, operations, customers and costs (at the outset and increasingly over the three-year period) that the reports would almost certainly prove of little value.

[47] Coleman Direct, Attachment CJC1.1, pp. 2-3, Conditions 1, 3 and 5.
[48] Coleman Direct, Attachment CJC1.1, p. 3, Condition 6.

Q. WHAT ABOUT THE PROPOSED CONDITIONS THAT WOULD REQUIRE THE COMBINED COMPANY TO KEEP RATES FROZEN FOR A PERIOD OF TIME AFTER THE MERGER IS COMPLETED?

A. As explained above, CenturyLink objects to using the merger approval process to modify rates or other terms, as the rights of all parties appear to be protected sufficiently under current rules and regulations. Mr. Orton recommends that the merged company should be required to keep basic local service rates unchanged for one year, and that the merged company should be required to provide advanced notice of changes to the Commission and parties.[49] As noted earlier, the Department of Defense witness Mr. King, seeks a three-year cap on single and multiple line business rates, private branch exchange and Centrex rates, as well as capped rates for special access services. There is no defined harm against which the proposed conditions are protecting, and there already are defined and proven alternative venues to adjudicate potential rate modifications. The merger approval process is not the correct venue to change rules and regulations related to rates nor to unnecessarily limit the merged company's flexibility to operate within the parameters of existing Utah statutes, as explained by the rebuttal testimony of Jerry Fenn of Qwest.

Q. PLEASE RESPOND TO THE DPU's PROPOSED CONDITIONS REGARDING DEPLOYING BROADBAND SERVICES TO UTAH CUSTOMERS.

[49] Orton Direct, lines 90-98. See also, Testimony of Sonya L. Martinez, on Behalf of Salt Lake Community Action Program, August 30, 2010 [hereafter Martinez Direct], lines 52-54, 76-79, 123-125.

A. DPU witness Coleman provides the justification for the three proposed broadband conditions recommended by the DPU, citing a recent FCC ruling related to the 4 Mbps download and 1 Mbps upload speed benchmark.[50] Importantly, the FCC has jurisdiction over broadband—not the states—and is in the process of creating the policies and regulations that might flow from the National Broadband Plan ("NBP"). Accordingly, CenturyLink objects to the three proposed DPU conditions related to benchmarking services, setting goals, and the creation of new reporting procedures. First, these DPU-recommended processes may be redundant or inconsistent with the eventual broadband framework established by the FCC, resulting in unnecessary costs and imprudent investment. Second, the proposed condition does not remedy any potential harm, especially when one recognizes that both CenturyLink and Qwest have been deploying broadband services consistently to serve wider geographies and at higher rates of throughput. Third, it is possible that the deployment costs associated with the DPU recommendations are not reasonable in light of the market demand, and the risk is that CenturyLink will be required to dedicate capital and potentially strand investment for a project that is not economically justified. Further, if the FCC mandates higher speeds of service, CenturyLink assumes that the federal agency will implement rational support mechanisms for higher cost service areas. CenturyLink notes that the DPU is relying on general standards proposed in the FCC's NBP, which is merely a proposal at this stage, and those recommendations have not been adopted, in full or in part, by the FCC. Fourth, the imposition on CenturyLink of costly and burdensome reporting requirements that are not otherwise also imposed upon CenturyLink's competitors places CenturyLink at a

[50] Coleman Direct, lines 230-239.

competitive disadvantage and creates unnecessary reporting costs that could detract from investments. CenturyLink also notes that certain broadband subscribership and availability information will be available to the Commission via the FCC Form-477 reports. Therefore, the DPU's proposed broadband deployment and reporting conditions are unnecessary.

Q. PLEASE COMMENT ON DPU'S SERVICE QUALITY CONDITION 3 REQUIRING A MULTI-YEAR STRATEGIC PLAN REGARDING THE MERGED COMPANY'S SWITCHES.

A. The DPU is requesting a strategic plan that identifies the expected life of each base-unit and remote switch in the merged company's Utah network, as well as a proposed replacement plan for those switches. Further, the DPU seeks to gain additional ongoing information on capital expenditures related to those switches as a percentage of total investment. There is no such requirement for Qwest's Utah operations at present and there is no verifiable or probable harm associated with its switches. This condition will result in higher and unnecessary costs that are not imposed on other carriers. This condition will not prevent an identified harm, and may have the result of creating higher costs that will then negatively affect rates for Utah customers.

Q. PLEASE COMMENT ON THE DPU'S PROPOSED LONG DISTANCE ("LD") CONDITIONS.

A. The DPU seeks in LD condition 1 to freeze the merged company's intrastate toll calling services and rates for 180 calendar days after the merger close. CenturyLink objects to the limitation that is imposed on the merged company, with the result that the Company will forfeit rights that it currently has. Because the market for long-distance and toll services is already fiercely competitive, LD condition 1 does not appear equitable or necessary. Again, there is no harm against which this proposed condition provides protection, and the condition would constrain unjustly one of the competitors in the marketplace.

The DPU proposed LD condition 3 would require CenturyLink to notify Qwest customers in advance of any carrier change and to waive PIC change charges for any customer choosing to switch for Qwest to another long distance carrier. CenturyLink objects to the open-ended nature of this condition and reiterates its position explained above that the highly-competitive nature of the long-distance market will ensure that long-distance customers are treated appropriately.

Q. PLEASE RESPOND TO THE DPU'S PROPOSED CONDITION REGARDING AFFILIATED INTERESTS.

A. The DPU's proposed condition regarding affiliate interests would require CenturyLink to comply with all applicable Commission statutes and regulations regarding affiliated interest filings and reporting, consistent with the applicable Commission statues and regulations. This is a non-issue as Qwest and CenturyLink comply, and will continue to comply, with all governing statutes and regulations.

V. THE ASSERTION THAT CENTURYLINK AND QWEST SHOULD BE REQUIRED TO SHARE SYNERGY SAVINGS WITH WHOLESALE AND OTHER CUSTOMERS.

Q. DO THE INTERVENOR WITNESSES ATTEMPT TO EXPAND THE STANDARD OF REVIEW IN THIS PROCEEDING?

A. It appears that certain intervenor witnesses seek to expand the Utah transactional standard of review in two ways: (i) by requiring that the Joint Applicants prove affirmative benefits flowing from the Transaction, and (ii) by requiring that a specific telecommunications customer segment—wholesale customers—realize direct financial benefits from the merger. Effectively, witnesses Gates and Ankum seek to set a higher threshold for approval of the Transaction so that the intervening parties they represent may achieve self-interested benefits as part of the review process.

Q. WHERE IN THEIR TESTIMONIES DO THE INTERVENOR WITNESSES ARGUE THAT THE UTAH STANDARD OF REVIEW SHOULD "PROVE" AFFIRMATIVE BENEFITS?

A. Dr. Ankum devotes the entire sixth section of his testimony to the "Failure *to Prove Benefits* Resulting from the Merger."[51] [Emphasis added.] Dr. Ankum argues that the Commission cannot substantiate the "alleged benefits" and he provides Exhibit Joint CLECs 1.4 on the same point.[52] Mr. Gates speculates that "material changes are coming post-transaction" and the Joint Applicants' commitments regarding service quality and wholesale operations, among others, are not "verifiable benefits on which the Commission should rely."[53] Mr. Gates contends that the absence of detail about its plans and the "sparse information" provided by the Joint Applicants creates such harm that the Transaction should be rejected.[54] Mr. Gates reiterates the theme of "uncertainty" regarding the benefits of the proposed Transaction throughout his testimony, and equates the perceived uncertainty around benefits with actual "harm."[55] Essentially, Mr. Gates is speaking as if he has CenturyLink internal management level knowledge of what CenturyLink will or will not do post closing, when in fact many of these decisions have not been made yet, as described above.

Q. CAN YOU COMMENT ON THE INTERVENOR WITNESSES' ARGUMENTS THAT THE JOINT APPLICANTS FAIL TO DEMONSTRATE OR PROVE AFFIRMATIVE BENEFITS?

A. Yes. In no transaction with which I am familiar did management of the merging companies provide detailed plans with "proofs" regarding post-merger business

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[51] Ankum Direct, pp. 59-65.
[52] Ankum Direct, pp. 59-65; p. 20, lines 3-9; p. 41, lines 9-13; Exhibit Joint CLECs 1.4.
[53] Gates Direct, p. 5, lines 2-15.
[54] Gates Direct, p. 4, lines 13-17.
[55] Gates Direct, p. 4, line 15-17; p. 5, lines 6-12; p. 111, lines 1-9.

operations or benefits. In fact, the pre-close period is a time of ongoing evaluations and provisional steps that eventually lead to post-close decisions and plans. It is not possible or appropriate to subject a pending transaction to a level of scrutiny that requires detailed plans prior to closing. As I testified earlier, CenturyLink and Qwest are making significant progress regarding integration plans, but cannot provide detailed plans at this stage of the Transaction. No merger involving CenturyLink or any other acquirer, as far as I know, has been held to a standard that required detailed proof of plans at this stage.

Q. YOU STATED THAT INTERVENOR WITNESSES ARGUE THAT THE COMMISSION SHOULD REQUIRE SHARING OF THE FINANCIAL BENEFITS OF THE MERGER. CAN YOU EXPLAIN?

A. Yes. CenturyLink objects to the testimonies of Dr. Ankum and Mr. Gates who argue that wholesale customers should "share" in the benefits that flow from the merger. Dr. Ankum testifies: "And without a concrete commitment that allows CLECs [competitive local exchange carriers] to *rightfully share in the cost-savings* the combined company achieves, this will be very low on CenturyLink's priority list post-transaction."[56] [Emphasis added.] Mr. Gates argues that "CenturyLink should not be permitted to keep all of the benefits of increased economies and efficiencies for itself."[57] As such, the intervenor witnesses are not satisfied that the Commission should protect the public

[56] Ankum Direct, p. 65, lines 1-4.
[57] Gates Direct, p. 114, lines 8-10; Mr. Gates footnotes the concept, citing to the FCC's *Local Competition Order* ("Order") from 1996, ¶11, and his footnote selectively states "…the local competition provisions of the Act require that these economies be shared with entrants." In reality, the Order's paragraph concerns setting initial rules based on "economies of density, connectivity, and scale [that have] traditionally . . . been viewed as creating a natural monopoly." Nowhere does the FCC's Order suggest that there should be a sharing of economic benefits resulting from a merger.

interest with stable rates or the maintenance of service quality (or even that there are net benefits from increased financial flexibility), but contend that the Commission should make approval of the transfer of control contingent on competitive and wholesale carriers being direct financial beneficiaries of the Transaction.

Q. DO YOU AGREE THAT THE MERGED COMPANY SHOULD "SHARE" DIRECTLY WITH WHOLESALE CUSTOMERS THE FINANCIAL BENEFITS THAT FLOW FROM THE PROPOSED TRANSACTION?

A. No. CenturyLink believes that the intervenor witnesses have no right to claim a financial share of the efficiencies or other benefits resulting from the proposed Transaction. CenturyLink believes that the Commission is evaluating this Transaction to determine whether the public interest is served, in part as measured by the merged company's improved financial capabilities. CenturyLink and Qwest are committed to achieving financial flexibility so that it can respond to the needs of all customers and in all market conditions—through improved financial characteristics, network investment, more compelling service offerings, or some combination of these or other benefits. Requiring that retail or wholesale customers "share" directly in the cost savings to be realized through the merger would undercut the combined company's ability to respond to a challenging industry, and would limit the Company's efforts to strengthen the merged entity's financial position. Importantly, the two companies have made a commitment to merge, to bear any integration risk, and to create a stronger service provider for the benefit of all Utah customers. On the contrary, the Joint CLECs are not putting any capital at risk as part of the proposed Transaction, are not incurring any of the transaction costs, and are not taking any of the risks to create a stronger service provider for Utah. As such, there is no rational basis for directing a dedicated new financial benefit from the Transaction to wholesale and CLEC customers.

VI. THE CLAIM THAT THE TRANSACTION IS SIMILAR TO CERTAIN PREVIOUS PROBLEMATIC ILEC MERGERS, INCLUDING THOSE IN WHICH THERE WERE FUNDAMENTAL FLAWS THAT LED TO BANKRUPTCIES.

Q. PLEASE RESPOND TO THE CONCERNS RAISED BY SEVERAL INTERVENORS THAT THE PROPOSED TRANSACTION MIGHT BE SIMILAR TO THE HAWAIIAN TELECOM, INC. ("HAWAIIAN TELCOM") AND FAIRPOINT COMMUNICATIONS, INC. ("FAIRPOINT") MERGERS, WHICH EVENTUALLY RESULTED IN BANKRUPTCIES.

A. Several intervenors, including Mr. Gates, Dr. Ankum, and Mr. King, describe the failure of The Carlyle Group's ("Carlyle's") purchase of Hawaiian Telcom and the similar problems in the FairPoint acquisition of Verizon Communications Inc.'s ("Verizon") wireline operations in Maine, New Hampshire, and Vermont, but they fail to analyze with appropriate diligence or present facts regarding whether similar problems are likely in the instant Transaction.[58] Dr. Ankum and Mr. Gates summarily conclude that "ILEC local telephone operations carry a high degree of risk of failure" and the "integration of two

[58] Gates Direct, pp. 88-103; Ankum Direct, pp. 24-28; King Direct, pp. 4-10.

companies' disparate operations and OSS can pose a tremendous challenge."[59] Dr. Ankum proposes two additional unsupported conclusions, which are that, "company management tends to overstate the anticipated benefits and understate the risks and uncertainties," and that "integration of a Bell Operating Company's ILEC operation can prove to be extremely expensive and difficult, and integration failures can be so costly as to not only eliminate the forecasted transaction cost savings and other synergies, but to place the post-transaction company under severe financial pressure."[60] All of these testimonies focus on speculation about what the witnesses think "can" happen, but provide no substantive evidence relevant to the current Transaction to indicate that the problems related to the Hawaiian Telcom and FairPoint combinations will or are likely to happen in this Transaction.

Q. PLEASE ELABORATE ON YOUR COMMENT THAT THE INTERVENOR WITNESSES FAILED TO ANALYZE DILIGENTLY THE PROBLEMS IN THE HAWAIIAN TELCOM AND FAIRPOINT MERGERS AND COMPARE THOSE TRANSACTIONS WITH THE FACTS IN THE PROPOSED TRANSACTION.

A. First, Dr. Ankum and Mr. Gates focus on only two ILEC-to-ILEC transactions, in spite of the fact that there have been a large number of successful transactions combining ILEC operations—involving independent operations, properties sold by Regional Bell Operating Companies ("RBOCs"), and combinations of RBOCs—over the last decade

[59] Gates Direct, p. 89, lines 19-28; Ankum Direct, p. 37, lines 1-4.
[60] Ankum Direct, p. 37, lines 5-12.

and indeed well before that time.[61] In addition to several smaller transactions, CenturyLink successfully has acquired and integrated Verizon-owned properties that totaled nearly 2 million access lines in Wisconsin, Missouri, Arkansas, and Alabama since the year 2000, and has been integrating Embarq over the last year. Windstream successfully acquired Verizon properties (about 600,000 lines) in Kentucky in 2002. I know of no "failed" ILEC-to-ILEC mergers except the two cited by the intervenor witnesses. Second, CenturyLink believes that the Hawaiian Telcom and FairPoint transactions are distinguishable from virtually every other ILEC-to-ILEC transaction in terms of the specific problem that precipitated those companies' financial failure. That is, in both of those transactions, the acquiring companies were required to create entirely new OSS and then to cut over ("flash cut") the acquired carrier's services to those newly-created OSS. Dr. Ankum and Mr. Gates both acknowledge that every one of the state commissions that reviewed those two transactions—in Hawaii, Vermont, Maine, and New Hampshire—trace the financial and service problems to those specific OSS challenges, which then led to financial distress.[62] I reiterate that I know of no other "failed" ILEC combinations besides Hawaiian Telcom and FairPoint, and, in those two cases, the root problem, according to Mr. Gates and Dr. Ankum themselves and

[61] Dr. Ankum testifies vaguely that "most mergers are not successful." See Ankum Direct, p. 9, line 21. It might be assumed that he is referring to mergers outside the ILEC industry, but his testimony provides no data or references to verify the statement about "most mergers." Dr. Ankum does cite in general terms several other mergers but they did not involve two ILECs combining their businesses; i.e., the combination of MCI and WorldCom (Ankum Direct, p. 10, lines 6-15), and Qwest and US West (Ankum Direct, p. 25, line 15 through p. 26, line 6); and he makes passing reference without specifics to the combinations of SBC and BellSouth, as well as SBC and Ameritech. Dr. Ankum also alleges that Frontier is having "cut-over problems with backoffice and OSS systems reminiscent of the prior two transactions [Hawaiian Telcom and FairPoint]" but the source cited in his footnote is only a Fact Sheet from Frontier, announcing the transaction (see p. 27, footnote 30).

[62] See, for example, Gates Direct, p. 91, line 9 through p. 100, line 1; Ankum Direct, p. 33, line 20 through p. 35, line 5.

according to the respective commissions, was the inability to develop and implement entirely new OSS to replace the legacy Verizon OSS. In contrast, the current Transaction does not force the Company to change or replace OSS.

Q. CAN YOU BE MORE SPECIFIC ABOUT THE DISTINGUISHING CHARACTERISTICS BETWEEN THE PROPOSED TRANSACTION ON THE ONE HAND AND THE FAIRPOINT-VERIZON AND THE HAWAIIAN TELECOM ACQUISITIONS ON THE OTHER?

A. Yes. The proposed Transaction does not at all resemble the FairPoint-Verizon transaction or the Hawaii divestiture. The proposed Transaction is a stock-for-stock merger with no incremental debt, and it does not involve complex financial engineering such as has been seen with other transactions like the FairPoint-Verizon transaction). All Qwest systems, including the back-office systems (OSS), and all personnel will convey to CenturyLink as part of the merger. These factors eliminate important risks that apparently precipitated the operating and financial distress in the cases of the two cited bankruptcies.

Turning to the specific problems that led to the bankruptcies cited by the intervenors, both Carlyle, which acquired Hawaiian Telcom, and FairPoint were required to build “de novo” the back-office software (i.e., OSS) that manages key operational functions. Those systems support order-taking, provisioning those orders through the company’s systems, billing, maintenance and repair. However, as has been well-reported, the newly-developed Hawaiian Telcom and FairPoint systems performed poorly due to design and integration flaws, which resulted in a loss of customers and related financial problems. I emphasize that those significant financial commitments made by Carlyle and FairPoint are not required in the proposed Transaction because CenturyLink and Qwest have well-established, fully operational and tested systems. The financial reports issued by Hawaiian Telcom and FairPoint further point to the *substantial* costs required in developing (and then fixing) newly-developed, but ineffective, systems. In its 2007 Form 10-K filing with the Securities and Exchange Commission ("SEC"), Hawaiian Telcom reported that it initially had engaged BearingPoint, Inc. ("BearingPoint") to build the back-office and information technology ("IT") infrastructure. According to the SEC filing, the back-office and IT systems then required "substantial investments" when BearingPoint failed to perform.[63] And, in its 2008 Form 10-K filing, Hawaiian Telcom explained that the failure of the back-office systems "led to deficiencies in billings and collections, revenue assurance, and order entry flow-through," which adversely affected its business.[64] FairPoint's investment in systems development was originally estimated

[63] 2007 10-K for the fiscal year ended December 31, 2007, Hawaiian Telcom Communications, Inc, available at http://www.sec.gov/Archives/edgar/data/1349120/000110465908020904/a08-2974_110k.htm, p. 7. Hawaiian Telcom described in the 10-K at p. 12 the eventual settlement that provides a sense of the magnitude of back-office systems cost: "Effective as of February 6, 2007, we reached a mutual agreement with BearingPoint that was memorialized in a Settlement Agreement and Transition Agreement. Under the Settlement Agreement, BearingPoint paid to us the aggregate amount of $52.0 million (the "Settlement Payment") on March 27, 2007 and agreed to discharge previously-submitted invoices in an aggregate amount of approximately $29.6 million as well as other amounts otherwise payable to BearingPoint. The total benefit to us under the settlement includes the cash Settlement Payment and a reduction in accounts payable ($38.6 million at February 6, 2007, including certain accrued costs) associated with reversing amounts accrued under our agreement with BearingPoint. For the year ended December 31, 2006, we recorded a recovery contractually due under our agreement with BearingPoint amounting to $24.1 million. The remaining settlement consideration was recognized in the first quarter of 2007."

[64] Hawaiian Telcom 2008 10-K, p. 12; "This [failure of the back-office systems] led to deficiencies in billings and collections, revenue assurance, and order entry flow-through. Despite BearingPoint's efforts to improve the functionality of the related systems, we continued to experience many of these same issues, requiring us to incur significant incremental expenses in 2006 to retain third-party service providers to provide call center and manual

to be $200 million.[65] FairPoint also reported the high costs to remediate its failed systems: "In addition to the significant incremental expenses we incurred as a result of these cutover issues, we have been unable to fully implement our operating plan for 2009 and effectively compete in the marketplace …."[66] Although, to my knowledge, neither FairPoint nor Hawaiian Telcom reported the full extent of the costs associated with lost customers, the companies have made clear that the losses were significant.[67]

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processing services in order to operate our business. To help remediate deficiencies, we also engaged the services of Accenture, which has expertise in telecommunications back-office software systems and processes. In addition to the third-party costs, we incurred additional internal labor costs in the form of overtime pay. As a result, we engaged in discussions with BearingPoint seeking reimbursement of the aforementioned costs and compensation for damages arising from failures to deliver promised services in a timely manner."

[65] "FairPoint Communications, January 16, 2008," p. 8; transcript of investor call available at http://www.sec.gov/Archives/edgar/data/1062613/000110465907003517/a07-1924_2ex99d1.htm; see, especially, p. 5.

[66] *Id*.

[67] FairPoint Second Quarter 10-Q 2009, available at http://www.sec.gov/Archives/edgar/data/1062613/000104746909007239/a2193968z10-q.htmp.

p. 40: "Following the cutover [from Verizon's systems to FairPoint's in 2009], many of these [back-office] systems functioned without significant problems, but a number of the key back-office systems, such as order entry, order management and billing, experienced certain functionality issues. As a result of these systems functionality issues, as well as work force inexperience on the new systems, we experienced increased handle time by customer service representatives for new orders, reduced levels of order flow-through across the systems, which caused delays in provisioning and installation, and delays in the processing of bill cycles and collection treatment efforts. These issues impacted customer satisfaction and resulted in large increases in customer call volumes into our customer service centers. While many of these issues were anticipated, the magnitude of difficulties experienced was beyond our expectations. . . . Because of these cutover issues, during the three months and six months ended June 30, 2009 we incurred $8.6 million and $28.0 million, respectively, of incremental expenses in order to operate our business, including third-party contractor costs and internal labor costs in the form of overtime pay. The cutover issues also required significant staff and senior management attention, diverting their focus from other efforts. We expect to continue to incur a modest amount of incremental costs during the third quarter of 2009 as we fully complete our cutover restoration efforts. In addition to the significant incremental expenses we incurred as a result of these cutover issues, we have been unable to fully implement our operating plan for 2009 and effectively compete in the marketplace, which we believe is having an adverse effect on our business, financial condition, results of operations and liquidity, as well as our ability to continue to comply with the financial covenants in our credit agreement."

See, also, Hawaiian Telcom 2008 10-K, p, 15: "In addition to the significant expenses we have incurred, because we do not have fully functional back-office and IT systems, we have been unable to fully implement our business strategy and effectively compete in the marketplace, which has had an adverse effect on our business and results of operations. While we are continuing to work to improve the functionality of our systems and we have seen improvement, there is no certainty that these activities will be successful or when we will achieve the desired level of functionality. Until we are able to achieve this level of functionality, our lack of critical back-office and IT infrastructure will negatively impact our ability to operate as a stand-alone provider of telecommunication services, and will have an adverse effect on our business and operations." See also, p. 18.

I note that, to my knowledge, in all other ILEC transactions where there has not been the need to create new OSS—and there is no need in the proposed Transaction—there is a long track record of successful integrations resulting in improved combined operations, including numerous transactions involving CenturyLink. Had Dr. Ankum, Mr. Gates and other intervenors looked beyond the two "failed" transactions upon which they selectively focus their testimonies, they would have discovered that the ILEC industry in general, and CenturyLink in particular, have a long history of successful transactional activity and that ongoing industry consolidation is appropriate and positive as telecommunications becomes a more intensely competitive industry.

Q. IS THERE ANY RISK IN THE PROPOSED TRANSACTION SIMILAR TO THE RISKS THAT CAUSED THE FINANCIAL DISTRESS FOR HAWAIIAN TELCOM AND FOR FAIRPOINT?

A. No. The proposed Transaction does not include the risk associated with creating new OSS or a "flash cut" to a different OSS on the day the merger is completed. I note that CenturyLink has extensive experience in successfully "flash cutting" acquired operations to its own OSS, as was the case in the acquisitions of the Verizon properties in Wisconsin, Missouri, Arkansas, and Alabama over the last ten years. However, in the proposed Transaction, no immediate cutover of systems is required nor are there new and unproven systems that must be relied upon in the combination between CenturyLink and Qwest. The proposed transaction is completely and fundamentally distinguishable from the two merger-related ILEC failures. Immediately after the close of the proposed

Transaction, Qwest will operate using the same systems it currently has in place, and CenturyLink will operate using its systems, with both OSS fully functioning and staffed by operating personnel who have been managing those systems. There clearly and definitively is no similar risk in the current Transaction. The similarities between FairPoint and Hawaiian Telcom are very clear, and the precipitating problem in those transactions is not a factor in executing the proposed Transaction.

Q. PLEASE COMMENT ON THE RISKS RELATED TO MERGERS THAT MR. GATES AND DR. ANKUM OUTLINE AS A RESULT OF THEIR ASSESSMENT OF TWO ILEC BANKRUPTCIES.

A. Mr. Gates and Dr. Ankum conclude from the problems of Hawaiian Telcom and FairPoint that ILEC mergers in general bear a "high degree of risk of failure."[68] This claim is not accurate or balanced, as, to my knowledge, there have been two and only two notable ILEC transactional failures in recent years. Mr. Gates cites that "the integration of two companies' disparate operations and OSS pose a tremendous challenge" which can lead to elimination of synergies and "severe financial pressures."[69] CenturyLink will not be challenged to migrate or "integrate disparate systems" at the time the merger is completed. CenturyLink reserves the right to improve its systems and integrate operations (similar to the operating rights at any other carrier including Verizon or AT&T), but there are no plans to effect a flash cut or transition at the consummation of the merger or in the months that immediately follow. Dr. Ankum also generalizes that

[68] Gates Direct, p. 89, lines 19-22; Ankum Direct, p. 37, lines 1-4.
[69] Gates Direct, p. 89, lines 24-28; see also Ankum Direct, p. 37, line 8-12.

"company management tends to overstate the anticipated benefits and understate the risks."[70] On the contrary, in CenturyLink's past transactions, the Company has made accurate assumptions, integrated operations successfully, generated new services for customers, and achieved synergies at levels consistent with or in excess of expectations going into the transactions. In addition, other proven ILEC acquirers, such as Frontier and Windstream, frequently have engaged in successful combinations that have achieved financial results that have exceeded expectations. I know of no other ILEC-to-ILEC transaction over the last ten years that can be characterized as overstating benefits and understating risks except in the Hawaiian Telcom and FairPoint transactions. Mr. Gates and Dr. Ankum are speculating about potential problems unique to two companies, but CenturyLink has provided convincing evidence related to a proven and long history of its capabilities with respect to acquisitions, high-quality services, and responsible management of local exchange operations—none of which have resulted in failure. Finally, on a related point, CenturyLink believes that its management team has significantly more experience in operating telecommunications businesses and integrating acquisitions than the intervenor witnesses. As such, the Commission should be wary of accepting the theoretical and speculative assertions of the intervenor witnesses.

Q. CAN YOU ADDRESS THE "ISSUES" THAT MR. KING RAISES IN RELATION TO THE CLOSED FRONTIER TRANSACTION?[71]

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[70] Ankum Direct, p. 37, lines 5-7.
[71] King Direct, pp. 8-9.

A. Yes. Mr. King attempts to create concerns that the recently completed Frontier-Verizon transaction may face difficulties similar to the Hawaiian Telcom and FairPoint transactions (although Mr. King indicates that the Frontier transaction is "so recent" that its performance "cannot yet be determined"). However, Mr. King can only cite to a single complaint proceeding involving a single CLEC—FiberNet—in one state as the basis for concern that Frontier is experiencing systems problems in the fourteen states in which it acquired Verizon operations. However, as Mr. King is aware, the West Virginia Public Service Commission ("WVPSC") found that FiberNet's allegations were specific to FiberNet and transferred FiberNet's petition to a complaint proceeding for mediation. In its reply to the FiberNet accusations, Frontier noted several facts. Most importantly, any problems encountered by FiberNet with completing trouble tickets reported since closing have stemmed mainly from issues that have nothing to do with Frontier's OSS. The issues are attributable to the network Frontier inherited, and they are being addressed. In fact, the FiberNet trouble tickets in question were entered into Verizon's system before closing on July 1, 2010, but were left by Verizon for Frontier to resolve after close. Importantly, at this time, no other CLECs have filed complaints or disputes against Frontier with the WVPSC, and in any event, the filing of a single complaint does not equate to a showing that there is a meaningful problem with Frontier's transition efforts in West Virginia.

Finally, I think it is instructive to note Mr. King's own testimony regarding CenturyLink and the proposed Transaction when compared to these other recent transactions:

> CenturyLink is a much larger, more experienced and financially healthier company than the Carlyle Group, FairPoint or Frontier. Unlike previous acquisitions, this transaction is a stock transfer that involves no new debt. So, far, the record of CenturyLink's acquisitions has been relatively trouble-free. The combined company will display a much stronger balance sheet relative to that of Qwest at the present time.[72]

Therefore, it appears to be evident even to Mr. King that discussions of problems in other transactions have no relevance in assessing the proposed Transaction, in the absence of proof or evidence.

VII. THE ALLEGED IDENTIFICATION OF CERTAIN RISKS THAT WILL RESULT FROM THE TRANSACTION.

Q. CAN YOU COMMENT ON DR. ANKUM'S SPECULATION REGARDING THE RISK IN PURCHASING A BELL OPERATING COMPANY'S ("BOC") OPERATIONS?

A. Yes. Dr. Ankum points to a BOC's distinct culture and engineering. While there are differences in the telecommunications operations of a carrier in each state and in each competitive situation, CenturyLink believes it has extensive experience managing telecommunications services under a wide range of operating conditions, meeting the needs of retail and wholesale customers in rural and urban areas, engineering robust and reliable networks, and managing the capital and human resources necessary to compete effectively in the telecommunications industry. Additionally, in the past, CenturyLink successfully has integrated, operated, and improved the service in exchanges the Company has acquired from two BOCs—Verizon and Ameritech Corporation

[72] King Direct, p. 10, lines 23-28.

("Ameritech").[73] These acquisitions demonstrate that CenturyLink has in fact integrated operations and personnel in exchanges previously managed by BOCs. It also is important to recognize that the combined company resulting from this Transaction will benefit from the assets and personnel of both CenturyLink and Qwest, which will work together to respond to customer demands and opportunities. Thus, the proposed Transaction will utilize, capitalize upon, and enhance the corporate culture and engineering practices "inherited from Ma Bell" based in part on CenturyLink's experience, which is exceptionally strong in terms of its culture and technical resources. The cultural issues and engineering challenges are not foreign to CenturyLink, and again the record is clear that CenturyLink is a proven acquirer of telecommunications companies and assets. While Dr. Ankum speculates about a potential problem, CenturyLink provides the Commission with a long and consistent history to support its testimony that this acquisition will result in benefits for Utah and customers throughout the state.

Q. MR. KING REFERS TO OPERATIONAL RISKS NOTED IN CENTURYLINK'S FORM S-4 FILING WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC").[74] CAN YOU ADDRESS CENTURYLINK'S "RISK FACTOR" DISCLOSURES?

A. Yes. Obviously, there are numerous benefits associated with the Transaction, which also are detailed in the CenturyLink Form S-4 filing, and in the CenturyLink and Qwest testimonies in this proceeding. Mr. King and other intervenor witnesses highlight the

[73] CenturyLink acquired 89,000 lines from Ameritech in 1998; 1.2 million lines in Arkansas, Missouri and Wisconsin from Verizon in 2000, and another 654,000 lines in Missouri and Alabama in 2002.
[74] King Direct, p. 10, lines 7-11, and DoD/FEA Exhibit 3.

recitation of Risk Factors as if CenturyLink is suggesting some degree of probability that the risks noted are *likely* problems.[75] It is important to understand the purpose of the "Risk Factors" section in SEC filings by companies with publicly-traded securities. These items are mentioned as a matter of full disclosure of any and all risks to shareholders, as would be included in any public company's SEC Form S-4 or annual Form 10-K. As described, these "Risk Factors" represent general recitals of risks of which companies and the public generally are well aware. The disclosure of risk factors provides legal protection to investors and to the company whose securities are publicly-traded, but the disclosures are not intended to suggest that the risks are likely outcomes. As noted previously, however, CenturyLink has a long history of successfully executing ILEC transactions, a fact that underscores that the Company fully understands the importance of the customer, and is capable of managing operating risks, and delivering superior service through these types of combinations. In summary, there is no evidence that failures or problems such as those recited in the "Risk Factors" have occurred in past CenturyLink transactions and CenturyLink believes there is little likelihood that those types of problems will occur here. I also note that, if undue emphasis were placed upon the risk factors, mergers and financings for new investment likely would never occur. Despite the cited risk factors, recently the shareholders of CenturyLink and Qwest overwhelmingly approved the proposed transaction because they concluded that the likely benefits of the proposed merger outweighed the potential risks.

[75] See, e.g., Joint CLECs/1, Ankum, p. 50 line 17 through p. 51, line 23; Dr. Ankum cites a risk recital related to expenses to argue that CenturyLink "has put CLECs on notice to expect changes."

VIII. CERTAIN CONDITIONS PROPOSED BY MR. GATES.

Q. PLEASE RESPOND TO MR. GATES' RECOMMENDATION IN CONDITION 13 THAT THE "MERGED COMPANY WILL BE CLASSIFIED AS A BOC IN THE LEGACY QWEST ILEC TERRITORY POST-MERGER AND SUBJECT TO BOC REQUIREMENTS IN THE TELECOMMUNICATIONS ACT, INCLUDING THE 14-POINT COMPETITIVE CHECKLIST UNDER SECTION 271 AND ANTI-BACKSLIDING PROVISIONS UNDER SECTION 272."[76]

A. CenturyLink believes that the type of condition proposed by Mr. Gates regarding the federal definition of, and requirements imposed on, a BOC is an FCC matter, and thus is not appropriate in a state transactional review process. The definition of a BOC is established under federal law. As such, Mr. Gates' proposed condition is unnecessary and not appropriate for this proceeding. The non-Qwest operations are not BOC properties. Further, CenturyLink believes that no non-BOC property has been converted into a BOC up to this time, and none will be converted in the future.

Q. MR. GATES IN HIS PROPOSED CONDITION 29 RECOMMENDS A COMMITMENT ON THE PART OF THE COMPANIES TO ALLOW CONDITIONS GRANTED IN OTHER STATES OR JURISDICTIONS TO BE APPLICABLE TO UTAH AS WELL.[77] WHAT IS CENTURYLINK'S POSITION?

[76] Gates Direct, p. 153, line 19 through p. 154, line 3; Joint CLECs Exhibit 8, p. 7.
[77] Joint CLECs Exhibit 8, p. 12.

A. CenturyLink strongly urges the Commission not to adopt this condition. CenturyLink believes that any individual state conditions that may be imposed on the proposed Transaction should be based on state-specific facts, circumstances and regulations. Due to the differences in each state, a condition or commitment in one state may not be a necessary or even appropriate condition for another state. As a result, there will almost always be uncertainty as to whether and how a condition of approval in one state will be applicable to another state. Trade-offs made by the Commission and CenturyLink that result in satisfying the public interest should not be subsequently unraveled by importing a condition from a different state. A state's order of approval is to be premised upon the public interest issues of that state, not upon the issues or provisions from another state. Once a state has issued an order approving the application, the public interest for that state has been satisfied, and thus a provision that subsequently may be carried over from another state is by definition immaterial to satisfying the public interest. The condition proposed by Mr. Gates is overly broad and inequitable, and appears to exceed the standard of review that Utah legislators adopted in Utah Ann. Code, Sections 54-4-28, 54-4-29, and 54-4-30, to properly protect the rights of various parties. The proposed condition is not tailored to avoid any specifically identified harm to Utah or to Utah customers and, therefore, should be rejected by the Commission.

Q. CAN YOU ADDRESS MR. GATES' CONDITION 30 WHICH STATES: "IN THE EVENT A DISPUTE ARISES BETWEEN THE PARTIES WITH RESPECT TO ANY OF THE PRE-CLOSING AND POST-CLOSING CONDITIONS HEREIN,

EITHER PARTY MAY SEEK RESOLUTION OF THE DISPUTE BY FILING A PETITION WITH THE STATE COMMISSION AT ANY TIME. ALTERNATIVE DISPUTE RESOLUTION PROVISION IN AN INTERCONNECTION AGREEMENT SHALL NOT PREVENT ANY PARTY FROM FILING A PETITION WITH THE STATE COMMISSION AT ANY TIME."?[78]

A. CenturyLink will abide by appropriate dispute resolution procedures contained in negotiated commercial and interconnection agreements. However, the Company does not believe that it is in the best interest of the Commission or any of the parties to encourage frivolous or duplicative dispute resolution processes that potentially waste the resources of the companies or the Commission. There appears to be no specific harm to Utah or to Utah customers that will be avoided as a result of establishing overlapping mechanisms for dispute resolution. Further, to the extent parties to an interconnection agreement have the ability to file a petition with the state commission under the terms of the agreement, the merger does not change a parties' ability to do so. As such, the condition proposed by Mr. Gates is unnecessary and could confer additional rights beyond the commercially negotiated contract terms. Such an outcome is inappropriate.

IX. SUMMARY REMARKS.

Q. CAN YOU SUMMARIZE YOUR REBUTTAL TESTIMONY?

A. Yes. CenturyLink and Qwest are confident that the proposed Transaction will result in the creation of a superior, financially sound, and stable service provider. The proposed Transaction addresses market conditions and challenges as it combines assets and skills

[78] Joint CLECs Exhibit 8, p. 12.

responsive to a rapidly changing, data-centric world. The potential for scope and scale better assures employees and customers of a stable and capable telecommunications provider. CenturyLink recommends that the Commission expeditiously approve the Proposed Transaction for the good of the public and the ratepayers of the State, as the evidence from the Joint Applicants is compelling in establishing that benefits to Utah and Utah customers will result from the merger, while no reasonable substantive evidence to the contrary has been provided. Clearly, the Company's long-standing and proven track record of integration and operational execution over-shadows and negates the unsubstantiated speculative concerns of some intervenors. Moreover, Utah customers will benefit from the assurance of having a financially stable, long-term service provider with a history of good customer service, significant investment in advanced services, and dependable network reliability.

CenturyLink wishes to serve its customers—retail and wholesale—in a manner consistent with the history of CenturyLink and Qwest, while striving to improve that service over time. CenturyLink objects to unverified and speculative risks that lead to the imposition of costly and inefficient conditions that appear not to be required under Utah's standard of review. CenturyLink will abide by all regulatory and negotiated agreements and terms, and is committed to superior telecommunications services. At the same time, the Company objects to the imposition of unnecessary costs or conditions. Specifically, the Company is concerned about regulatory conditions that might be perceived by the credit rating agencies or other investors as creating higher levels of financial risk. CenturyLink believes that this potentially unintended consequence of certain proposed conditions should be given serious consideration by the Commission. Both Qwest and CenturyLink have been good public institutions in Utah and plan to make additional investments toward serving customers. CenturyLink requests that the Commission evaluate the alleged risks presented by the intervenor witnesses to determine whether those risks are speculative and unfounded or real and require conditions. CenturyLink could not find evidence that any of the risks outlined by intervenor witnesses were likely to cause actual harm to Utah or Utah customers as a result of the Transaction. In fact, the vast majority of the combined company's Utah customers—the current Qwest customers—clearly will benefit from the improved operating performance and financial strength of the post-merger company when compared to Qwest today. Thus, there will be a meaningful net benefit for Utah customers as a result of the Transaction. Further, I believe that CenturyLink and Qwest have given the Commission data and history that provide assurance that the merged company will have the resources and capabilities to provide services in the public interest.

Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

A. Yes.