

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

DIRECT TESTIMONY

OF

JERRY FENN

QWEST COMMUNICATIONS INTERNATIONAL, INC.

MAY 27, 2010

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I. IDENTIFICATION OF WITNESS

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

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

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND, WORK EXPERIENCE AND CURRENT RESPONSIBILITIES.

A I received a Juris Doctorate degree (cum laude) from the J. Reuben Clark Law School in 1983, where I was the Editor-in-chief of the Brigham Young University Journal of Legal Studies. I also have a Masters in Business Administration and a Bachelor's Degree in Economics (cum laude) from Brigham Young University. Following law school, I was a judicial clerk for the Chief Judge of the United States District Court for the District of Utah. I have been a member of the Utah State Bar since 1983 and also am admitted to practice before the Tenth Circuit Court of Appeals and The United States Supreme Court.

Following my judicial clerkship, I was an associate and then a partner at the Salt Lake City law firm of Snow, Christensen & Martineau. I then became a founding partner of the Salt Lake City law firm of Blackburn & Stoll in 1993. There, I represented several Utah rural independent telephone companies, and was general counsel for the Utah Rural Telecom Association. I also represented the Church of Jesus Christ of Latter-day Saints on Utah public policy issues.

I joined Qwest as the State President for Utah in 2003. My broad responsibilities include responsibility for Qwest's Utah operations, including oversight and integration of sales, marketing, network, public policy, community affairs,

1 regulatory, media and legislative strategies for Qwest in the state. My
2 responsibilities including advocating on behalf of Qwest and being the principal
3 company contact with the Governor's Office, the Legislature, our Congressional
4 delegation, as well as other state and local officials. I oversee all legislative,
5 regulatory and local matters which arise in the State of Utah. I also work closely
6 with Qwest legal, corporate communications, network, business markets,
7 government and education and consumer groups, and meet regularly with these
8 and other members of the Utah Leadership team in meetings which I chair.

9 I also represent Qwest's values and commitment to our communities by
10 involvement in civic affairs. I am currently the Chairman of the Economic
11 Development Corporation of Utah, on the Board and Executive Committee of the
12 Utah Symphony and Opera, where I recently chaired the Music Director Search
13 Committee, am on the Board and Executive Committee of the Salt Lake Chamber,
14 the Board of Downtown Alliance, the Board of United Way of Salt Lake, past
15 Chairman of Junior Achievement of Utah, and am a member of several other
16 boards and organizations.

17 **Q HAVE YOU TESTIFIED OR APPEARED BEFORE THIS COMMISSION**
18 **IN THE PAST?**

19 A I have appeared before the Commission numerous times in the past as an attorney
20 representing various clients in telecommunications-related dockets, but I have not
21 previously testified before the Commission.

22 **II. INTRODUCTION**

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

1 A. My direct testimony is prepared on behalf of Qwest Communications
2 International, Inc., the parent company of the Qwest telecommunications entities
3 operating in Utah, which has joined with CenturyTel, Inc. (now known as
4 CenturyLink) (“CenturyLink”) to file the Joint Application for Approval (“the
5 Application”) of the Merger Agreement between CenturyLink and Qwest (“the
6 Transaction”).¹

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

8 A. The purpose of my direct testimony is to demonstrate to the Commission that the
9 Transaction is in the public interest and should be approved for the State of Utah.

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

12 A. Yes. Two other witnesses are presenting testimony in this proceeding. Mr. Jeremy
13 Ferkin, CenturyLink’s Vice President and General Manager, will describe the
14 merger transaction, and demonstrate that CenturyLink has the managerial,
15 operational and technical ability and experience to manage the combined company
16 in the public interest. Mr. Ferkin will also provide a brief overview and history of
17 CenturyLink and describe the company’s ability to successfully complete the
18 integration process as demonstrated in previous acquisitions. Mr. Ferkin will also
19 explain CenturyLink’s localized “go to market” service delivery model. Mr. Jeff
20 Glover, CenturyLink’s Vice President-Regulatory Operations and Policy, will
21 describe the compelling financial features of the Transaction, and demonstrate that
22 the merger will result in a company that will have the financial resources necessary
23 to invest in infrastructure to better serve the customers of Utah. The Transaction

¹ The filing’s full caption is: “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.”

1 results in no new debt, contains no complicated “financial engineering,” and will
2 result in a company with solid debt coverage ratios and sufficient liquidity.

3 **Q. WHAT UTAH LEGAL STANDARDS DOES YOUR TESTIMONY**
4 **ADDRESS?**

5 A. The standard of review is provided in Utah Code Ann. §§ 54-4-28, 54-4-29 and
6 54-4-30, which grants the Commission authority to approve the transfer requested
7 in this Application. In approving this Transaction, the Commission must consider
8 whether the Transaction is in the public interest. As both CenturyLink and Qwest
9 show, and as I address below, the transfer of control of Qwest Communications
10 International, Inc., the parent of Qwest Corporation, Qwest Communications
11 Company, LLC and Qwest LD Corporation, satisfies all applicable criteria under
12 Utah Code Ann. §§ 54-4-28, 54-4-29 and 54-4-30.

13 The Joint Applicants also hold the opinion that should other rules or statutes
14 apply, the standard for Commission approval is whether the Transaction is in the
15 “public interest.” As demonstrated in my testimony, and in the testimony of the
16 CenturyLink witnesses in this proceeding, the Transaction is in the public interest.

17 As described below, the Transaction will be transparent to customers, and all of
18 Qwest’s current regulatory and customer obligations will be met on a going-
19 forward basis. The Transaction will create a financially-strong provider that has
20 an enhanced ability to invest in local and national networks, deploy broadband
21 and other advanced services, and provide outstanding service quality to its
22 customers. The combined company will be positioned to compete effectively for
23 customers in the increasingly competitive telecommunications market, in Utah
24 and nationally. Competition—particularly intermodal competition—is

1 widespread, with wireless and wireline carriers competing vigorously for
2 customers with a wide array of voice, video and data offerings. As a result of this
3 robustly-competitive market environment, carriers such as Qwest and
4 CenturyLink face unique pressures and must have the strategic flexibility to bring
5 new products and expanded services to the marketplace quickly to enhance the
6 customer experience. The Transaction will result in a company with the financial
7 strength and flexibility and increased scale and scope to better compete against
8 cable companies and other intermodal competitors within its local regions, and
9 nationally, allowing it to meet the unique needs of residential, business, wholesale
10 and government customers.

11 **Q. PLEASE DESCRIBE THE QWEST ENTITIES OPERATING IN UTAH**
12 **THAT ARE IMPACTED BY THIS TRANSACTION.**

13 A. The Qwest entities operating in Utah are Qwest Corporation (“QC”), Qwest LD
14 Corporation (“QLDC”), and Qwest Communications Company, LLC (“QCC”).
15 Each of those entities is a direct subsidiary of Qwest Services Corp., which is a
16 subsidiary of Qwest Communications International Inc. (“QCII”), a publicly-
17 traded holding company. Neither QCII nor Qwest Services Corp is a public
18 service corporation or a regulated carrier under the Utah Constitution or statutes,
19 to my understanding.

20 QCII is the indirect sole shareowner of QC, which provides telecommunications
21 services in Utah and 13 other states. QC is an incumbent local exchange carrier
22 (“ILEC”) and a Bell Operating Company (“BOC”) under the Telecommunications
23 Act of 1996 (the “Act”). QC provides regulated local exchange and intrastate
24 interexchange services under the jurisdiction of this Commission. QC also
25 provides interconnection service to Competitive Local Exchange Carriers

1 (“CLECs”) through numerous interconnection agreements under the auspices of
2 the Act, all of which are approved by this Commission.

3 QCII is the indirect sole shareowner of QLDC, which provides resold
4 interexchange services. QLDC is the entity formed by Qwest as part of the
5 approval processes under Sections 271 and 272 of the Act to provide interLATA
6 interexchange services originating in Utah. Further, QCII is the indirect sole
7 shareowner of QCC, which provides facilities-based long distance service. In
8 Utah, QCC is authorized to provide certain competitive local exchange services;
9 however, QCC has not commenced operations in that regard. QCC also provides
10 facilities-based and resold interexchange and competitive local exchange services
11 nationwide. The Transaction will result in the indirect transfer of control of QC,
12 QLDC and QCC to CenturyLink.

13 **Q. ARE THE JOINT APPLICANTS SEEKING EXPEDITED APPROVAL OF**
14 **THE MERGER TRANSACTION?**

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

18 **III. THE TRANSACTION**

19 **Q. PLEASE BRIEFLY DESCRIBE THE CENTURYLINK-QWEST MERGER**
20 **TRANSACTION.**

21 A. On April 21, 2010, Qwest and CenturyLink entered into an Agreement and Plan
22 of Merger Agreement to consummate the Transaction. The Transaction is a tax-
23 free, stock-for-stock transaction with no new debt or refinancing required.
24 Shareholders of QCII will receive 0.1664 shares of CenturyLink for each share of

1 QCII common stock owned at closing. Upon completion of the Transaction, the
2 shareholders of pre-merger CenturyLink will own approximately 50.5% of post-
3 merger CenturyLink, and the shareholders of pre-merger QCII will own
4 approximately 49.5% of post-merger CenturyLink. CenturyLink will issue new
5 stock to acquire QCII and the Transaction does not involve the payment of cash.
6 The Transaction is not financed through debt or any sort of complex financing
7 tools used in some other recent telecommunications merger transactions. Finally,
8 the Transaction does not result in the transfer of assets, exchanges or operations to
9 a wholly different provider. QCII will become a wholly-owned subsidiary of
10 CenturyLink. QCII's operating subsidiaries, QC, QCC and QLDC will remain
11 subsidiaries of QCII. As such, the structure and financing of the Transaction are
12 straightforward, simple and precise. Exhibit A attached to the Application shows
13 the pre- and post-transaction corporate structure.

14 **Q. MR. GLOVER OF CENTURYLINK DESCRIBES THE FINANCIAL**
15 **IMPACTS OF THE TRANSACTION. HAS QWEST REDUCED ITS**
16 **LEVEL OF NET DEBT OVER THE PAST FEW YEARS?**

17 A. Yes. Qwest has steadily reduced its level of net debt over the past several years.
18 As of the end of 2009, Qwest's net debt was \$11.8 billion,² which represents more
19 than a 23% reduction from Qwest's \$15.4 billion net debt at the end of 2004.³
20 Qwest has continued to lower its net debt in the first quarter of 2010, with a
21 reduction to \$11.7 billion.⁴ Qwest plans to reduce debt further prior to the closing
22 of the Transaction.

² See <http://investor.qwest.com/earningsarchive>.

³ *Id.*

⁴ *Id.*

1 merger transaction. A link to Qwest's tariffs and price lists for Utah can be found
2 on its website.⁶

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

5 A. No. Currently, Qwest has Commission-approved Interconnection Agreements
6 with many CLECs, and these agreements will not be impacted by the Transaction.
7 All prices, terms and conditions of these agreements will remain in effect until
8 such time as they are renegotiated or expire by their own terms. In addition, the
9 Utah QC Access Services Catalog and the Utah QC Access Service Tariff and
10 Price List will remain in effect after the merger is consummated. Finally, the
11 Transaction will not affect Qwest's obligations, set forth in the Act, relative to
12 wholesale services and elements provided to other carriers.

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

17 A. No. On March 25, 2010, Qwest filed an application seeking \$467 Million from the
18 Broadband Initiatives Program (BIP), an agency of the U.S. Department of
19 Agriculture (USDA) to extend broadband at speeds of 12 to 40 Megabits per
20 second ("Mbps") to rural communities throughout its local service region,
21 including Utah. The total cost of the proposed deployment would be \$467 million,
22 and Qwest is requesting a grant for \$350 million (75% of deployment costs) region-
23 wide. Of this \$350 million, Qwest is seeking \$13 million in Utah to fund projects

⁶ All current Qwest tariffs and catalogs in force in Utah can be found at
http://tariffs.qwest.com:8000/Q_Tariffs/UT/index.htm.

1 totaling \$17 million for the deployment of broadband services to more than 19,000
2 new living units. The Transaction will not have any impact on this request.

3 **V. THE MERGER IS IN THE PUBLIC INTEREST**

4 **A. Economies of Scale and Scope**

5 **Q. PLEASE BRIEFLY DESCRIBE THE ATTRIBUTES OF COMBINED**
6 **COMPANY.**

7 A. The combined company at the end of 2009 had an enterprise value (market
8 capitalization and debt) of approximately \$37 billion (\$19 billion from Qwest and
9 \$18 billion from CenturyLink). For 2009, the two companies reported combined
10 revenues of approximately \$20 billion. The combined company will operate a fiber
11 optic network of approximately 180,000 miles, serving more than 5 million
12 broadband customers and 17 million access lines. In the state of Utah, Qwest
13 currently serves more than 680,000 retail and wholesale access lines with \$3 billion
14 in investment and more than 2,200 employees in the state. Currently, CenturyLink
15 does not have significant operations in Utah;⁷ thus, the post-merger network,
16 facilities and operations in Utah will be the same as they were pre-merger.

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

19 A. Yes. The Merger is clearly in the public interest and will provide a number of
20 benefits to customers of CenturyLink and Qwest in Utah. First, as testified by
21 Mr. Glover, the combined Qwest-CenturyLink entity will be stronger and more

⁷ As noted in the Application, I understand that in Utah, CenturyLink does not provide any local exchange services, with the exception of service provided by CenturyLink of Eagle (Colorado) to nine (9) lines in San Juan County along the border with Colorado. I further understand that CenturyLink has filed Annual Reports with this Commission that reflect combined data for CenturyLink's Colorado operations and the nine lines served in Utah.

1 stable from a financial perspective than either entity would be on its own. As a
2 result, the combined entity will have access to the necessary capital to invest in a
3 network capable of providing enhanced products and services. For example, the
4 post-merger company will be able to more aggressively pursue deployment of its
5 Fiber to the Cell Tower (“FTTCT”) and Fiber to the Node (“FTTN”) facilities.
6 This fiber rich network will increase broadband speeds to consumers, and allow
7 the company to further develop new video choices to better serve customers. The
8 post-merger company will be well positioned to make investments necessary to
9 compete more effectively in the rapidly changing and increasingly competitive
10 telecommunications market.

11 Second, the combined company will have the ability to strategically focus on
12 offering products and services at rates, terms and service quality levels that
13 provide differentiation in the market. Even a carrier that knows its customers’
14 preferences cannot compete effectively in today’s marketplace without sufficient
15 size and scope to match those preferences with suitable products or services
16 offered at affordable rates. The post-merger enterprise will be able to focus more
17 strategically and rapidly in response to customer preferences to provide a full
18 portfolio of quality, advanced communications services that will strengthen the
19 company’s activities and presence and differentiate it from its competitors in
20 markets it serves.

21 Third, Qwest and CenturyLink have complementary local and long distance
22 markets and both have a strong tradition of offering services in a customer-
23 focused manner. The combination of those rich traditions will both sustain and
24 improve service quality. The merging of CenturyLink’s regional operating model
25 and targeted marketing focus with Qwest’s industry-leading network and strong

1 position in the business, government and wholesale markets will result in the
2 continued provision of high-quality services to retail and wholesale customers in
3 Utah, along with greater capacity to make improvements.

4 Finally, all of these benefits will undoubtedly serve to make the market in Utah
5 even more competitive, thereby improving choice, prices and service quality for
6 consumers in Utah.

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

9 A. Yes. The Transaction will result in a combined enterprise that can achieve greater
10 economies of scale and scope⁸ than the two companies operating independently. As
11 described above, CenturyLink does not currently have significant operations in Utah.
12 However, both Qwest and CenturyLink currently operate in many states, and in these
13 states the areas served by Qwest and CenturyLink are generally complementary. In
14 many cases, the networks are adjacent or within close proximity to one another, and
15 this will make it easier to implement operating efficiencies and infrastructure
16 improvements. The increased size of the combined entity is also likely to enhance
17 the purchasing power of the company, which may lead to a reduction in some input
18 costs. Thus, the combination of the serving areas will provide for increased
19 economies of scale that will benefit customers not only in those states, but in other
20 states like Utah that will indirectly benefit from the increased efficiencies of the
21 company as a whole. In addition, the combined company will be able to achieve

⁸ Economies of scale are the cost advantages that a business obtains due to increased size. Increased efficiency may lower costs because fixed costs are distributed over a greater quantity. Economies of scope are conceptually similar to economies of scale. Whereas economies of scale primarily refer to efficiencies associated with supply-side changes, such as increasing or decreasing the scale of production of a *single product type*, economies of scope refer to efficiencies primarily associated with demand-side changes, such as increasing the scope of marketing and distribution of *different types of products*.

1 economies of scope by enhancing its ability to partner more effectively with other
2 providers, such as satellite TV and wireless providers.

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

5 A. Yes. As noted above, the merger will result in a combination of urban and rural
6 assets nationally and in each of the states where Qwest and CenturyLink currently
7 operate, resulting in a more balanced urban and rural footprint. This combination
8 increases the diversity of revenue sources, providing increased company stability,
9 which benefits all customers, including those in Utah. CenturyLink's distinctive
10 expertise in serving smaller, rural areas combined with Qwest's industry-leading
11 experience serving enterprise business customers, with its national fiber-optic
12 network and data centers, will position the post-merger entity to capitalize on its
13 collective knowledge of the preferences of local consumers and businesses, and to
14 deliver innovative technology and product offerings to both its urban and rural
15 markets.

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

18 A. Qwest offers a full portfolio of services to enterprise business and governmental
19 customers, with an increasing focus on offering new state-of-the art "strategic"
20 services. Qwest's business markets customers use its strategic services to access
21 the Internet and Internet-based services, as well as to connect to private networks
22 and to conduct internal and external data transmissions, such as transferring files
23 from one location to another. Qwest also provides value-added services and
24 integrated solutions that make communications more secure, reliable and efficient
25 for its business markets customers. These services include primarily private line,

1 Qwest iQ Networking, hosting, broadband and Voice over Internet Protocol
2 (“VoIP”) services. Qwest hosting services include providing space, power,
3 bandwidth and managed service in 16 hosting centers in 12 metropolitan areas.

4 **B. Enhanced Ability to Compete**

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

7 A. Yes. From a national perspective, the combined company will be significantly
8 larger than each company alone, and as described above and in the testimony of
9 Mr. Glover, will have significantly more financial resources and an enhanced
10 ability to attract capital. These resources, along with increased scale and scope,
11 will allow the combined entity to adapt to changes in the marketplace, and to
12 better compete nationally against the larger well-capitalized players in the market
13 such as AT&T, Verizon, Comcast and others. In particular, the post-merger entity
14 will have more resources to compete against AT&T and Verizon in the enterprise
15 business market. For 2009, Qwest total Business Markets Group revenues were
16 \$4.09 billion, compared to business revenues of \$14.74 billion for AT&T and
17 \$14.98 billion for Verizon.⁹ In terms of business revenues for 10 of its top
18 competitors,¹⁰ Qwest’s share of the business market is less than 10%, compared to
19 33% each for AT&T and Verizon. The Transaction will provide the post-merger
20 entity with the additional financial strength, economies of scale and scope and
21 geographic coverage to better compete against these providers, thereby offering

⁹ See 2009 10K reports for Qwest at <http://qwest.investorroom.com/qcii-sec-filings>, Verizon at <http://investor.verizon.com/sec/index.aspx> and AT&T at http://phx.corporate-ir.net/phoenix.zhtml?c=113088&p=irol-sec&control_selectgroup=Show%20All.

¹⁰ Includes AT&T, Verizon, Sprint, Cbeyond, Cogent, Global Crossing, Level 3, PAETEC, tw telecom and XO Communications.

1 state-of-the-art and innovative services to large business and government
2 customers throughout the country.

3 **Q. WILL A COMPETITOR BE ELIMINATED IN THE STATE OF UTAH BY**
4 **THE MERGER OF QWEST AND CENTURYLINK?**

5 A. Not at all. Because CenturyLink does not have a significant presence in Utah
6 today, consumers and business customers will not see the elimination of a
7 competing telephone service provider in their local areas due to the merger.¹¹ In
8 addition, customers in Utah will continue to have multiple intramodal and
9 intermodal competitive options to meet their telecommunications needs—from
10 CLECs, cable providers, wireless providers and VoIP providers—as described
11 next, below.

12 **Q. WILL THE COMBINED ENTITY BE BETTER ABLE TO COMPETE**
13 **AGAINST INTRAMODAL AND INTERMODAL COMPETITORS IN**
14 **THE UTAH TELECOMMUNICATIONS MARKET?**

15 A. Yes. Qwest currently is facing intense competitive pressures in Utah, and the
16 level of this competition is increasing rapidly. Between December 2001 and
17 December 2009, Qwest residential and business retail access lines in Utah
18 declined more than 40%. Over this same time period, the population of Utah
19 grew more than 20%,¹² and it may be conservatively assumed that demand for
20 telecommunications services has, at a very minimum, increased apace over the
21 past decade. Declining access lines in the context of a growing marketplace

¹¹ In the states where Qwest and CenturyLink both operate as ILECs, the companies generally serve complementary local exchange areas. While there are a few limited areas where one company serves business or government customers in the serving area of the other carrier, these areas are very competitive and customers can choose to purchase telecommunications services from a number of other providers. The Transaction will not lessen business or enterprise competition materially in these markets.

¹² U.S. Census Bureau, Population Division, population estimates updated May 7, 2010.

1 demonstrates that its Utah operations are facing increasing competition from cable
2 telephony providers, wireless providers, Voice over Internet Protocol (“VoIP”)
3 providers and CLECs. Line losses can result in the reduction of economies of
4 scale—a process that can be stemmed by the combination of the two companies.
5 Completing the Transaction would result in increased economies of scale as well
6 as scope, as described above.

7 **Q. WHAT TYPES OF COMPANIES COMPETE AGAINST QWEST TODAY**
8 **IN UTAH?**

9 A. A diverse group of companies compete against Qwest throughout Utah markets,
10 offering competing voice and broadband services. Voice competitors include: (1)
11 CLECs and cable TV companies such as Comcast, (2) wireless providers such as
12 AT&T and Verizon Wireless, and (3) VoIP providers such as Vonage and
13 Google. In the broadband market, Qwest is competing with cable TV companies
14 such as Comcast and Baja Broadband and broadband wireless companies such as
15 AT&T, Verizon and Sprint.

16 **Q. PLEASE DESCRIBE COMPETITION FROM CABLE COMPANIES IN**
17 **UTAH.**

18 A. Comcast is the major cable company operating in Utah. Comcast now offers
19 digital telephone and broadband service to customers across most of the state,
20 including Salt Lake City and the Wasatch Front and beyond, from Tremonton and
21 Logan in the north, to Nephi in the south, and to Park City and Heber City in the
22 east. Other major cable companies operating in Utah include Baja Broadband and
23 Bresnan, along with some independent telephone companies, such as South
24 Central and AllWest, which provide cable television, broadband, and VOIP in

1 some Qwest areas. Comcast serves more than 360,000 cable households¹³ in the
2 Salt Lake City area, with digital voice service available to all of them. Nationally,
3 Comcast is the largest cable provider, with digital voice service available to 48.4
4 million—or 95%—of the 51.2 million homes it passes. It now serves 7.6 million
5 voice customers, 15.9 million high speed internet customers, and 23.6 million
6 video customers.¹⁴

7 Cable companies have been investing in upgrading their networks to the DOCSIS
8 3.0 standard, which allows for greater broadband speeds. According to the
9 *Broadband in America Report*, “Cable broadband upgraded to DOCSIS 3.0 is
10 becoming widely available today at advertised speeds as high as 50 Mbps
11 downstream (with one firm advertising 101 Mbps speeds)” and 20 Mbps
12 upstream.¹⁵ Comcast has been particularly aggressive in adding DOCSIS 3.0
13 capability to its network, which it claims allows much higher broadband speeds of
14 up to 100 Mbps.¹⁶ As a company, in 2009, Comcast reported \$35.8 billion in
15 revenue—compared to \$12.3 billion for Qwest. As noted earlier, the 2009 pro
16 forma revenues for the combined Qwest-CenturyLink entity are less than \$20
17 billion—still lower than Comcast, but much closer in terms of the competitive
18 scale of the companies.

¹³ See <http://www.comcastspotlight.com/markets/SLC>.

¹⁴ Comcast 2009 Annual Report (10K), page 2. See <http://files.shareholder.com/downloads/CMCSA/789830167x0xS1193125-10-37551/1166691/filing.pdf>.

¹⁵ *Broadband in America*, Columbia Institute for Tele-Information, released November 11, 2009 (“*Broadband in America Report*”), at 21 and 33. This report, which was prepared for the FCC, is available at http://www.broadband.gov/docs/Broadband_in_America.pdf.

¹⁶ Comcast Comments at Bank of America-Merrill Lynch Conference, September 9, 2009. See http://files.shareholder.com/downloads/CMCSA/789830167x0x321428/bb736678-a561-44d5-bece-b201ec4e3cd3/CMCSA-Sep_9_2009.pdf.

1 The post-merger company will have the financial, operational and managerial
2 strength to better compete against cable companies like Comcast, both nationally
3 and in Utah. For example, approval of the Transaction would allow the combined
4 entity to leverage CenturyLink's development of IPTV and Qwest's experience
5 deploying FTTN to provide enhanced entertainment and broadband offerings that
6 compete against cable's DOCSIS 3.0-based offerings. Qwest has been investing
7 significant sums to increase its broadband capability through its FTTN initiative,
8 which allows Qwest to offer broadband services at significantly higher speeds up
9 to 40 Mbps downstream and 20 Mbps upstream. According to Qwest's 1Q10
10 Earnings Announcement, "Qwest continued to expand its fiber to the node
11 (FTTN) footprint in the quarter, and services are now available to more than 3.8
12 million residential households. In the first quarter, 64,000 customers added high
13 speed Internet services that utilize the fiber network."¹⁷ In Utah, Qwest's FTTN
14 deployment has reached well over 600 sites, making services available to more
15 than 240,000 homes, businesses, and government locations. Consumers in Utah
16 will benefit because the post-merger entity will have the increased financial
17 strength to more aggressively pursue FTTN and FTTCT efforts in the future.

18 Qwest had previously announced that it would begin development of its next
19 generation of backbone facilities to "provide 100 Gbps speeds across the network
20 when fully implemented over the next year."¹⁸ Such initiatives will be enhanced
21 with the additional financial resources resulting from the merger.

22 **Q. IS COMPETITION FROM WIRELESS PROVIDERS FLOURISHING IN**
23 **UTAH?**

¹⁷ Press Release, Qwest 1Q10 earnings Report, May 5, 2010.

¹⁸ *Id.*

1 A. Yes. According to the FCC's Local Competition Report, as of June 2008, there
2 were 2.05 million wireless subscribers in Utah, while there were 1.02 million
3 wirelines (both ILEC and CLEC).¹⁹ In fact, wireless lines have increased over
4 144%, from 830,000 in June 2001.²⁰ The FCC data show that the wireless share
5 of the total access line market has grown significantly over this timeframe, and
6 wireline access lines now account for less than 34% of the total wireline/wireless
7 connections in Utah.²¹

8 Almost all Utah consumers, excepting those in extremely remote areas, have
9 wireless options. The decline in Qwest landlines, coupled with the dramatic
10 increase in wireless connections, demonstrates that Utah customers increasingly
11 view wireless phones as a substitute for wireline service.²² Wireline providers
12 must have the resources to compete effectively with increasingly diverse and
13 advanced wireless options in the marketplace so that customers can continue to
14 benefit from robust competition between the platforms. The post-merger
15 company will have those resources.

16 Wireless broadband, which includes mobile broadband, fixed-wireless broadband
17 and satellite-based broadband options, is experiencing significant growth as
18 carriers are making the investment necessary to increase speeds, availability and

¹⁹ *Local Telephone Competition: Status as of June 30, 2008*; Industry Analysis and Technology Division, Wireline Competition Bureau, July 2009, Tables 7 and 14.

²⁰ *Id.*, Table 14.

²¹ *Id.*

²² In fact, a significant number of customers have "cut the cord" and no longer subscribe to wireline service, and this trend is accelerating. According to a survey conducted by the National Center for Health Statistics ("NCHS"), in the last 6 months of 2009, 24.59% of U.S. households did not have a traditional landline telephone, but did have at least one wireless telephone. In addition, another 14.9 % of households are "wireless mostly" and use their wireless phone for nearly all calling. In total, these wireless only and "wireless mostly" households make up almost 40% of households. *Centers for Disease Control and Prevention, National Center for Health Statistics, Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, July-December 2009*, released May 12, 2010, page 1.

1 quality. Increasingly, customers see wireless broadband as a competitive option
2 to wireline broadband services. As wireless broadband speeds increase and
3 wireless devices evolve, it is likely that more and more wireline broadband
4 customers will be tempted to “cut the cord” as they have done with voice services.

5 Mobile wireless technologies are evolving rapidly. While Internet access was
6 first provided over Second Generation (2G) technology, 2G was supplanted by the
7 3G technologies that are used to provide mobile broadband in many areas today.
8 3G can be used to provide downstream speeds of up to 7.2 Mbps (using HSPA
9 7.2).²³ In order to support faster 3G HSPA technology, AT&T is investing
10 heavily in bringing fiber facilities to its cell sites.²⁴ Many wireless companies,
11 including AT&T and Verizon, are also working towards a 4G Long Term
12 Evolution (LTE) standard that will allow faster wireless broadband speeds than
13 are available on the current 3G network -- with projected speeds of about 10
14 Mbps.²⁵ Some carriers are implementing a “WiMax” 4G solution. Clearwire,
15 whose investors include Sprint Nextel, Comcast, Time Warner Cable, Google and
16 Intel, has already implemented its “CLEAR” 4G WiMax solution in numerous
17 cities in the U.S. CLEAR provides average mobile download speeds of 3 to 6
18 Mbps, with bursts over 10 Mbps.²⁶

19 When customers disconnect wireline voice and/or broadband services (i.e., “cut
20 the cord”) in favor of wireless voice and broadband services, additional pressure
21 is placed on landline carriers such as Qwest and CenturyLink. The combined
22 post-merger company will be better equipped to offer innovative voice and

²³ *Broadband in America Report* at 23.

²⁴ *Id.* at 27.

²⁵ *Id.* at 23.

²⁶ *Id.*

1 broadband services in a more efficient and cost-effective manner, with, for
2 example, greater broadband speeds and reach than either company could achieve
3 alone. Thus, the Transaction better positions the combined company to provide
4 the portfolio of products that can better compete against the many wireless
5 options that are available to customers today and that will be available in the
6 future. Customers will derive a direct benefit from the Transaction, since it will
7 help assure that they will continue to have the ability to choose from a wide
8 variety of wireline options to meet their diverse needs.

9 In addition, the increasing use of wireless broadband has created a significant
10 demand for FTTCT connectivity from wireless carriers. It is in the interests of all
11 consumers that providers like the post-merger company have the resources and
12 capabilities to build fiber infrastructure to cell towers to meet burgeoning wireless
13 broadband demand. Today, the demand for wireless bandwidth is exploding, as
14 customers increasingly rely on wireless devices such as the iPhone™ and the
15 BlackBerry for web access and to download and send files. New applications that
16 demand additional bandwidth are being developed on a continuous basis. This is
17 creating a dramatic increase in the demand for high-speed “fiber to the cell tower”
18 facilities, and Qwest views this as a major growth opportunity. There are
19 approximately 18,000 cell sites in the 14-state Qwest region, and Qwest has
20 already contracted to provide fiber to about 4,000 locations.²⁷ The combined
21 company will have increased resources to take advantage of this significant
22 growth opportunity.

²⁷ See <http://investor.qwest.com/analyst-meeting>.

1 **C. Specific Customer Benefits**

2 **Q. WILL UTAH CUSTOMERS BENEFIT FROM THE APPROVAL OF THE**
3 **TRANSACTION?**

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

15 **Q. PLEASE DETAIL HOW CONSUMERS WILL BENEFIT FROM THE**
16 **MERGER TRANSACTION.**

17 A. Consumers will benefit from CenturyLink’s localized “go to market” approach,
18 and the combined company’s enhanced ability to develop new and innovative
19 services. For example, current Qwest customers will benefit from knowledge and
20 skills gained in CenturyLink’s IPTV markets. Current CenturyLink customers
21 will benefit from Qwest’s experience in building out its FTTN network. The
22 combined company’s financial resources will allow the company to better meet
23 the challenge of providing broadband to more customers at higher speeds.
24 CenturyLink’s rural customers will benefit from the combined companies’ fiber
25 backbone, which will be able to achieve greater transport economies and thus

1 provide more advanced services to rural customers. In addition, more resources
2 will be available to develop new services using platforms such as VoIP.

3 **Q. PLEASE DESCRIBE HOW BUSINESS CUSTOMERS WILL BENEFIT**
4 **FROM THE MERGER TRANSACTION.**

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

18 **Q PLEASE SUMMARIZE HOW WHOLESALE CUSTOMERS WILL**
19 **BENEFIT FROM THE MERGER TRANSACTION.**

20 A. The additional financial resources, combined network capacity, and geographic
21 reach afforded by the merger will allow the combined company to continue to
22 serve the wholesale market as valued customers. For example, as the demand for
23 broadband wireless services has mushroomed, the need for additional fiber
24 capacity to serve cellular tower sites (often referred to as wireless backhaul) has
25 increased dramatically. As noted above, Qwest is already committing significant

1 resources to serve the increased demand from wireless carriers in its region, and
2 the combined entity will provide the resources to continue this investment.

3 **VI. CONCLUSION**

4 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

5 A. CenturyLink and Qwest have filed an Application for approval of the Transaction
6 consistent with the requirements of Utah Code Ann. §§ 54-4-28, 54-4-29 and 54-
7 4-30. As set forth in my testimony and that of the CenturyLink witnesses, the
8 Transaction is clearly in the public interest.

9 The merger will not result in customer disruption or confusion, as the combined
10 entities' services will continue to be offered under the same regulatory framework
11 that exists today in Utah. The new company will abide by all regulatory
12 obligations applicable to all regulated entities in Utah before the merger.

13 Additionally, CLECs and Interexchange Carriers will continue to receive high-
14 quality wholesale services from the post-merger company at the rates, terms and
15 conditions that are contained in current interconnection agreements and access
16 tariffs, price lists and catalogs.

17 The Transaction will also result in a combined enterprise that can achieve greater
18 economies of scale and scope than the two companies operating independently.
19 CenturyLink has few lines in service in Utah today, and the areas served by
20 Qwest and CenturyLink in other states are generally complementary. Thus, the
21 transaction will result in no competitive harm in Utah. Further, the combination
22 of the service areas in the states where Qwest and CenturyLink do operate today
23 will make it easier to implement operating efficiencies and infrastructure
24 improvements. The combination of the companies' networks will allow the

1 combined company to optimize network capacity that facilitates the deployment
2 of additional bandwidth-intensive services such as broadband service and
3 advanced business products.

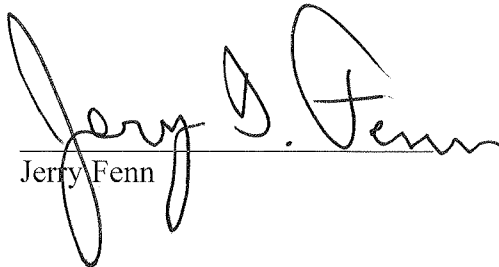
4 Finally, the increased scale and scope afforded by the merger will allow the
5 combined entity to better compete both nationally against the larger well-
6 capitalized players in the market such as AT&T, Verizon and Comcast, and
7 locally in the Utah market with these and other cable, wireless and VoIP
8 providers. This benefits customers by giving them more competitive choices for
9 their communications needs.

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

11 **A.** Yes, it does.

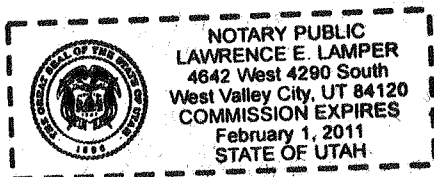
State of Utah)
) ss.
Salt Lake County)

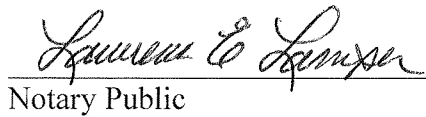
I, Jerry Fenn, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief.



Jerry Fenn

SUBSCRIBED AND SWORN TO this 27 day of May 2010.





Notary Public