

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 KRISTIN K. MAYES
CHAIRMAN

3 GARY PIERCE
COMMISSIONER

4 SANDRA D. KENNEDY
COMMISSIONER

5 PAUL NEWMAN
COMMISSIONER

6 BOB STUMP
COMMISSIONER

7
8 IN THE MATTER OF THE JOINT NOTICE
9 AND APPLICATION OF QWEST
10 CORPORATION, QWEST
11 COMMUNICATIONS COMPANY, LLC,
12 QWEST LD CORP., EMBARQ
13 COMMUNICATIONS, INC. D/B/A CENTURY
14 LINK COMUNICATIONS, EMBARQ
PAYPHONE SERVICES, INC. D/B/A
CENTURLINK, AND CENTURYTEL
SOLUTIONS, LLC, FOR APPROVAL OF
THE PROPOSED MERGER OF THEIR
PARENT CORPORATIOONS QWEST
COMMUNICATIONS INTERNATIONAL INC.,
AND CENTURYTEL, INC.

Docket Nos.: T-01051B-10-0194
T-03902A-10-0194
T-02811B-10-0194
T-20443A-10-0194
T-04190A-10-0194
T-03555A-10-0194

15 **RUCO'S NOTICE OF FILING**
16 **DIRECT TESTIMONY**

17
18 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
19 Direct Testimony of William A. Rigsby in the above-referenced matter.

20 RESPECTFULLY SUBMITTED this 27th day of September, 2010.

21
22
23 _____
24 Daniel W. Pozefsky
Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
of the foregoing filed this 27th day
2 of September, 2010 with:

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12 By _____
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QWEST/CENTURYLINK

DOCKET NO. T-01051B-10-0194 et al.

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

SEPTEMBER 27, 2010

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1 **INTRODUCTION**

2 Q. Please state your name, occupation, and business address.

3 A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed
4 by the Residential Utility Consumer Office (“RUCO”) located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6
7 Q. Please describe your qualifications in the field of utilities regulation and
8 your educational background.

9 A. I have been involved with utilities regulation in Arizona since 1994. During
10 that period of time I have worked as a utilities rate analyst for both the
11 Arizona Corporation Commission (“ACC” or “Commission”) and for RUCO.
12 I hold a Bachelor of Science degree in the field of finance from Arizona
13 State University and a Master of Business Administration degree, with an
14 emphasis in accounting, from the University of Phoenix. I have been
15 awarded the professional designation, Certified Rate of Return Analyst
16 (“CRRRA”) by the Society of Utility and Regulatory Financial Analysts
17 (“SURFA”). The CRRRA designation is awarded based upon experience
18 and the successful completion of a written examination. Appendix I, which
19 is attached to my direct testimony on operating income further describes
20 my educational background and also includes a list of the rate cases and
21 regulatory matters that I have been involved with.

22

23

1 Q. What is the purpose of your testimony?

2 A. The purpose of my testimony is to present recommendations that are
3 based on my analysis of the Proposed Merger of Qwest Communications
4 International Inc. ("Qwest") and CenturyLink, Inc. ("CenturyLink")¹. Qwest
5 and CenturyLink ("Joint Applicants") filed their application requesting
6 approval of the proposed merger ("Application" or "Proposed Merger") with
7 the Arizona Corporation Commission ("ACC" or "Commission") on May 13,
8 2010.

9

10 Q. Have you filed testimony on either Qwest or CenturyLink in prior cases
11 before the ACC?

12 A. In 2004, I filed cost of capital testimony in a prior renewed price cap
13 proceeding involving Qwest² which eventually ended in a settlement
14 agreement that was approved by the ACC. This is the first time that I
15 have filed testimony on CenturyLink.

16

17

18 ...

19

¹ The May 13, 2010 Application was filed by Qwest and CenturyTel, Inc. A press release dated May 20, 2010 announced that, during CenturyTel, Inc.'s annual meeting, shareholders approved changing the company's legal name from CenturyTel, Inc. to CenturyLink, Inc. The press release appears on CenturyLink's website (http://ir.centurylink.com/phoenix.zhtml?c=112635&p=irol-newsArticle_Print&ID=1429678&highlight=)

² Docket No.'s T-01051B-03-0454 and T-00000D-00-0672

1 Q. Please describe your analysis of the Proposed Merger requested by the
2 Joint Applicants.

3 A. My analysis includes a review of the direct testimony of Qwest witness
4 James P. Campbell and CenturyLink witnesses Kristin McMillan, Todd
5 Schafer and Jeff Glover. I relied on information that was obtained from
6 responses to data requests sent out to the Joint Applicants by ACC Staff,
7 RUCO and other intervenors in this proceeding. I also relied on publicly
8 available information, such as U.S. Securities and Exchange Commission
9 (“SEC”) filings that are available on both Qwest and CenturyLink’s
10 websites, as well as numerous reports written for investors by
11 independent professional securities analysts on the Joint Applicants and
12 the Proposed Merger. I also relied on information and analysts’
13 projections which were published in The Value Line Investor Survey
14 (“Value Line”). My analysis focuses on the financial aspects of the
15 transaction proposed by the Joint Applicants in order to ascertain whether
16 or not a merger between Qwest and CenturyLink is in the public interest.

17
18 Q. What are the standards that you relied on in determining whether or not a
19 merger between Qwest and CenturyLink is in the public interest?

20 A. The Commission’s Public Utility Holding Companies and Affiliated Interest
21 rules set forth the guidelines for the Commission to review this matter
22 (A.A.C. R14-2-801 t seq.). The standards that I relied on are found in
23 A.A.C. R14-2-803(C) and A.R.S. § 40-285(A).

1 A.A.C. R14-2-803(C) states the following:

2 At the conclusion of any hearing on the organization or reorganization of
3 a utility holding company, the Commission may reject the proposal if it
4 determines that it would impair the financial status of the public utility,
5 otherwise prevent it from attracting capital at fair and reasonable terms,
6 or impair the ability of the public utility to provide safe, reasonable and
7 adequate service.

8 A.R.S. § 40-285(A) states the following:

9 A public service corporation shall not sell, lease, assign, mortgage or
10 otherwise dispose of or encumber the whole or any part of its railroad,
11 line, plant, or system necessary or useful in the performance of its duties
12 to the public, or any franchise or permit or any right thereunder, nor shall
13 such corporation merge such system or any part thereof with any other
14 public service corporation without first having secured from the
15 commission an order authorizing it so to do. Every such disposition,
16 encumbrance or merger made other than in accordance with the order of
17 the commission authorizing it is void.
18

19 Q. Are these the same standards that the Joint Applicants relied on in this
20 case?

21 A. Yes. According to the Joint Applicants, A.R.S. § 40-285(A) does not apply
22 since parent companies Qwest and CenturyLink are not public service
23 corporations. However, the Joint Applicants requested that approval of
24 the Proposed Merger be granted under A.R.S. § 40-285(A) should the
25 Commission make a determination that the statute does apply.
26

27 Q. Briefly summarize the recommendations that you are making in your
28 testimony.

29 A. Based on the results of my analysis, I am recommending that the ACC
30 approve the Joint Applicants' request on condition that no
31 integration/acquisition costs be passed on to Arizona ratepayers. My

1 recommendation is based on my belief that the Proposed Merger should
2 result in a combined entity which will be financially stronger, be able to
3 mitigate the effects of land-line losses, and be able to provide additional
4 and improved telecommunications products and services to Qwest's
5 Arizona ratepayers. As discussed in further detail, I find the Proposed
6 Merger results in the merged company having a better balanced capital
7 structure and an improved cash flow. Furthermore, the CEO and CFO of
8 CenturyLink have established track records of conservative financial
9 policies.

10

11 Q. Are you aware that Qwest and CenturyLink are seeking approval of this
12 Proposed Merger in other jurisdictions?

13 A. Yes. I am in the process of obtaining and reviewing testimony filed in other
14 states for this Proposed Merger.

15

16 **JOINT APPLICANTS' BACKGROUND**

17 Q. Please provide a brief description of Qwest.

18 A. According to its New York Stock Exchange ("NYSE") profile, Qwest, is a
19 provider of data, internet, video and voice services that operates in a
20 fourteen state region which includes Arizona, Colorado, Idaho, Iowa,
21 Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon,
22 South Dakota, Utah, Washington and Wyoming. Qwest presently
23 operates in three business segments: business markets, mass markets

1 and wholesale markets. Products and services are provided by Qwest
2 through its telecommunications network, which consists of voice and data
3 switches, copper cables, fiber optic broadband cables and other
4 equipment. The majority of Qwest's network is located in its local service
5 areas, where Qwest serves approximately 10.3 million access lines in its
6 fourteen state operating region, and forms a portion of the public switched
7 telephone network. Denver, Colorado-based Qwest is the dominant
8 incumbent local exchange carrier ("ILEC") in Arizona and has provided
9 telecommunications service to Arizona ratepayers since it acquired U.S.
10 West, one of the original regional Bell operating companies, in 2000.

11
12 Q. Please provide a brief description of CenturyLink.

13 A. CenturyLink is an integrated communications company engaged primarily
14 in providing a range of communications services, including local and long
15 distance voice, wholesale local network access, high-speed Internet
16 access, other data services and video services. According to information
17 provided in its NYSE profile, CenturyLink's ILEC telephone subsidiaries
18 operated approximately seven million telephone access lines in thirty-
19 three states as of December 31, 2009. Over seventy-five percent of these
20 lines are located in Florida, North Carolina, Missouri, Nevada, Ohio,
21 Wisconsin, Texas, Pennsylvania, Virginia and Alabama. CenturyLink also
22 provides fiber transport, competitive local exchange carrier service,
23 security monitoring, pay telephone and other communications,

1 professional and business information services in certain local and
2 regional markets. On July 1, 2009, CenturyLink acquired Embarq
3 Corporation (“Embarq”), a spinoff company that resulted from a merger of
4 Sprint Corporation and NEXTEL, for \$5.8 billion. Embarq is the ILEC
5 serving Las Vegas, Nevada and portions of Orlando, Florida. CenturyLink
6 is headquartered in Monroe, Louisiana and is currently the fourth-largest
7 telephone company in the U.S. According to the direct testimony of
8 CenturyLink witness Kristin McMillan, CenturyLink presently has three
9 operating subsidiaries³ that have minimal resale, long distance and pay
10 telephone operations in Arizona.

11
12 **PROPOSED TRANSACTION**

13 Q. Briefly describe the transaction being proposed by the Joint Applicants.

14 A. According to the direct testimony of the Joint Applicants, the proposed
15 transaction is a “simple, tax-free, stock-for-stock transaction,” which will
16 “indirectly transfer control of Qwest Communications International, Inc.’s
17 operating subsidiaries to Centurylink.”⁴

18
19 In a July 16, 2010 amended S-4 filing with the SEC, CenturyLink stated
20 that if the Proposed Merger is completed, Qwest stockholders will have
21 the right to receive 0.1664 shares of CenturyLink common stock for each

³ Embarq Communications, Inc. d/b/a CenturyLink Communications, Embarq Payphone Services, Inc. d/b/a CenturyLink and CenturyTel Solutions

⁴ Page 2, lines 3 and 4 of Joint Applicant’s Application

1 share of Qwest common stock they own at closing, with cash paid in lieu
2 of fractional shares. CenturyLink went on to state in its SEC S-4 filing
3 that the aforementioned exchange ratio is fixed and will not be adjusted to
4 reflect stock price changes prior to closing of the merger.

5
6 Following the transaction, four directors from Qwest will join the
7 CenturyLink Board of Directors increasing that board's membership from
8 thirteen to seventeen. CenturyLink will pay for the acquisition of Qwest by
9 issuing shares of additional stock and will not finance the merger through
10 debt.

11
12 Q. Has the Proposed Merger been approved by the shareholders of
13 CenturyLink and Qwest?

14 A. Yes. As stated in the aforementioned SEC S-4 filing, both the CenturyLink
15 and Qwest boards of directors unanimously recommended that their
16 respective shareholders vote for the aforementioned proposal to issue
17 shares of CenturyLink common stock in the merger. Shareholders of both
18 Qwest and CenturyLink overwhelmingly approved the merger in separate
19 meetings on August 24, 2010.

20

21

22 ...

23

1 Q. What is the current status of the Proposed Merger on both the federal and
2 state level?

3 A. In a press release dated September 22, 2010, CenturyLink stated that the
4 Joint Parties received antitrust clearance from the U.S. Department of
5 Justice and the U.S Federal Trade Commission when the applicable
6 waiting period under the Hart-Scott-Rodino Act was terminated early on
7 July 15, 2010. CenturyLink also stated that the Joint Parties have
8 received approval of the pending merger from nine of the states requiring
9 it and that the Public Service Commission for the District of Columbia
10 determined no action is necessary on the matter.⁵ The press release
11 further stated that Qwest and CenturyLink must receive approval from 12
12 additional states, including Arizona, as well as the U.S. Federal
13 Communications Commission.

14
15 If the merger is approved by the remaining federal and state regulators,
16 the combined entity would be run by CenturyLink CEO Glenn F. Post III
17 out of Monroe, Louisiana. The proposed transaction would produce the
18 third-biggest U.S provider of local telephone service with operations in
19 thirty-seven states, seventeen million access lines and five million
20 broadband customers.

21

⁵ As of September 22, 2010, the Joint Applicants received approvals from state regulators in Louisiana, Mississippi, California, Georgia, Hawaii, Maryland, Ohio, West Virginia, and New York.

1 **REACTIONS TO THE PROPOSED TRANSACTION**

2 Q. How has the **investment community** reacted to the Proposed Merger?

3 A. Since the announcement of the Proposed Merger on Thursday, April 22,
4 2010, share prices of both Qwest and CenturyLink have remained
5 relatively flat. Qwest closed near its 52-week high at \$5.22 per share on
6 April 22, 2010 and increased to \$6.25 on September 24, 2010. Likewise,
7 CenturyLink closed at \$33.61 per share on April 22, 2010 and also
8 increased to \$39.25 by September 24, 2010. Based on this information, it
9 would appear that the prices of both Qwest and CenturyLink’s shares are
10 being driven by the terms of the Proposed Merger.

11

12 Q. What was the initial reaction toward the Proposed Merger in the
13 **mainstream financial press?**

14 A. The initial reaction toward the Proposed Merger in the mainstream
15 financial press can best be summed up as expected in regard to Qwest.
16 An article⁶ which appeared in the online edition of The Wall Street Journal
17 (“WSJ”) on April 22, 2010, described the transaction as “a long-awaited
18 consolidation play for Qwest.”

19 On the other hand, the merger announcement was viewed as one of
20 CenturyLink CEO Post’s riskiest moves. According to an April 23, 2010

⁶ Berman, Dennis K. and Nathan Becker, “Landline Operators Qwest, CenturyTel to Merge” The Wall Street Journal, April 22, 2010

1 WSJ article⁷, the proposed combination will give CenturyLink greater
2 potential to cut costs and to sell more lucrative services, such as television
3 and long-distance data transport. However, the article goes on to state
4 that the Proposed Merger would also expand CenturyLink's footprint in the
5 shrinking land-line business, which has been in an inexorable decline
6 since the rise of the cell phone, and also observed that the announcement
7 comes during a period in which CenturyLink was still in the process of
8 integrating Embarq.

9

10 Q. What was the initial reaction of **credit rating agencies** to the announced
11 merger of Qwest and CenturyLink?

12 A. In a report⁸ dated April 22, 2010, Bank of America/Merrill Lynch analysts
13 Kevin Christiano and Connie Chan stated that Standard & Poors had
14 placed CenturyLink on watch negative, and said that a one or two notch
15 downgrade is likely. The analysts also stated that Fitch also placed the
16 company on watch negative while Moody's affirmed the company's Baa3
17 rating and changed its outlook to negative. Both Christiano and Chan
18 speculated that CenturyLink will almost certainly be downgraded to below
19 investment grade by Standard & Poors and retain investment grade
20 ratings at Moody's. While the analysts described Fitch as a wild card, they

⁷ Ante, Spencer E. and Joann S. Lublin, "Qwest Deal Is One of CenturyTel Chief's Riskiest Moves" The Wall Street Journal, April 22, 2010

⁸ "The Worst Kept Secret: CenturyLink & Qwest to Merge," Bank of America/Merrill Lynch Merger Acquisition Divestiture report on CenturyTel dated April 22, 2010 provided in Qwest's Response to ACC Staff Data Request 2-002

1 expressed their opinion that when the Proposed Merger is completed
2 there is a reasonable chance that Fitch will rate the company BBB-,
3 downgrading CenturyLink from its current Baaa3 rating.

4
5 Q. So why is RUCO recommending approval if the Bank of America/Merrill
6 Lynch analysts believe that the Proposed Merger has a negative
7 consequence for the acquiring company?

8 A. Despite the actions of Standard & Poors, Moody's and Fitch, Christiano
9 and Chan believe that the combined entity resulting from the Proposed
10 Merger has investment grade credit metrics stating that, on a pro-forma
11 basis, a Qwest/CenturyLink combined entity would have ended 2009 with
12 strong credit metrics including 2.2 times net leverage assuming run-rate
13 synergies. The analysts pointed out that, according to CenturyLink, no
14 new financing or refinancing would be required as a result of the
15 transaction and that, during a recent conference call, CenturyLink's
16 management repeatedly mentioned that it intends to take a "conservative"
17 approach to its capital structure. Furthermore, Christiano and Chan stated
18 that bondholders should be comforted by the fact that both CenturyLink's
19 Glen Post and Stewart Ewing will be the respective CEO and CFO of the
20 merged company. According to the analysts, both CenturyLink executives
21 have a long track record of pursuing conservative financial policies.

22
23

1 Q. What factors did Fitch base its actions on?

2 A. Fitch based its actions on its belief that CenturyLink's service territory will
3 take on an increasing urban character, and will thus be exposed to more
4 intense competitive forces and higher levels of technology substitution.

5

6 Q. What is CenturyLink's response to Fitch's action?

7 A. In its response to RUCO Data Request 1.7, CenturyLink responded by
8 saying that a greater portion of CenturyLink's service territory will be more
9 urban in character after the completion of the proposed transaction.
10 According to CenturyLink, there is exposure to competitive forces and
11 technology substitution throughout Qwest and CenturyLink's existing
12 footprint but, not surprisingly, the pressure is greater in denser, more
13 urban areas. CenturyLink also pointed out that, as noted earlier, its
14 current service territory includes such urban areas as Las Vegas, Nevada
15 and portions of Orlando, Florida as a result of its acquisition of Embarq.
16 CenturyLink further stated that since the closing of the Embarq merger in
17 July 2009, CenturyLink has been able to decrease the rate of access line
18 decline and increase the sales of high speed internet services particularly
19 in the most urban areas of the former Embarq areas.

20

21 CenturyLink's response is consistent with opinions expressed in Value
22 Line's quarterly update of the telecommunications utility industry in which
23 analyst Mary Beth Wiedenkiller observed that "lines losses have abated

1 somewhat of late, likely thanks to aggressive pricing and bundling options,
2 particularly those that incorporate Internet and TV programming.”⁹ Ms.
3 Wiedenkeller went on to say that by diversifying service network areas
4 and offerings, many companies in the telecommunications utility group
5 have been able to generate handsome cash flows, which in turn have
6 been paid out via above-average dividends.

7

8 Q. Have any **professional securities analysts** expressed a negative view of
9 the Proposed Merger?

10 A. Yes. While most securities analysts have expressed either favorable or
11 neutral opinions on the Proposed Merger, analysts at Morningstar issued
12 a negative report dated May 27, 2010 and stated the following:

13 “CenturyLink has a long, solid track record integrating acquisitions, but
14 the firm has strayed far from its rural roots with the 2009 acquisition of
15 Embarq and the planned merger with Qwest. Historically, CenturyLink
16 would quickly improve the operations of acquired properties with network
17 and service enhancements, a strategy [that] made a lot of sense when
18 competition was light and phone penetration was high. Competition has
19 hit many Embarq and Qwest markets hard, however, and these firms
20 have already been racing to improve service and cut costs. We believe
21 CenturyLink will gain some benefit from scale but still expect it will
22 struggle to maintain cash flow over time as the phone business shrinks
23 and competition forces steady network investment. We do expect cash
24 flow will cover the current dividend for the foreseeable future, though
25 management's commitment to it jeopardizes the firm's financial health, in
26 our view.”

27

28

29 ...

30

⁹ The Value Line Investment Survey, quarterly update of CenturyLink dated June 25, 2010

1 Morningstar further stated:

2 "CenturyLink's decision to merge with Qwest is a negative for
3 shareholders, in our view, as it moves the firm into more competitive
4 markets and weakens its balance sheet. Though CenturyLink has made
5 good progress integrating Embarq and improving the performance of that
6 firm's larger, urban markets, the timing and scope of the Qwest deal will
7 present far greater challenges, in our view."
8

9 Q. Does Morningstar's negative report cause you any concern?

10 A. No. As I stated above, the majority of reports that I have reviewed
11 expressed either favorable or neutral opinions on the Proposed Merger.
12 This includes analysts at Value Line whose reports on Qwest and
13 CenturyLink were not provided by the Joint Applicants in response to data
14 requests from both ACC Staff and RUCO. Furthermore, my own
15 independent analysis, which I will present later in my testimony, leads me
16 to believe that the combined entity resulting from the Proposed Merger
17 should be stronger in terms of capital structure and cash flow. I would
18 also point out that Morningstar's recommendations had no impact on
19 Qwest and CenturyLink shareholders who, as I noted earlier,
20 overwhelmingly voted to approve the Proposed Merger. I would further
21 point out that the opinions expressed by both Morningstar and Fitch did
22 not prevent other regulators, in the states that have okayed the Proposed
23 Merger to date, from approving the Joint Applicants' request.

24

25

26 ...

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1 Q. How have other professional securities analysts viewed the Proposed
2 Merger?

3 A. Once again, the majority of professional securities analyst reports that I
4 reviewed expressed neutral to positive recommendations on the Proposed
5 Merger. In addition to the aforementioned reports obtained through
6 discovery, Value Line analyst Justin Hellman stated that the merger, which
7 is part of a new wave of consolidation in the domestic telecommunications
8 industry, seems to make sense. In Value Line's June 25, 2010 quarterly
9 report on CenturyLink, Mr. Hellman went on to say that the merged entity
10 will probably be better positioned to offset the declining access line
11 situation noted above by offering competitive video and high-speed
12 Internet services.

13
14 Analysts at UBS Investment Research echoed the remarks of the WSJ
15 articles cited earlier, stating that the transaction had been anticipated and
16 that while it makes sense, the timing was sooner than expected given the
17 fact that CenturyLink is still undergoing the integration of Embarq
18 territories. UBS analysts further stated that they believed that CenturyLink
19 will complete most of the Embarq integration process prior to the
20 completion of the Qwest merger.

21
22 Analysts David Coleman and Jonathan Atkin of RBC Capital Markets
23 observed that the proposed transaction was not unexpected, as they had

1 viewed a merger of Qwest and another carrier to be likely when they
2 initiated coverage of Qwest in January 2010.

3

4 Analyst Sergey Dluzhevskiy of Gabelli & Company, Inc. believes that
5 although the Proposed Merger presents significant integration risk (given
6 its size and the fact that CenturyLink is still integrating Embarq) and
7 significantly increases CenturyLink's exposure to major competitive urban
8 markets, his firm believes that reasonable valuation (especially after
9 factoring in the net present value of Qwest's net operating losses),
10 meaningful synergies (CenturyLink's synergy estimates appear
11 conservative), enhanced ability to competitively roll out strategic products
12 (internet protocol television and other high-bandwidth services), and
13 CenturyLink's management's successful track record of integrating
14 acquisitions outweigh the risks faced by investors.

15

16 Q. In the case of a merger, such as the one being contemplated here, is it
17 unusual for there to be mixed reviews?

18 A. No.

19

20

21

22 ...

23

1 **ANALYSIS OF FINANCIAL PROJECTIONS**

2 Q. Have the Joint Applicants provided any financial projections on the impact
3 of the transaction on CenturyLink and Qwest?

4 A. Yes. As noted earlier, on July 16, 2010 CenturyLink filed an amended S-4
5 filing with the SEC. The filing contained financial projections through the
6 year 2015 which analysts at Goldman Sachs ("GS") described as a rare
7 look into internal forecasts for both CenturyLink and Qwest. In their report
8 dated June 7, 2010 (which refers to CenturyLink and Qwest by their ticker
9 symbols of CTL and Q respectively), GS analysts Jason Armstrong,
10 Winston Len and Dan Pellegrinelli stated the following:

11 "The S-4 also includes CTL's annual financial projections for 2010-2015
12 for both CTL and Q as stand alone entities, as well as Q stand alone
13 projections for itself for the years 2010-2013. The Q forecasts for its own
14 operations are far more aggressive than CTL's assumed projections.
15 Notably, the S-4 commentary indicates these are more "challenging"
16 goals for management rather than likely targets. We view each set of
17 forecasts to be relatively aspirational, especially as it relates to revenue
18 expectations. CTL stand alone revenue estimates for 2010-2015 are an
19 average 2.2% above GS. CTL's estimates for Q stand alone are also
20 significantly above us, with 2010-2015 revenue expectations an average
21 5.2% above GS. We remain negative on top-line pressure for the RLECs
22 given secular changes, and view deal activity as the only viable option
23 for preserving margin and cash flow levels through cost synergies."
24

25 Q. Have you been able to place a sanity check on the financial projections
26 contained in CenturyLink's SEC S-4 filing?

27 A. Yes. However I would point out that estimates and projections such as
28 the ones presented in CenturyLink's SEC S-4 filing, as with the estimates
29 of independent securities analysts, are speculative at best. Having said
30 that, to the best of my ability I have performed my own independent

1 analysis which I believe places a reasonable sanity check on the
2 projections presented by CenturyLink in its SEC S-4 filing.

3

4 Q. How did you conduct your analysis?

5 A. I compared CenturyLink's financial projections with financial projections
6 and estimates presented in Value Lines' September 24, 2010 quarterly
7 update on both CenturyLink and Qwest.

8

9 Because Value Line makes projections for the 2010, 2011 and 2013-15
10 operating periods, I averaged CenturyLink's estimates for 2013 through
11 2015 in order to obtain a reasonable comparison of the data that was
12 available to me. In order to estimate both CenturyLink's and Qwest's
13 earnings before interest, taxes, depreciation and amortization ("EBITDA"),
14 I relied on a combination of data that was provided in the aforementioned
15 Value Line quarterly updates and an income statement presented on page
16 113 of CenturyLink's SEC S-4 filing, that contained earnings information
17 on CenturyLink and Qwest for the operating period ended December 31,
18 2009.

19

20 Q. What were the results of your analysis on CenturyLink?

21 A. The results of my analysis on CenturyLink, on a stand-alone-basis, are as
22 follows:

<u>Estimates on CenturyLink Per CenturyLink SEC S-4 Filing (In Millions)</u>	<u>Actual 2009</u>	<u>Estimate 2010</u>	<u>Estimate 2011</u>	<u>Average of Estimates 2013-15</u>
Revenue	\$ 7,645	\$ 6,946	\$ 6,720	\$ 6,527
EBITDA	3,526	3,470	3,280	3,145
Capital Expenditures	N/A	850	825	799
<u>Estimates on CenturyLink Relying on Value Line Projections (In Millions)</u>		<u>Estimate 2010</u>	<u>Estimate 2011</u>	<u>Estimate 2013-15</u>
Revenue		\$ 7,075	\$ 6,900	\$ 6,000
EBITDA		3,681	3,609	3,525
Capital Expenditures		846	848	885
<u>Differences on CenturyLink (In Millions)</u>		<u>Estimate 2010</u>	<u>Estimate 2011</u>	<u>Estimate 2013-15</u>
Revenue		\$ 129	\$ 180	\$ (527)
EBITDA		211	329	380
Capital Expenditures		(4)	23	86
<u>Differences on CenturyLink (%)</u>		<u>Estimate 2010</u>	<u>Estimate 2011</u>	<u>Estimate 2013-15</u>
Revenue		1.82%	2.61%	-8.79%
EBITDA		5.73%	9.11%	10.78%
Capital Expenditures		-0.52%	2.76%	9.67%

As can be seen above, the Value Line revenue estimates tend to be higher than the CenturyLink revenue estimates during the 2010 and 2011 operating periods. On the other hand, the EBITDA data that relied on Value Line data tends to be increasingly higher across the entire range of projected operating periods. Clearly the EBITDA estimates that relied on Value Line data presents a more optimistic picture than the estimates developed by CenturyLink's analysts.

...

1 Q. Please present the results of your analysis on CenturyLink's projections
 2 on Qwest, which projects the impact of the Proposed Merger on
 3 CenturyLink on a stand-alone-basis.

4 A. The results of my analysis on Qwest, on a stand-alone-basis, are as
 5 follows:

<u>Estimates on Qwest Per CenturyLink SEC S-4 Filing (In Millions)</u>	<u>Actual 2009</u>	<u>Estimate 2010</u>	<u>Estimate 2011</u>	<u>Average of Estimates 2013-15</u>
Revenue	\$ 12,311	\$ 11,852	\$ 11,699	\$ 11,812
EBITDA	\$ 4,286	\$ 4,323	\$ 4,159	4,027
Capital Expenditures	N/A	1,614	1,600	1,517

6
7

<u>Estimates on Qwest Relying on Value Line Projections (In Millions)</u>	<u>Estimate 2010</u>	<u>Estimate 2011</u>	<u>Estimate 2013-15</u>
Revenue	\$ 11,685	\$ 11,500	\$ 12,000
EBITDA	3,961	4,014	4,069
Capital Expenditures	1,479	1,482	1,488

8
9

<u>Differences on Qwest (In Millions)</u>	<u>Estimate 2010</u>	<u>Estimate 2011</u>	<u>Estimate 2013-15</u>
Revenue	\$ (167)	\$ (199)	\$ 188
EBITDA	(362)	(145)	42
Capital Expenditures	(135)	(118)	(29)

10
11

<u>Differences on Qwest (%)</u>	<u>Estimate 2010</u>	<u>Estimate 2011</u>	<u>Estimate 2013-15</u>
Revenue	-1.43%	-1.73%	1.57%
EBITDA	-9.14%	-3.61%	1.04%
Capital Expenditures	-9.13%	-8.00%	-1.96%

12
13

14 Unlike the results of my CenturyLink analysis, my estimates on Qwest
 15 tend to be somewhat lower than CenturyLink's forecasts for Qwest.

16

17

18 ...

19

1 Q. Based on the results of your analysis of both CenturyLink and Qwest, do
2 you believe that the resulting combined entity would be in the public
3 interest from a financial standpoint?

4 A. Yes. After weighing the information provided by professional securities
5 analysts with the financial analysis presented above, I believe that the
6 combined entity, resulting from the Proposed Merger, would have an
7 improved financial status which would have the ability to attract capital on
8 fair and reasonable terms and have the financial ability to provide safe,
9 reasonable and adequate service.

10

11 Q. Can you cite other reasons that support your belief that the combined
12 entity would have an improved financial status which would have the
13 ability to attract capital on fair and reasonable terms?

14 A. Yes. As I noted earlier in my testimony, analysts with Bank of
15 America/Merrill Lynch stated that CenturyLink's management team has a
16 long track record of pursuing conservative financial policies. This
17 statement is supported by a review of balance sheet information
18 presented in CenturyLink's annual 10-K filings with the SEC. During the
19 period between 2005 and 2009, CenturyLink's capitalization averaged 44
20 percent long-term debt and 56 percent equity, which I consider to be a
21 balanced average capital structure. I also note that CenturyLink's
22 shareholder equity actually increased from 49 percent at the end of 2008
23 to 57 percent at the end of 2009, which is the year CenturyLink acquired

1 Embarq. I further note that, based on the balance sheet information
2 included in CenturyLink's SEC S-4 filing, CenturyLink's capital structure
3 for the period ended March 31, 2010 remained at 43 percent long-term
4 debt and 57 percent equity.

5
6 Q. Did CenturyLink provide financial information on a combined
7 Qwest/CenturyLink entity?

8 A. Yes. Based on information presented in the aforementioned SEC S-4
9 balance sheet, a combined Qwest/CenturyLink entity would have had an
10 adjusted capital structure comprised of 49 percent long-term debt and 51
11 percent equity for the period ended March 31, 2010, versus Qwest's
12 overly leveraged capital structure of 111 percent long-term debt and
13 negative 11 percent equity.

14
15 From an operating income standpoint, a combined Qwest/CenturyLink
16 entity would have had adjusted operating income of approximately \$3.7
17 billion for the period ended December 31, 2009 versus operating income
18 of \$1.9 billion for Qwest and approximately \$2.1 billion¹⁰ for CenturyLink
19 during the same period based on the income statement presented in the
20 SEC S-4 filing. Although CenturyLink would be taking on Qwest's
21 additional long-term debt, the combined entity would have improved cash

¹⁰ Includes \$830 million in operating income generated by Embarq

1 flow of \$7.8 billion versus CenturyLink's \$3.5 billion¹¹ in cash flow based
2 on CenturyLink's adjusted 2009 income statement figures – a point cited
3 earlier by analysts with Bank of America/Merrill Lynch.

4
5 Q. How do Value Line's analysts view Centurylink in terms of investor risk?

6 A. Value Line regards CenturyLink as a low-risk stock that has a good record
7 for dividend growth. In Value Line's Selection & Opinion publication dated
8 August 6, 2010, CenturyLink was included among a group of diverse
9 companies that Value Line's analysts project to continue providing
10 investors with dividends that are likely to increase at above-average rates.

11
12 Q. Are there any concerns that you have regarding the Proposed Merger?

13 A. My main concern revolves around the issue of integration/acquisition costs
14 or those costs that the combined entity would incur as a direct result of the
15 merger between Qwest and CenturyLink.

16
17 **RECOMMENDATION**

18 Q. What recommendation would you make regarding integration costs?

19 A. I would recommend that the Commission approve the Proposed Merger
20 on the condition that Qwest's Arizona ratepayers be shielded from any
21 integration/acquisition costs that the combined entity may attempt to pass
22 on to them.

¹¹ Includes \$1.3 billion in cash flow attributable to Embarq

1 Q. Does your silence on any of the issues or positions addressed in the
2 testimony of witnesses for the Joint Applicants constitute acceptance?

3 A. No, it does not. Nor does my silence at this time preclude the possibility of
4 making additional recommendations in my surrebuttal testimony. While
5 my focus here has been primarily on the financial aspects of the merger,
6 my analysis in this case is on-going and I may have further
7 recommendations at the time I submit my surrebuttal testimony.

8

9 Q. Does this conclude your direct testimony on the Proposed Merger of
10 Qwest and CenturyLink?

11 A. Yes, it does.

Qualifications of William A. Rigsby, CRRA

EDUCATION:

University of Phoenix
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University
College of Business
Bachelor of Science, Finance, 1990

Mesa Community College
Associate of Applied Science, Banking and Finance, 1986

Society of Utility and Regulatory Financial Analysts
38th Annual Financial Forum and CRRA Examination
Georgetown University Conference Center, Washington D.C.
Awarded the Certified Rate of Return Analyst designation
after successfully completing SURFA's CRRA examination.

Michigan State University
Institute of Public Utilities
N.A.R.U.C. Annual Regulatory Studies Program, 1997 & 1999

Florida State University
Center for Professional Development & Public Service
N.A.R.U.C. Annual Western Utility Rate School, 1996

EXPERIENCE:

Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona
April 2001 – Present

Senior Rate Analyst
Accounting & Rates - Financial Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
July 1999 – April 2001

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona
December 1997 – July 1999

Utilities Auditor II and III
Accounting & Rates – Revenue Requirements Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
October 1994 – November 1997

Tax Examiner Technician I / Revenue Auditor II
Arizona Department of Revenue
Transaction Privilege / Corporate Income Tax Audit Units
Phoenix, Arizona
July 1991 – October 1994

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona-American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval
Arizona-American Water Company	W-01303A-05-0405	ACRM Filing
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
UNS Gas, Inc.	G-04204A-06-0463	Rate Increase
Arizona-American Water Company	WS-01303A-06-0491	Rate Increase
UNS Electric, Inc.	E-04204A-06-0783	Rate Increase
Arizona-American Water Company	W-01303A-07-0209	Rate Increase
Tucson Electric Power	E-01933A-07-0402	Rate Increase
Southwest Gas Corporation	G-01551A-07-0504	Rate Increase
Chaparral City Water Company	W-02113A-07-0551	Rate Increase
Arizona Public Service Company	E-01345A-08-0172	Rate Increase
Johnson Utilities, LLC	WS-02987A-08-0180	Rate Increase
Arizona-American Water Company	W-01303A-08-0227 et al.	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
UNS Gas, Inc.	G-04204A-08-0571	Rate Increase
Arizona Water Company	W-01445A-08-0440	Rate Increase
Far West Water & Sewer Company	WS-03478A-08-0608	Interim Rate Increase
Black Mountain Sewer Corporation	SW-02361A-08-0609	Rate Increase
Global Utilities	SW-02445A-09-0077 et al.	Rate Increase
Litchfield Park Service Company	SW-01428A-09-0104 et al.	Rate Increase
UNS Electric, Inc.	E-04204A-09-0206	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-08-09-0257	Rate Increase
Arizona-American Water Company	W-01303A-09-0343	Rate Increase
Bella Vista Water Company	W-02465A-09-0411 et al.	Rate Increase