RON L. TRULLINGER

January 14, 2013

Oregon Public Utility Commission
Attn: Filing Center
550 Capitol Street NE, Ste 215
Salem, OR 97301-2551

RE: UM-1354 – Price Plan

Administrative Hearings Division:

Enclosed for filing please find an original and one copy of CenturyLink QC's *Corrected* Price Plan Performance Report. This Corrected Report replaces the Report filed on November 13, 2012. The Corrected Price Plan Performance Report corrects the labeling of Section A and Section B. No additional changes were made.

If you have any questions, please contact me at your earliest convenience.

Sincerely,

Ron L Trullinger

Ron Trullinger
State Regulatory Affairs Director

cc: Service List

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QWEST CORPORATION DBA CENTURYLINK QC
PRICE PLAN PERFORMANCE REPORT
DOCKET UM 1354

On August 8, 2008, in Order No. 08-408 in Docket UM 1354, the Oregon Public Utility Commission (the Commission) adopted a Price Plan for Qwest Corporation's Oregon operations (hereafter referred to as "CenturyLink QC"). CenturyLink QC's Price Plan that was adopted by the Commission resulted from a stipulation among a number of parties including Commission Staff, the Citizens' Utility Board of Oregon, TRACER and several competitive local exchange carriers. On August 14, 2008, CenturyLink QC notified the Commission of its election to be subject to the terms of the Price Plan approved by the Commission.

Section V of the Price Plan sets forth provisions requiring the Commission to complete a comprehensive review of CenturyLink QC's performance under the Price Plan every five years. To commence the five year review, CenturyLink QC is required to file a detailed report regarding its performance as compared to the objectives of the plan by the 90th day of the fifth year of operation under the plan. This report provides the information required by Section V of the Price Plan and includes the following sections:

Section A – Provides a summary of CenturyLink QC's performance for the review period with respect to the Commission's retail service quality standards.

Section B – Provides an analysis of current market conditions for the various categories of CenturyLink QC's regulated retail telecommunications services and functionally equivalent or substitutable services, to the extent such information is publicly available.

Section C – Provides data regarding the gain or loss of access lines, organized by CenturyLink QC Oregon wire center.

Section D – Provides a discussion of how the pricing flexibility of the Price Plan allows CenturyLink QC to meet the Price Plan's objectives.

Section E – Provides a detailed description of CenturyLink QC's network investments and other project investments as committed to in the Price Plan.

Section F – Identifies new services CenturyLink QC has introduced.

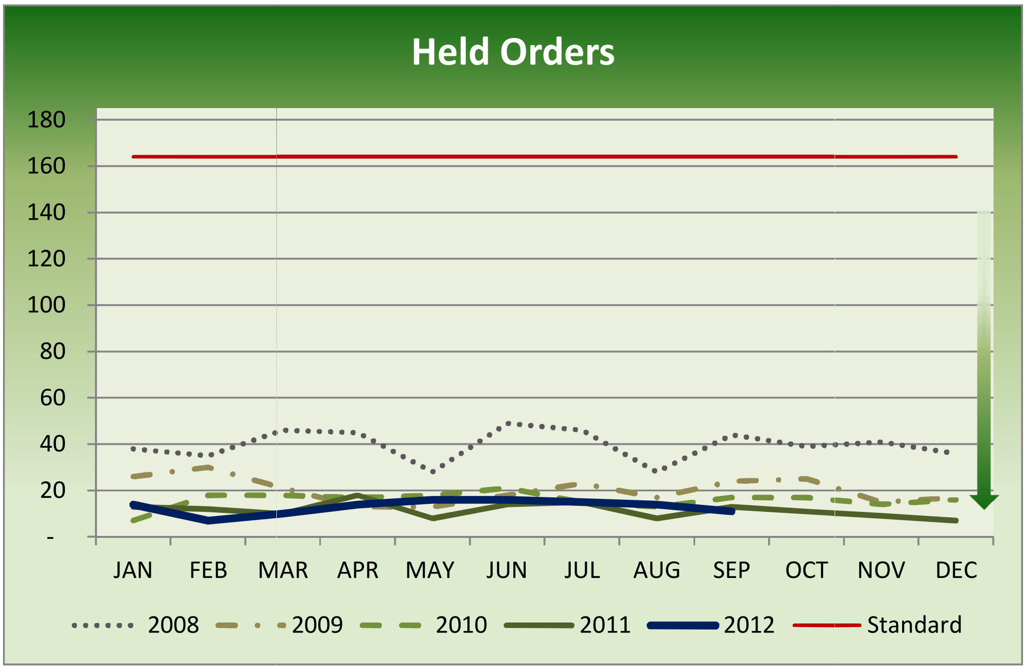
Section G – Provides a discussion of the ways in which the burden of regulation for both CenturyLink QC and the Commission has been simplified or reduced.

A. Retail Service Quality Performance

CenturyLink QC's Price Plan objective with regards to service quality is to maintain or enhance the existing level of service quality performance. CenturyLink QC committed to meeting or exceeding the Commission's applicable retail service standards and continuing its current reporting practices. This section of the report provides information on CenturyLink QC's retail service quality performance for the period the Price Plan has been in effect.

Held Orders

The Commission rule on Held Orders (OAR 860-023-0055(4)(b)(B)) stipulates the number of held orders for the lack of facilities must not exceed two per wire center per month averaged over the utility's Oregon service territory. The Held Orders chart below demonstrates not only how CenturyLink QC's performance exceeded the standard, but also reflects the improvement in performance over the five-year period.



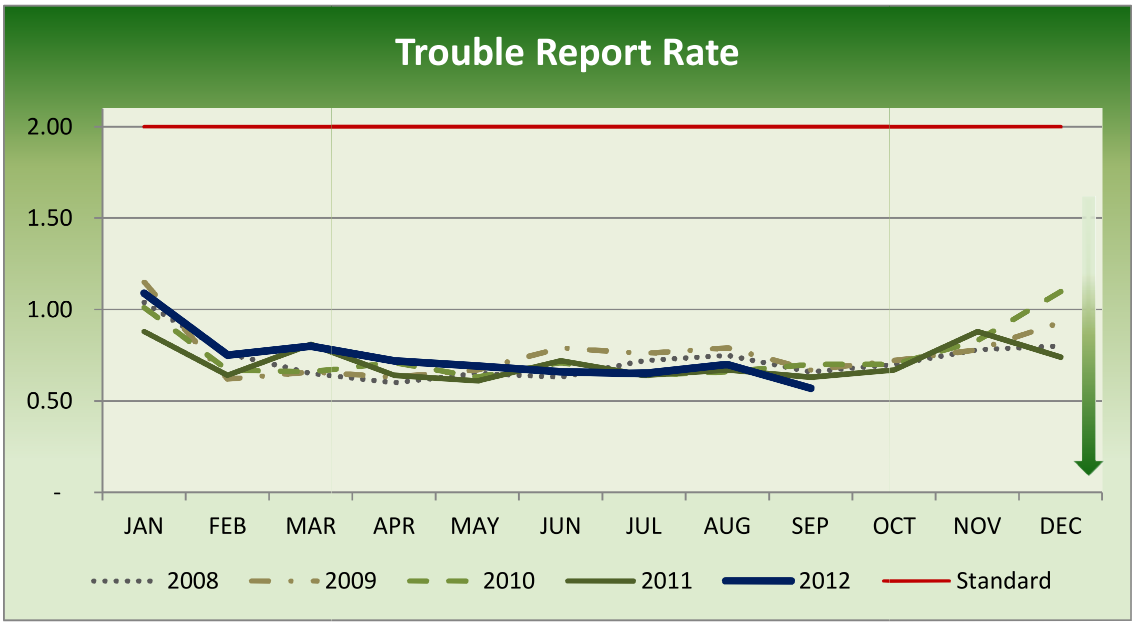
The total number of primary held orders in excess of 30 days beyond commitment date remains consistently below 10% standard during the five-year period.

<u>Commitments Met</u>

The Commission rule on Commitments Met (OAR 860-023-0055(4)(b)(A)) stipulates the Company must meet at least 90% of its commitments for service. Shown below in the Commitments Met chart, during the five-year period, CenturyLink QC consistently performed near 100%.

Trouble Reports

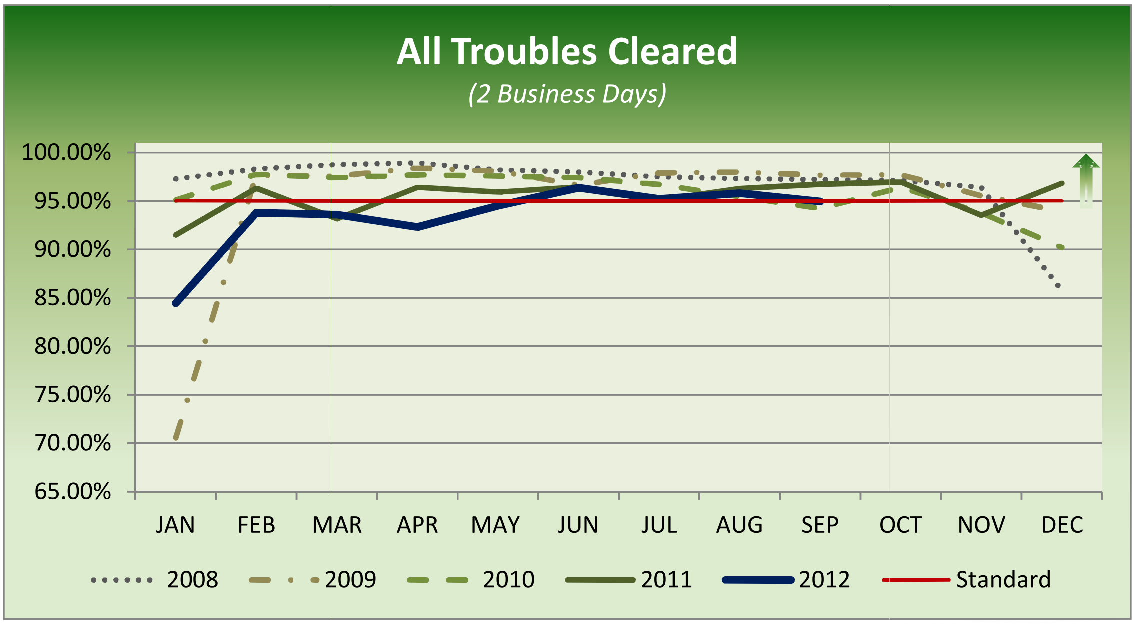
Trouble Report Rate is a key indicator of the health of the network. The Commission rule on Trouble Reports (OAR 860-023-0055(5)) stipulates the Company must maintain service to ensure the monthly trouble report rate, after approved exclusions, does not exceed 2 per 100 working access lines in those wire centers with more than 1,000 access lines; or, 3 per 100 working access lines in those wire centers with less than 1,000 working access lines for no more than three months during a sliding twelve month period.



The Trouble Report Rate chart above demonstrates that CenturyLink QC's results have consistently been well below the maximum trouble report rate at the state level. In addition, the seasonal weather events have a limited impact on the trouble report performance. Trouble Report Rate information is reported on a monthly basis at the wire center level. Exhibit 6 shows the Trouble Report Rate performance results from August 2008 through, and including, September 2012. The missed metric performance result is highlighted. A cursory review of the performance results in this attachment conveys the overall good performance results at the wire center level. The three-consecutive-month misses are concentrated around the winter months as a result of the weather events. The 2010-2011 winter season has a few wire centers missing a number of consecutive months. This time frame stands out due to the La Niña weather events which were compared to the 2007 record-setting winter.

<u>All Troubles Cleared</u>

All Troubles Cleared, or Repair Clearing Time, is a timeliness measurement. Time-to-clear can be adversely impacted by weather events and road conditions which create situations beyond the control of the Company that delay or prevent the technician from reaching the customer premise in a timely manner. The Commission rule on Repair Clearing Time (OAR 860-023-0055(6)) stipulates the Company must clear at least 95% of all trouble reports within 48 hours of receiving a report.

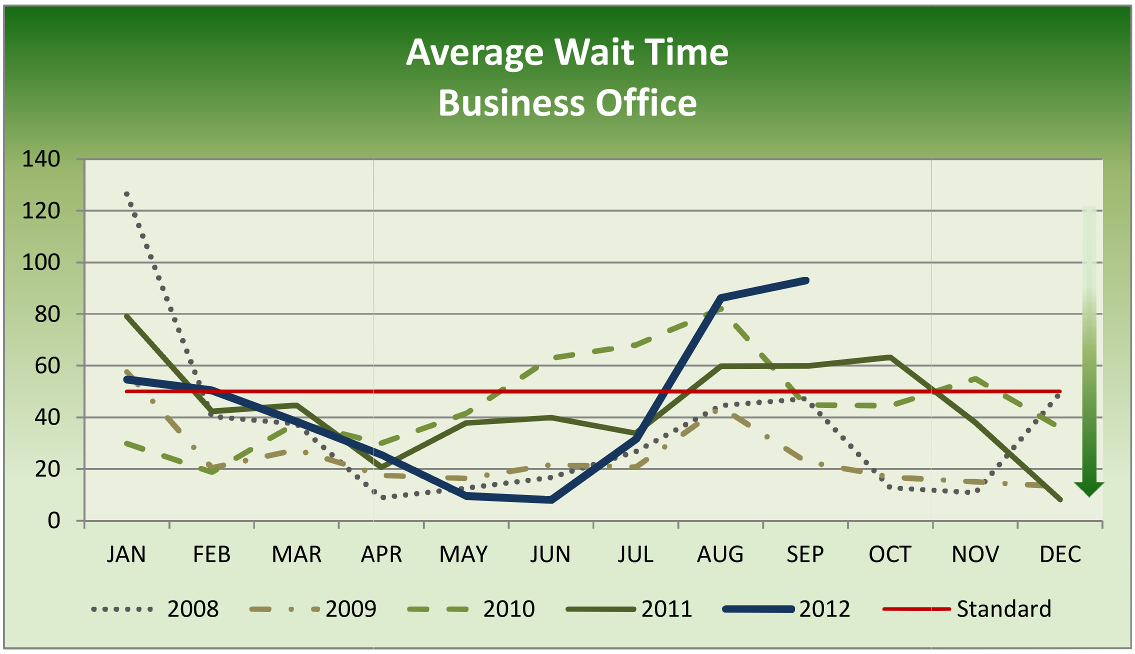


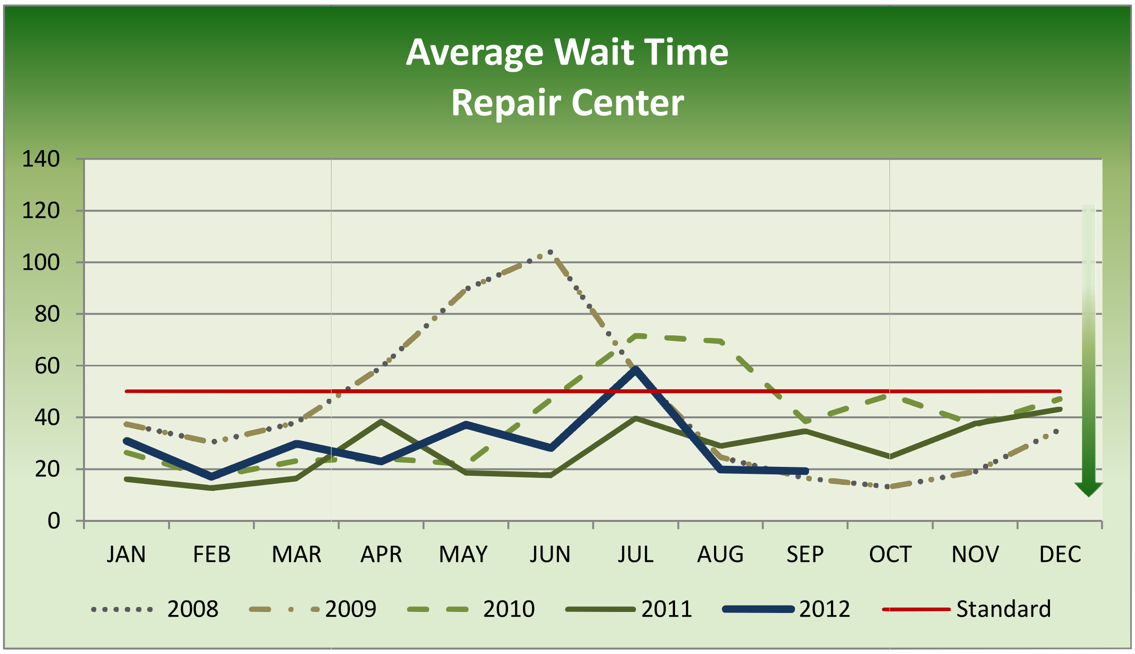
As seen in the Trouble Report Rate chart, the winter weather in Oregon can adversely impact performance results. Unlike the Trouble Report Rate which conveys the hardiness of CenturyLink QC's infrastructure, the All Troubles Cleared measure is more sensitive to events that hinder response time of the technician.

The All Troubles Cleared measure is evaluated on a monthly basis at the repair center level. Exhibit 7 shows the All Troubles Cleared performance results from August 2008 through, and including, September 2012 by repair center. The missed metric performance result is highlighted. A cursory review of the performance results shows that, although there are a number of months missed, the majority of the performance results are clustered around the 95% benchmark.

Average Wait Time

Average Wait Time, or Access to Large Telecommunications Utility Representatives, rule (OAR 860-023-0055(8)) measure spans the Business Office (RES and BUS) and the Repair call centers. This rule sets the allowed time for the Business Office and Repair Center representatives to answer customer calls. The metric standard is 50 seconds.





Except for a couple of instances, the Repair Center Average Wait Time performance results meet the standard.

Performance Measurement Summary

The performance data presented demonstrates that over the five year period under the Price Plan, CenturyLink QC's performance has generally met or exceeded the metric benchmarks. In many instances, the performance trends have shown improvement. Performance for some measures, like Held Order and Trouble Report Rate, has consistently exceeded the benchmark. The exceptional Held Order performance demonstrates CenturyLink QC's desire to increase its customer base in a competitive environment. The low trouble rate emphasizes CenturyLink QC's commitment to service quality, customer retention, as well as, the overall reliability of the network.

Service Guarantee Remedy Credits

CenturyLink QC has issued close to 25,000 remedy credits to its customers since 2008. The chart on Confidential Exhibit 8 below shows a breakout, by measure, of the total remedy credits issued from 2008 through September 2012. The number of Out-of-Service remedy credits issued has declined over the years from a high of 2,824 in 2009 to the current estimated number 825 through December of 2012. Over the five-year reporting period and out of 252,000 total trouble reports received in Oregon, CenturyLink QC has only had 158 repeat repair reports, for a very low 0.06% repeat repair report rate.

B. THE OREGON LOCAL EXCHANGE MARKET

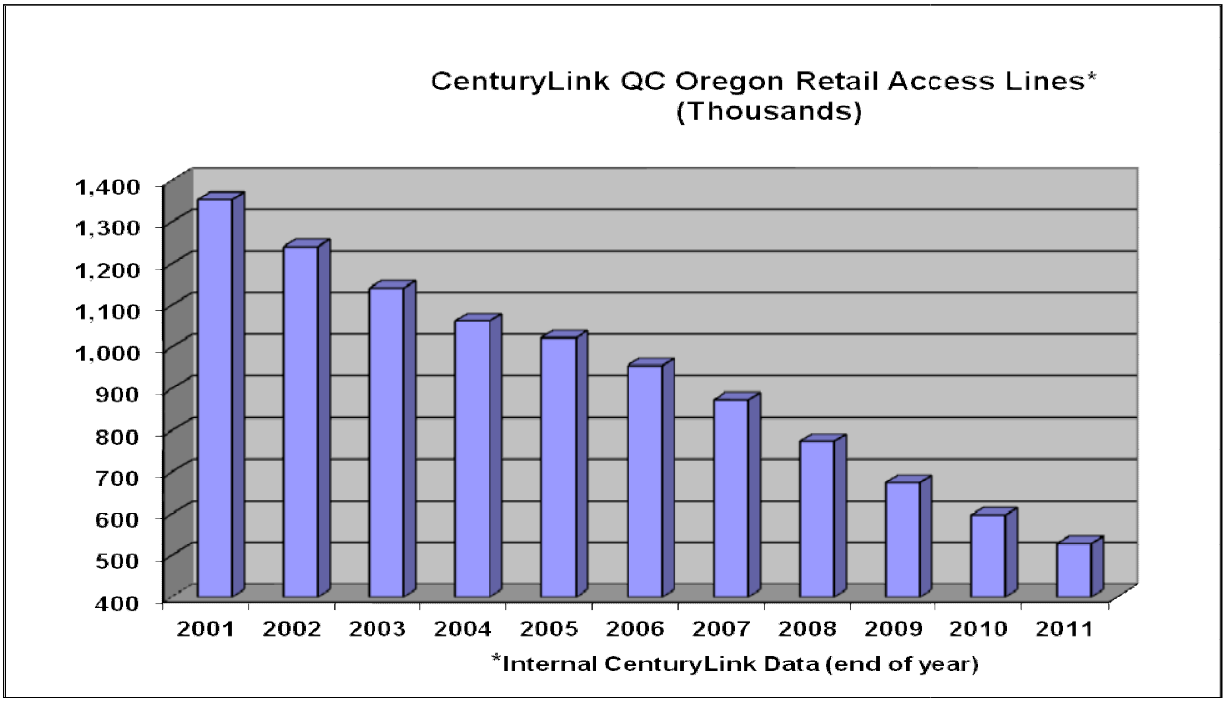
1. Summary

As described below, the telecommunications market in Oregon is exceptionally competitive, and the mix of competitive telecommunications alternatives continues to grow and evolve. Traditional competitors such as Comcast, Charter and BendBroadband, the major cable companies serving much of CenturyLink QC's Oregon territory including most of the major cities and towns, along with a number of CLECs (such as Integra, XO, tw telecom, Windstream, AT&T, Verizon and Level 3) continue to aggressively compete with CenturyLink QC. At the same time, intermodal voice services from wireless companies such as AT&T, Verizon, Sprint and T-Mobile and Voice over Internet Protocol ("VoIP") services from companies like Vonage and Google are rapidly gaining a significant share of the telecommunications market in the state. Oregon consumers and businesses have numerous alternatives to meet their local voice calling and broadband needs. The Oregon telecommunications market is becoming more competitive every day, and there is no reason to conclude that this explosion of competitive alternatives will subside as new technologies are developed and customer preferences evolve.

Some of these competitors offer services to customers via the purchase of wholesale services from CenturyLink QC (including unbundled network elements, CenturyLink QC Local Services Platform ("CLSP"), Special Access, and the resale of CenturyLink QC's retail services) while many other competitors, including cable providers, wireless carriers and certain CLECs, offer services to customers over their own facilities. CenturyLink QC's wireline services also face competition from non-voice services such as email, texting, internet communication and social networking sites. These services provide users with the ability to communicate instantly across a wide variety of platforms and customer equipment.

. As competition for voice communications services has increased, CenturyLink QC has experienced a *significant decline in access line volumes*. Between December 2001 and

December 2011, CenturyLink QC retail access lines in Oregon declined 61%, from 1.354 million to .528 million.[1] During the time period that CenturyLink QC's Price Plan has been in place, access lines declined by 40.3% from 802,550 lines in July 2008 to approximately 479,000 lines in August 2012.[2]



While CenturyLink QC has experienced a steady decline in residential and business access lines over the past decade, U.S. Census data shows that both households and the number of people in Oregon have increased. The population of Oregon increased from 3,472,867 in July 2001 to 3,871,859 in July 2011; an increase of 11%.[3] The number of households in Oregon increased from 1,476,996 in July 2001 to 1,684,193 in July 2011 (the latest data available); an increase of 14%.[4]

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1 Residential retail access lines dropped 65% and business retail access lines dropped 51% over this time frame.

2 Residential retail access lines dropped 46.6% and business retail access lines dropped 25.2% over this time frame. See Confidential Exhibit 1for supporting information, including wire center level detail.

3 See: http://www.census.gov/popest/states/tables/NST-EST2011-01.xls

4 See: http://www.census.gov/popest/housing/tables/HU-EST2011-01.xlsl

As Oregon has experienced a significant growth trend, demand for voice communications services in Oregon has increased apace. FCC data shows that in the western U.S. (as well as nationally), household expenditures for telephone service have increased steadily each year since 2001,[5] even as CenturyLink QC revenues have declined. However, despite the large upward trend in households, population, and telephone service expenditures by the public, CenturyLink QC's retail residential access line base in Oregon has fallen sharply since 2001. These divergent trend lines show that consumers are increasingly taking advantage of the expanding array of competitive alternatives to CenturyLink QC's wireline voice telephone services. As CenturyLink QC's access lines decline, consumers are increasingly meeting their telecommunications needs via services provided by cable telephony providers, wireless providers, Voice over Internet Protocol ("VoIP") providers and CLECs.

The FCC compiles voice connection data for ILECs, CLECs and wireless providers every six months, and presents this data in its *Local Competition Report*. This report clearly demonstrates that CenturyLink QC and other ILECs' share of the voice market in Oregon has declined significantly over the past decade as customers have moved to cable, wireless, CLEC and VoIP options. Based on the latest FCC report (using June 2011 data), the ILEC share of Oregon voice telecommunications connections (including residence and business lines) is now only 19.2%, as compared to 13.0% for non-ILECs (including *reporting* VoIP providers) and 67.7% for wireless providers.[6] The trends in the migration of customers from CenturyLink QC and other ILEC providers to other wireline and wireless providers over the past eleven years is demonstrated by the following chart:

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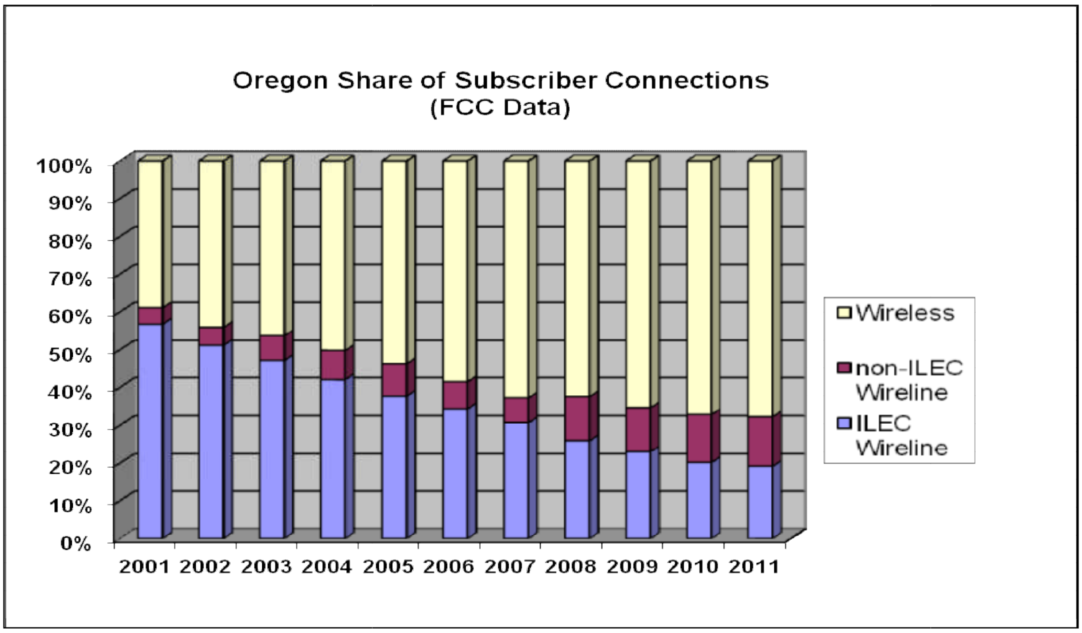
[5] See: *Reference Book of Rates, Price indices, and Household Expenditures for Telephone Service Industry*, FCC Analysis & Technology Division, Wireline Competition Bureau, 2008, Table 2.1. See: http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-284934A1.pdf

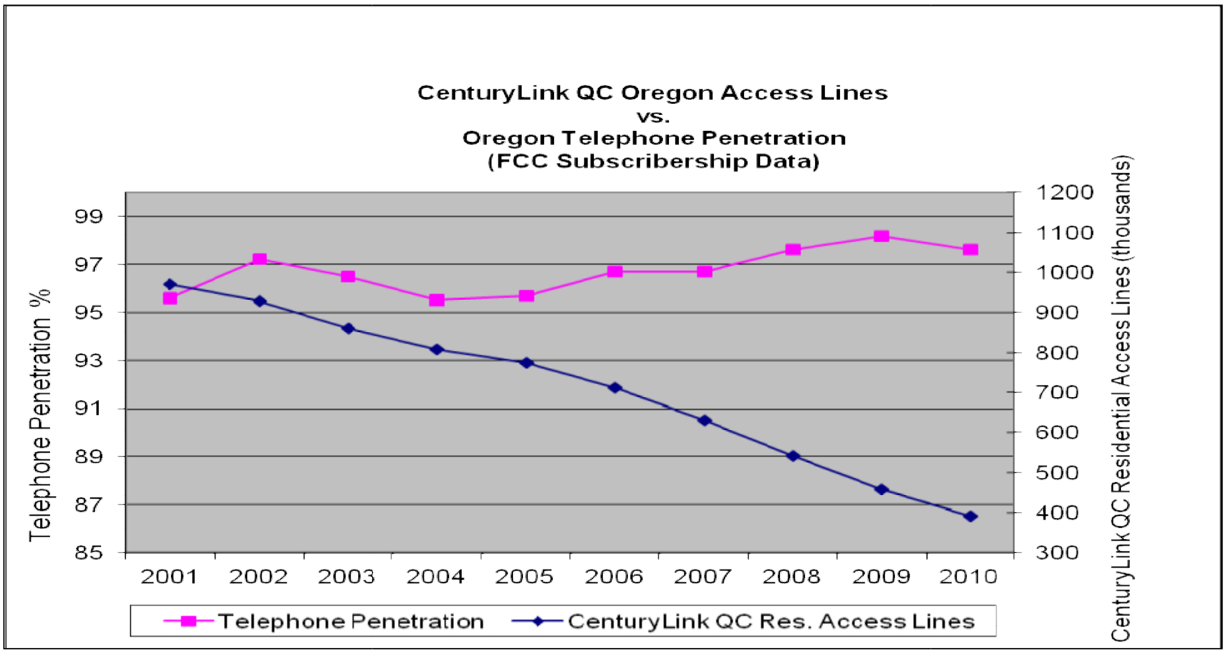
[6] *Local Telephone Competition: Status as of June 30, 2012*; Industry Analysis and Technology Division, Wireline Competition Bureau, June, 2012, tables 9 & 18.



The fact that consumers have multiple local service options, including cable telephony, wireless services and VoIP-based services—and have been utilizing these options at an increasing rate—is also revealed by the FCC subscribership penetration data. When the FCC evaluates telephone subscribership (and develops penetration percentages), it considers all local exchange options, including wireless, cable and VoIP—since these are real voice telephone options available to consumers.[7] As delineated in the chart below, in the past decade the telephone subscriber penetration rates in Oregon have remained relatively steady even as CenturyLink QC has been consistently losing access lines. This demonstrates that if a customer is dissatisfied with CenturyLink QC's rates (or any other aspect of CenturyLink QC's service) he

[7] The FCC's Current Population Survey ("CPS"), which is used to develop telephone penetration data, asks the following question:"Does this house, apartment, or mobile home have telephone service from which you can both make and receive calls? Please include cell phones, regular phones, and any other type of telephone." And, if the answer to the first question is "no," this is followed up with, "Is there a telephone elsewhere on which people in this household can be called?" If the answer to the first question is "yes," the household is counted as having a telephone "in unit." If the answer to either the first or second question is "yes," the household is counted as having a telephone "available." *Telephone Subscribership In The United States (Data through July 2011)*, Industry Analysis and Technology Division, Wireline Competition Bureau, Federal Communications Commission, Released: December, 2011, pp. 2-3, See: http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-3311523A1.pdf

or she is likely to move to a competitive option rather than go "phoneless." The following chart shows CenturyLink QC's decline in Oregon *residential* access lines along with the FCC's Oregon penetration rate since 2001:[8]



This chart clearly demonstrates that Oregon consumers have been purchasing cable telephony, wireless or VoIP-based services as a substitute for CenturyLink QC services.

The sections below provide additional detail on the current market conditions and competitive alternatives being offered in Oregon.

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[8] *Id*., Table 3.

2. Wireline competition

a. Cable Telephony

Cable companies provide phone service (along with video and high speed internet) throughout CenturyLink QC's Oregon serving territory. Comcast, Charter and BendBroadband are major cable companies, offering digital telephone and broadband service to customers in many parts of the state, including major cities such as Portland, Salem, Eugene, Medford and the Bend/Redmond areas. As shown in Exhibit 2 the data available to CenturyLink QC shows that cable telephony service is now available to customers in at least 74 of CenturyLink QC's 82 wire centers in Oregon,[9] and these wire centers comprised 98% of CenturyLink QC's access lines in Oregon as of December 31, 2011.[10] Thus, cable telephone service is now available to many of CenturyLink QC's customers in Oregon.

Cable companies provide telephone service over their own coaxial/fiber facilities, and sometimes partner with wholesale providers such as Level 3 to offer a complete array of local telephone services. The voice services provided via cable telephony include local calling, long distance calling and calling features, and are functionally equivalent to the services that are offered by CenturyLink QC. Some cable providers use VoIP-based technology, but these are managed services that do not utilize the public internet. Since cable telephony providers utilize their own networks and facilities, they do not rely on CenturyLink QC wholesale network elements in the provision of their telephone services.

Comcast, Charter and other cable companies offer a broad range of telecommunications services to residential and business customers in Oregon, as described below. These offerings demonstrate that cable service providers see the provision of telephone service as a key

[9] Based primarily on NTIA broadband data.

[10] While cable providers serve at least some customers in these communities, each company may not offer services to all of the areas served by CenturyLink in each wire center.

ingredient in their strategy to expand their customer bases and improve revenue streams by driving up the number of customers purchasing multiple services in addition to cable television service.

b. Competitive Local Exchange Carriers ("CLECs")

According to data from the Commission's 2011 Competition Survey[11], there were 235 CLECs certified in Oregon, with 148 of those CLECs providing local exchange services. While not all certificated providers currently offer voice services in Oregon, in addition to Comcast and other cable providers, there are numerous unaffiliated CLECs actively competing with CenturyLink QC for customers in Oregon, including Integra, XO, tw telecom, Windstream, AT&T, Verizon and Level 3 and many smaller CLECs. *Most* of these CLECs are primarily focused on serving business customers. In many cases these carriers provide service using their own facilities and in other cases they provide service via the leasing of CenturyLink QC facilities (e.g., resale, CenturyLink QC Local Services Platform ("CLSP") or Unbundled Loops (UNE-L)). CLECs are serving business and governmental customers of virtually all sizes.

3. Wireless Competition

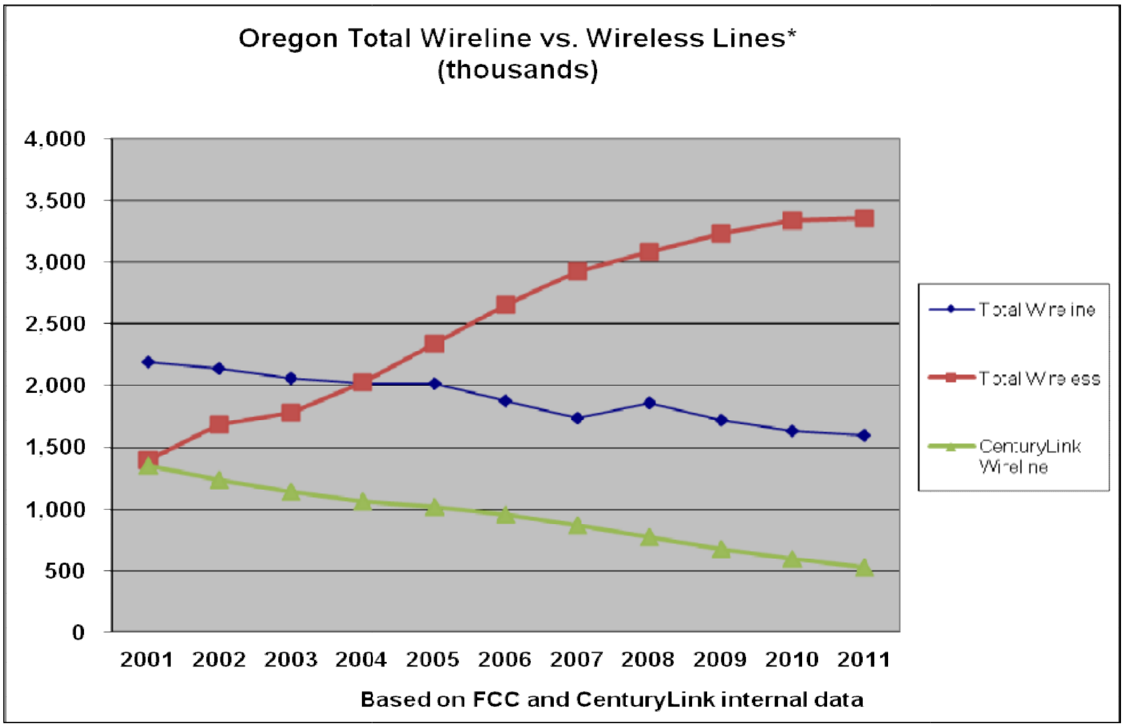
According to the FCC's Local Competition Report, as of June 30, 2011 there were 3.355 million wireless subscribers in Oregon, while there were only 1.595 million wirelines (both ILEC and non-ILEC).[12] In fact, wireless lines have increased 164% in Oregon from only 1.269 million in June 2001.[13] The FCC data shows that the wireless share of the total access line market has grown significantly over this timeframe, as described previously. While wireless

[11] Local Telecommunication Competition Survey, Year 2011 Report, Public Utility Commission of Oregon, December 2011.

[12] *Local Telephone Competition: Status as of June 30, 2011*; Industry Analysis and Technology Division, Wireline Competition Bureau, June 2012, tables 9 & 18.

[13] *Id*., table 14.

subscribers have increased dramatically, CenturyLink QC access lines (residence and business) in Oregon dropped 61% over the same time frame—from 1.354 million in December 2001 to .528 million in December 2011. The following graph shows the relationship of wireless connections, total wirelines and CenturyLink QC access lines in Oregon:



Most Oregon consumers, except those in extremely remote areas, have wireless options. Exhibit 3 provides a map showing the areas served by CenturyLink QC, along with the areas with known wireless coverage in Oregon. The map demonstrates that there are very few areas within CenturyLink QC wire centers boundaries where there is no wireless coverage, and this occurs only in the most sparsely populated areas. Thus, very few Oregonians actually live in the areas without wireless service.

In fact, the vast majority of CenturyLink QC customers have multiple wireless options. Exhibit 4 contains a map prepared by the FCC showing the number of wireless providers throughout Oregon. It is readily apparent that there are four or more wireless carriers in most of the areas served by CenturyLink QC, and in the majority of other areas there are at least three carriers. Wireless services are provided by AT&T, Verizon, T-Mobile, Sprint, and other providers.

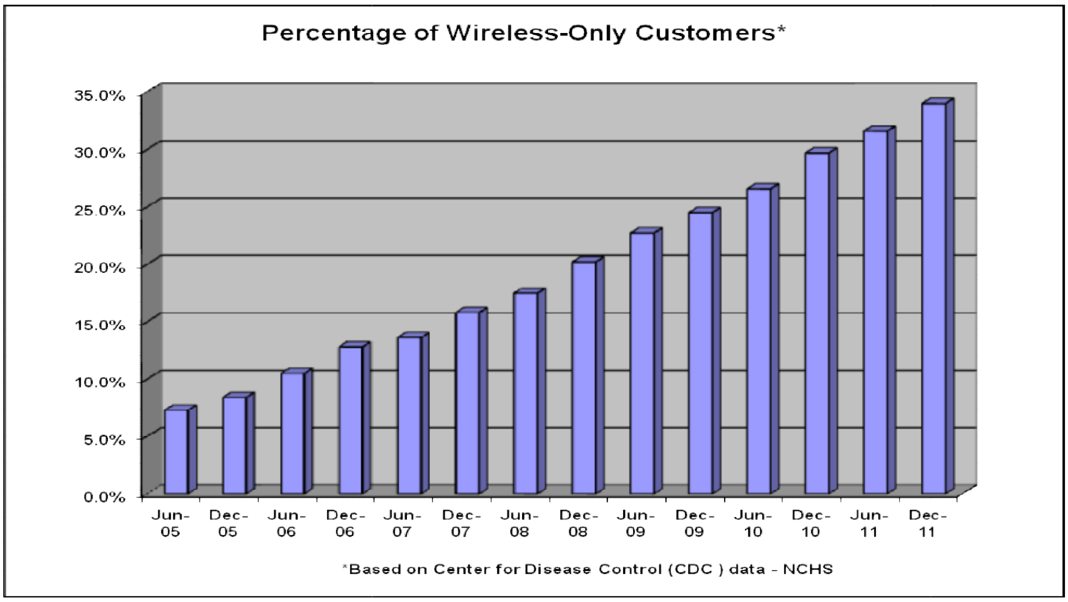
The large national wireless companies, including AT&T, Verizon, Sprint, Cricket and T-Mobile each have a large presence in Oregon. There are also regional wireless carriers providing service in Oregon such as US Cellular. Exhibit 5 provides maps for each of these carriers that show the wireless coverage area overlaid on the CenturyLink QC serving territory in the state. It may be observed that AT&T, Verizon, Sprint, T-Mobile, Cricket and US Cellular provide services across the vast majority of CenturyLink QC's serving area, and therefore nearly all customers can choose from multiple wireless providers.

The decline in CenturyLink QC landlines, coupled with the dramatic increase in wireless connections, demonstrates that Oregon customers increasingly view wireless phones as a substitute for wireline service, and that wireless phones are replacing wireline phones. In fact, a significant number of voice customers have already "cut the cord," relying solely on wireless service to meet their telecommunications needs, and this trend is accelerating. According to a survey conducted by the National Center for Health Statistics ("NCHS"), in the first 6 months of 2011, 34.0% of U.S. households did not have a traditional landline telephone, but did have <u>at least</u> one wireless telephone. The study states:

> One-third of American homes (34.0%) had only wireless telephones (also known as cellular telephones, cell phones, or mobile phones) during the second half of 2011—an increase of 2.4 percentage points since the first half of 2011. In addition, nearly one of

every six American homes (16.0%) received all or almost all calls on wireless telephones despite also having a landline telephone. [14]

Thus, while 34.0% of households have already "cut the cord," another 16.0% 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 one-half (50%) of households. The chart below depicts how wireless-only households in the U.S. have increased, according to the NCHS study:



There is little doubt that this trend will continue in the future, especially given the large amount of "wireless mostly" households that exist today. These customers are particularly likely to "cut the cord" in the future.

14 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 2011, released June, 2012, page 1. In the NCHS study, any households that has removed an additional landline telephone line in favor of wireless service but still retains at least one landline telephone line in the household is not considered "wireless only."

On October 12, 2012, the NCHS released a detailed analysis of its Wireless Substitution report—with state-specific data—for the January through December 2011 timeframe. For this time period, the NCHS found that 38.2% of adult Oregon wireless households were "wireless only," a significantly higher percentage of cord-cutting than the national average of 34.0% for the same time period.[15] In fact, Oregon placed seventh out of 50 states in the percentage of wireless only households.[16]

In areas where wireless alternatives exist—which includes nearly all of CenturyLink QC's Oregon service territory—it is viewed as a viable local service alternative by a large number of customers. This fact is made clear by the growing number of consumers who have already "cut the cord" as well as the "wireless mostly" customers who are considering "cutting the cord."

"Wireless mostly" households are particularly likely to "cut the cord" in the future because the customers already have a wireline phone and a wireless phone. Since such a customer is using his or her wireline phone less and less, he or she may start to question the value of maintaining and paying for both a wireless and wireline phone, especially if wireline rates increase. Ultimately, a "wireless mostly" customer may decide to "cut the cord;" a scenario that is obviously occurring regularly as evidenced by the NCHS data.

In various regulatory forums, some parties have argued that wireless service should not be considered to be a substitute for wireline service because *all* customers may not view it as a substitute. There is no doubt that some customers do not view wireless service to be a substitute for wireline service, and some of these customers may not want to give up their wireline phone

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15 *Centers for Disease Control and Prevention, National Center for Health Statistics*, Wireless Substitution: State-level Estimates From the National Health Interview Survey, 2010-2011, released October 12, 2012, Table 1.

16 *Ibid*.

under any circumstances. However, as long as there are enough customers willing to "cut the cord" (often called customers "at the margin"), wireless service is a *functionally equivalent substitute* for many customers—a fact proven by the large number of households that have already "cut the cord" and have become wireless-only.

Some parties have also argued that wireless service should not be considered to be a functionally equivalent substitute for wireline voice service because it is not *identical* to wireline service. They argue that since it is not identical, it is not *functionally equivalent* and should not be considered as a competitive substitute. However, wireless service does not need to be *identical* to wireline service in order for it to be *functionally equivalent* or serve as an *effective substitute* for wireline services that constrains CenturyLink QC's retail wireline prices. There will *always* be some differences between wireline and wireless service in terms of quality of transmission, data capability, mobility, ergonomics, etc. For example, a wireless phone will always have more mobility than a wireline phone, and handsets are likely to be smaller. This does not mean that they are not substitutes for voice services. A simple non-telephone example may help to put this into perspective. One might argue that metropolitan bus service and subway service are not competitive substitutes for one another because they utilize different technologies, may charge different fares, run different routes to connect the same two points, take different amounts of time to connect the same two points and likely offer tangibly different levels of comfort and ease in the perception of some commuters. While the bus and subway are clearly not perfect substitutes for all commuters, there can be no doubt that bus use would increase if the subway authority significantly increased prices. Similarly, if the bus significantly raised fares, many would migrate to subway travel.

The bottom line is that wireless does not have to be identical to wireline service, nor does it have to be a substitute for all customers, in order for it to constrain CenturyLink QC's pricing of local exchange service. Wireless providers today are making functionally equivalent or substitute services readily available at competitive rates, terms and conditions.

4. Voice over Internet Protocol (VoIP) Competition

It is useful to describe VoIP services as either "managed" or "over-the–top." Generally, cable companies offer "managed" VoIP-based services that are non-portable and that carry traffic over private managed networks, rather than the internet. Many other companies such as Vonage, Google and MagicJack offer "over-the-top" VoIP services, which rely on a third-party broadband connection, and transmit calls over the public internet. These companies often offer "portable" VoIP services that can be used over any high speed internet connection. Since cable VoIP services were addressed above, I will describe "over-the-top" VoIP services in this section.

From a customer perspective, VoIP service functions in a manner similar to standard circuit switched telephony, and allows a customer to utilize a standard telephone set to originate and receive telephone calls using the same dialing patterns that are used for standard wireline telephone service.[17] To utilize VoIP services, a customer must have a high speed connection, such as Digital Subscriber Line ("DSL"), a high-speed wireless connection, satellite broadband, or a cable modem. The FCC describes VoIP as follows: Interconnected VoIP service "(1) [e]nables real-time, two-way voice communications; (2) [r]equires a broadband connection from the user's location; (3) [r]equires IP-compatible customer premises equipment (CPE); and (4) [p]ermits users generally to receive calls that originate on the public switched telephone network and to terminate calls to the public switched telephone network."[18]

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[17] VoIP setup is simple—a standard telephone is simply plugged into a VoIP adaptor (provided by the VoIP carrier), which is connected to a broadband internet modem. From the standpoint of the customer, VoIP works just like traditional phone service, except that it provides additional features and functionality.

[18] *In the Matter of Connect America Fund A National Broadband Plan for Our Future Establishing Just and Reasonable Rates for Local Exchange Carriers High-Cost Universal Service Support Developing an Unified Intercarrier Compensation Regime Federal-State Joint Board on Universal Service Lifeline and Link-Up*, WC Docket No. 10-90, GN Docket No. 09-51. WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-

VoIP telephone service is a rapidly growing communications technology that clearly represents a competitive alternative to traditional landline-based telephone services in Oregon. In fact, in a 2009 Order regarding IP-enabled services, the FCC recognized that VoIP-based services are increasingly replacing traditional wireline services:

> Consumers increasingly use interconnected VoIP service as a replacement for traditional voice service, and as interconnected VoIP service improves and proliferates, consumers' expectations for this type of service trend toward their expectations for other telephone services.[19]

The FCC has also noted in its NPRM regarding Intercarrier Compensation and Universal Service, that "the emergence of VoIP provides another alternative to traditional wireline phone service"[20] and that "consumer demand for VoIP services continues to increase."[21] More recently, in its Report and Order and Further Notice of Proposed Rulemaking in this docket, the FCC found that "Interconnected VoIP services, among other things, allow customers to make real-time voice calls to, and receive calls from, the PSTN, and increasingly appear to be viewed by consumers as substitutes for traditional voice telephone services."[22] In addition, as described earlier, the FCC includes VoIP-based telephone service when it is developing telephone subscribership data, and the FCC now includes VoIP-based services in its *Local Competition Report*, where it includes the number of reported "End-User Switched Access Lines and VoIP

92, CC Docket No. 96-45, WC Docket No. 03-109, Notice of proposed rulemaking and further notice of proposed Rulemaking, FCC 11-13, released February 9, 2011 ("*ICC/USF NPRM*"), footnote 923.

19 *Report and Order*, In the Matter of IP-Enabled Services, Federal Communications Commission, WC Docket No. 04-36, Released: May 13, 2009, ¶ 2

20 *ICC/USF NPRM*, ¶ 503

21 *Id*. ¶610

22 *In the Matter of Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing an Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-Up, Universal Service Reform – Mobility Fund*, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161, Released November 18, 2011, ("*ICC/USF Order*"), ¶63.

Subscriptions." As noted in the most recent *Local Competition Report*, non-ILEC VoIP subscriptions in Oregon increased to 396,000 in June 2011.[23] VoIP-based telephone offerings represent an increasing and significant form of competition for CenturyLink QC's local exchange service.

While it is very difficult to obtain accurate subscribership information regarding VoIP services in Oregon, VoIP is clearly a rapidly growing communications technology that represents a competitive alternative to traditional landline-based telephone services. "Over the Top" VoIP-based telephone service, which is typically offered as a package that includes unlimited local and long distance service plus an array of calling features, is now readily available from a broad range of providers to *any customer in Oregon that has high-speed broadband internet access*. And it is clear that broadband availability and subscribership will increase over time, especially given the recent initiative by the FCC to provide universal service funding for broadband. In fact, the FCC acknowledged how increases in broadband availability will stimulate VoIP usage: "The deployment of broadband infrastructure to all Americans will in turn make services such as interconnected VoIP service accessible to more Americans."[24]

Broadband access has been increasing rapidly in Oregon. According to the FCC's latest *Internet Access Services Report*, ADSL broadband connections in Oregon have grown from 57,899 in December 2001 to 358,000 in June 2011—an increase of over 500 percent, and cable modem broadband connections in Oregon have grown over this timeframe from approximately 100,000 to 640,000—an increase of over 500 percent.[25] As of June 30, 2011, according to the

[23] *Local Telephone Competition: Status as of June 30, 2011*; Industry Analysis and Technology Division, Wireline Competition Bureau, June 2012, table 9.

[24] ICC/USF Order, ¶67

[25] Internet Access Services: Status as of June 30, 2011, FCC Industry Analysis and Technology Division, Wireline Competition Bureau, June 2012, Table 18, and High Speed Services for Internet Access: Status as of December 31, 2007, FCC Industry Analysis and Technology Division, Wireline Competition Bureau, January 2009, Tables 11 & 12..

FCC, there were 358,000 ADSL connections, 640,000 cable modem connections, 74,000 fiber connections, 11,000 fixed wireless broadband connections, 1,436,000 mobile wireless broadband connections, and 30,000 other broadband connections, for a total of 2.549 million broadband connections.[26] Thus, the number of broadband connections in Oregon far exceeds the 528,000 total CenturyLink QC basic exchange access lines that were in service in Oregon on December 31, 2011. According to the FCC, as of June 2011, high speed internet access was available to 91% of ILEC residential end-user premises and 98% of cable residential end-user premises in Oregon, and 67% of Oregon residential households had a high speed internet connection from one of the 84 broadband providers in the state.[27] Thus, competitive broadband services are now widely available from multiple providers in Oregon, and these services have been embraced by a rapidly increasing number of customers. Each broadband connection represents an existing or potential VoIP subscriber.

CenturyLink QC DSL service subscribers have the option of utilizing their DSL connection to subscribe to VoIP service from another provider, in lieu of traditional CenturyLink QC local exchange services. Residential and business customers within CenturyLink QC's service territory in Oregon may subscribe to CenturyLink QC DSL service on a "stand-alone" basis (i.e., they are not required to subscribe to standard CenturyLink QC local exchange service as a precondition to subscribing to CenturyLink QC DSL service). These customers may order VoIP telephone service from a wide range of non-CenturyLink QC VoIP providers as a replacement for CenturyLink QC basic exchange service. Numerous companies offer VoIP services in Oregon, including Vonage, Lingo, 8x8, MagicJack, VoIP.com, viatalk, Intalk, PhonePower, CallCentric, VoIPYourLife and many others. VoIP providers offer very

[26] Internet Access Services: Status as of June 30, 2011, FCC Industry Analysis and Technology Division, Wireline Competition Bureau, June 2012, Table 18.

[27] *Id*, Tables 24, 16 and 23.

attractively priced phone services today; these are functionally equivalent or substitute services readily available at competitive rates, terms and conditions.

C. CenturyLink QC Access Line Gain or Loss

As described in greater detail in Section B of this report, CenturyLink QC continues to face significant competition in its Oregon markets. As competition for voice communications services has increased, CenturyLink QC has continued to experience declines in access line volumes. During the time period that CenturyLink QC's Price Plan has been in place, access lines declined by 40.3% from 802,550 lines in July 2008 to approximately 479,000 lines in August 2012. Residential retail access lines declined 46.6% and business retail access lines dropped 25.2% over this time frame. Confidential Exhibit 1 provides data regarding the loss of access lines organized by CenturyLink QC Oregon wire center.

D. PRICING FLEXIBILITY

1. Introduction

CenturyLink QC's Price Plan was designed to achieve the following objectives with respect to pricing flexibility:

- Allow CenturyLink QC to price other services competitively with services offered by alternative providers, including those using landline, wireless, cable, and VoIP technologies.

- Increase CenturyLink QC's pricing flexibility to meet changing market conditions.

The Price Plan established price or rate increase caps for all services subject to the plan. At the initiation of the Price Plan in August 2008, rates for all services covered by the plan were set at pre-plan levels. Noted below is information on CenturyLink QC's use of the pricing flexibility established in the Price Plan for the major categories of services.

2. Summary of Pricing Flexibility Utilized

Non-recurring charges. Non-recurring charges for primary line basic services were capped at pre-plan rates with no pricing flexibility. Consistent with this limitation, CenturyLink QC has not modified the rates for non-recurring charges for primary line basic service since the Price Plan was entered into.

Residential Basic Service. Primary line basic service rates for residential customers were capped at pre-plan rates with no pricing flexibility. CenturyLink QC was provided an option to petition the Commission for removal or adjustment of the price caps. To date, CenturyLink QC has not modified the rates for residential primary line basic service, nor sought Commission approval for removal or adjustment of the price caps. Therefore, rates for primary line basic residential service remain at pre-plan rates.

Business Service. Primary line basic service for business customers was initially capped at pre-plan rates. Effective August 14, 2011 on the third anniversary of the effective date of the plan, the price cap increased to $1 above pre-plan rates. To date, CenturyLink QC has not modified the rates for business primary line basic service. Therefore, rates for primary line basic business service remain at pre-plan rates.

Switched Access, EAS, Toll Restriction, Call Trace and Unlisted Numbers/Directory Listings. The rates for these services were capped at pre-plan rates with no pricing flexibility. Consistent with this limitation, CenturyLink QC has not increased the rates for these services since the Price Plan was entered into.

DS-1 Service. The rates for intrastate DS-1 service were subject to price caps. The recurring rate for transport mileage was capped at 125 percent of pre-plan rates and rates for other charges were capped at the average of the rates charged as of May 1, 2008 in the 13 other states in the CenturyLink QC ILEC region and allowed to increase annually by the increase in the Portland CPI. CenturyLink QC has not increased the rates for this service since the Price Plan was entered into.

ISDN-PRI Service. The rates for ISDN-PRI were capped at the average of the rates charged as of May 1, 2008 in the 13 other states in CenturyLink QC's ILEC region and allowed to increase annually by the amount of increase in the Portland CPI. CenturyLink QC has not increased the rates for this service since the Price Plan was entered into.

Other Retail Services. The rates for all remaining residential and business services were subject to a price cap which allowed increases for each service up to 50 percent annually, with no more than a 200 percent increase over any rolling five-year period. CenturyLink QC was also allowed to remove the monthly two free-call allowance for directory assistance service. CenturyLink QC utilized the pricing flexibility provided for select services under these provisions of the Price Plan with annual filings being completed in 2008, 2009, 2010 and 2011. CenturyLink QC price changes for services covered by these provisions of the Price Plan did not exceed the 50 percent annual cap or the 200 percent cumulative cap. CenturyLink QC did remove the two free-call allowance in its 2008 Price Plan filing.

3. Conclusion

The pricing flexibility provided under the Price Plan has allowed CenturyLink QC to modify its prices for some services to meet changing market conditions and remain more competitive with services offered by other providers. As outlined above, CenturyLink QC has taken advantage of pricing flexibility afforded under the Price Plan to modify certain of its prices in an attempt to provide compelling value propositions to its customers while remaining competitive in the market.

Although the Price Plan has provided CenturyLink QC additional pricing flexibility that did not exist prior to the adoption of the plan, CenturyLink QC still faces significant pricing constraints that none of its competitors are subject to. As outlined in the previous section on competition, CenturyLink QC is facing ever increasing competitive pressure from alternative providers, including cable, wireless and VoIP providers who continue to gain market share. As a result, competitive market forces can be relied upon to ensure discipline over pricing is maintained, and the artificial pricing constraints that only CenturyLink QC is currently subject to should be curtailed or eliminated.

As the Commission completes its evaluation of the market based on information provided in this report, and considers modifications to the Price Plan, CenturyLink QC believes it will ultimately need further relaxation or elimination of pricing constraints especially in the following areas:

- Allowing additional pricing flexibility for residential and business primary line basic service, including rates in rate group 3.
- Allowing price increases for services currently subject to capping at pre-plan rates such as toll restriction, call trace and unlisted numbers/directory listings.
- Removing pricing constraints for ISDN-PRI and DS-1 services.
- Relaxing prohibition against geographically deaveraged rates.

E. NETWORK AND OTHER PROJECT INVESTMENT COMMITMENTS

1. Summary

On August 8, 2008, the Commission issued Order No. 08-408 approving the Stipulation Agreement and adopting CenturyLink's Price Plan. An important element of the Price Plan was a commitment by the company to make incremental investments of $4 million in network improvements and other projects at shareholder expense. Proposed projects included up to $2 million for a Consumer Information Center, with the remaining monies to be used for incremental network improvements. On October 20, 2008, CenturyLink submitted its proposal to the Commission outlining its plans for network infrastructure projects totaling approximately $2 million. On November 12, 2008, the Commission issued Order No. 08-544 approving CenturyLink's Network and Other Project Investments Plan. Finally, on June 10, 2010, the Commission issued Order No. 10-215 which amended CenturyLink's Network and Other Project Investment Plan in two ways. Specifically, the amount directed to the Consumer Information Center was reduced from $2 million to $1 million and the remainder was reallocated to other network related projects agreed to by CenturyLink and the Commission Staff. As a result, of these agreements and Commission orders, CenturyLink's modified commitment included $1 million directed to the Consumer Information Center and $3 million to incremental network investments.

2. Consumer Information Center Commitment

In compliance with the Framework Agreement for the Oregon Telecommunications Consumer Information Center ("OTCIC"), entered into by CenturyLink and the Citizens' Utility Board of Oregon ("CUB"), and acknowledged by the Commission in Order No. 10-215, CenturyLink has fulfilled its commitment to provide $1 million to support the OTCIC. CenturyLink remitted an initial payment of $400,000 to CUB in June 2010. The remaining $600,000 payment was remitted in August 2011. As a result, CenturyLink has fully met its commitment for other project investments of $1 million as established in its Price Plan and as modified by subsequent agreements and Commission orders outlined above.

3. Incremental Network Infrastructure Investment

As outlined in paragraph 1, CenturyLink committed to invest a total of $3 million in incremental network infrastructure. CenturyLink and Commission Staff agreed that the funds should be directed to projects to extend access to CenturyLink's broadband services to customers in rural areas. CenturyLink and Commission Staff selected specific rural areas in the company's service territory that did not have access to its broadband services. The investments were to be directed to upgrading transport systems and remote terminals that served the selected areas. CenturyLink agreed to provide quarterly reports to document progress towards meeting the agreed upon deployments. The reports were to identify the deployments that have been completed in the preceding reporting period and the amount of money spent on each project.

CenturyLink filed its first quarterly update providing progress on this commitment in April 2009 and has continued to file reports each quarter, with the latest report filed on October 15, 2012. The latest report provides detailed information on the high speed internet sites completed during 2009 and 2010, as well as completed and pending jobs for 2011 and 2012. The latest report reflects that CenturyLink has made substantial progress towards completion of its commitment by spending nearly $2.8M of the $3 commitment total through September, 2012. CenturyLink expects to fully complete the remainder of its $3 million network investment commitment in early 2013.

F. NEW SERVICES

The table below provides information on the new services introduced by CenturyLink QC since the effective date of the Price Plan.

Reference	Effective Date	Tariff, Price List or Catalog	Description
Internal Reference 2009-026	10/20/2009	Catalog	**Voice Messaging Link** - This filing introduces a feature that allows a wireless phone billed through Qwest and a Qwest wireline phone to share the same voice messaging mailbox. The customer can access all phone messages from a single messaging mailbox regardless of which phone receives the call. The wireless and wireline phones are both notified when a new message is waiting.
Internal Reference 2009-035	12/15/2009	Catalog	**One Number Service** - This filing introduces a wireline service feature that works with a customer's wireless service. When a call is placed to a Qwest wireline number, it will ring the customer's wireline and wireless phone at the same time or sequentially. Unanswered calls to the wireless and wireline number will be forwarded to a single voice mail system.
Transmittal 2009-015-PL	01/17/2010	Price List	**Qwest Home Phone** – This filing introduces Qwest Home Phone service which is a residential package that includes a basic access line and a group of standard features that customer may choose from at no additional charge.
Transmittal . 2012-007-PL	06/19/2010	Price List	**Core Connect 1 –** This filing introduces a new plan for business customers that includes an access line and a list of standard features, unlimited long distance and high speed Internet Service.
Internal Reference 2011-018	07/25/2011	Catalog	**Primary Rate Service (PRS)/Private Branch Exchange (PBX) Product Bundle** – This filing introduces a switched digital service offering for business customers that combines basic ISDN PRS service and Qwest-provided PBX equipment.
Advice No. 2109	05/05/2012	Tariff	**Primary Rate Service (PRS) Bundle** – This filing introduces a bundle which combines bulk rate ISDN PRS consisting of 23B+D voice and data trunks provisioned as two-way with Direct Inward Dialing (DID), PRS standard features, up to 100 DID numbers in block of 20 and ISDN Calling Name Delivery.
Advice No. 2112	07/18/2012	Tariff	**Core Connect Professional Bundle –** This filing introduces a new bundle which combines business voice packages consisting of business voice lines and features, with unlimited long distance and high speed Internet service. This service was originally included as a tariffed offering, but was subsequently moved to the Price List.

G. Simplification or Reduction in the Burden of Regulation

In adopting CenturyLink QC's Price Plan, the Commission waived requirements set forth in several state statutes and Commission rules relating to the regulation of telecommunications in Oregon. Certain of these waivers represented a continuation of the manner in which CenturyLink-QC has operated since 2000 under its prior price cap regulation plan. Other waivers provided expansion of relief from existing regulatory requirements, thereby reducing regulatory burdens affecting both CenturyLink QC and Commission resources. This section of CenturyLink QC's report provides a discussion of the ways in which the burden of regulation for both CenturyLink QC and the Commission has been simplified or reduced by the adoption of the Price Plan, concentrating on those waivers that have the more significant impacts.

The waivers of statutes and Commission rules authorized by the Price Plan has reduced the resources that CenturyLink QC previously devoted to gathering, assimilating and filing Commission required reports. In turn, since the Commission is no longer required to expend its resources reviewing and analyzing these reports, it can focus on other areas that are more critical to serving their constituents. In addition, the Price Plan has provided relief from regulatory burdens associated with the regulation and pricing of CenturyLink QC's services. Below are the more significant areas where the burden of regulation has been reduced for CenturyLink QC and the Commission as a result of the waivers of statutes and Commission rules authorized by the Price Plan.

<u>Financial</u>

- Annual Budget of Expenditures Report Eliminated
- Annual Construction Budget Report Eliminated
- Securities Issuance – the requirement to file reports related to the issuance of securities was eliminated.

- Cost Allocation Manual – the requirement to maintain and file a Cost Allocation Manual was eliminated.
- Affiliate Interest Transactions – the requirement to file affiliate interest contracts for the prior calendar year was eliminated. In addition, information on affiliate transactions is no longer required on Annual Report Form O.
- Accounting Practices – Commission approved accounting simplification in Order No. 06-514 in Docket UM 1274 which allows CenturyLink QC to maintain a single set of regulatory books of account (MR Accounting).
- Form I – Annual Report of Oregon Separated Results of Operations – Beginning with 2004 reporting, the Form I was replaced with an acceptable company standard substitute report. However, in 2011, Commission Order No. 11-095 in Docket UM 1484 imposed as a condition of approval of the merger between CenturyLink and Qwest a requirement that the Commission standard Form I be reinstituted. This required significant work efforts to reinitiate dormant processes that reinstituted regulatory burdens.
- Form O – Total Company and Total Oregon Operations Financial Report – Beginning with 2004 Form O reporting, certain Commission required financial statement sections of the Form O were replaced with company standard reports. However, in 2011, Commission Order No. 11-095 in Docket UM 1484 imposed as a condition of approval of the merger between CenturyLink and Qwest a requirement that the Commission standard Form O sections for total company and state of Oregon income statement and balance sheet be reinstituted. This required significant work effort to map old Qwest accounts to the 2011 Form O formats and reinstituted regulatory burdens. Such work effort will be required again for the 2012 Form O since the old Qwest accounting system was decommissioned in January 2012 in a conversion to the CenturyLink accounting system.
- Requirements for Commission approval of stock or property related transactions were waived in full in the 2008 Price Plan Docket UM 1354. However, in 2011, Commission Order No. 11-095 in Docket UM 1484 imposed as a condition of approval of the merger between CenturyLink and Qwest a requirement that conditionally removed the Price Plan exemption from the requirements of ORS 759.375 and ORS 759.380 and reinstituted regulatory burdens. As a condition, the parties agreed that for property sales where the sales price is less than $10 million the Qwest Price Plan exemption from ORS 759.375(1)(a) applies, except that the sale of any Qwest exchange will be subject to Commission approval under ORS 759.375.

Pricing Flexibility

- The Price Plan provides flexibility for CenturyLink QC to change prices for certain services within established parameters without meeting the requirements of certain statutes related to rate of return regulation.

- The Price Plan allows CenturyLink QC to make price list filings for new services and specified other retail services not subject to price caps on one day’s notice to the Commission. This allows CenturyLink to more quickly respond to market factors to introduce new services and change prices.

CERTIFICATE OF SERVICE

UM 1354

I hereby certify that on the 14th day of January 2013, I served the foregoing **CENTURYLINK QC'S CORRECTED PRICE PLAN PERFORMANCE REPORT** **i**n the above entitled docket on the following persons via means of e-mail transmission to the e-mail addresses listed below.

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DATED this 14th day of January, 2013.

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