

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UM 1354

In the Matter of the Petition of QWEST
CORPORATION d/b/a CenturyLink QC for
Approval of Price Plan Pursuant to ORS 759.255

DIRECT TESTIMONY

OF

JOHN M. FELZ

ON BEHALF OF

CENTURYLINK

JANUARY 23, 2014

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I. IDENTIFICATION OF WITNESS

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

A. My name is John M. Felz. My business address is 5454 West 110th Street, Overland Park, Kansas, and I am currently employed by CenturyLink as Director – State Regulatory Operations.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, WORK EXPERIENCE AND PRESENT RESPONSIBILITIES.

A. I received my Bachelor's degree in Accounting from Rockhurst University in Kansas City, Missouri in 1979. In 1989, I earned a Master's Degree in Business Administration with an emphasis in Finance from Rockhurst University. I began my career with Sprint as an internal auditor in 1979 and assumed increasing levels of responsibility in that department, including positions as Senior Auditor, Audit Manager and Assistant Director. From 1986 to 1988, I was Revenue Accounting Manager for Sprint's Midwest Group of local telephone companies with responsibility for billing approximately 500,000 customers in six states. In 1988, I was named to the position of Financial Budget Manager and had responsibility for preparing and managing the budget for Sprint's Midwest Group of local telephone companies. From 1991 to 1996, in the position of Revenue Planning Manager, I was responsible for regulatory and tariff issues for Sprint's local telephone operations in Kansas. From 1996 to 1998, I held the position of Senior Manager - Wholesale Markets with responsibility for negotiating and implementing interconnection agreements with competitive local exchange carriers and wireless providers. From January 1998 through May 2006, I held the position of Director – State Regulatory for Sprint and provided state regulatory support for Sprint's local, long distance and wireless operations in several assigned states. In May 2006, I assumed the position of Director – State Regulatory for Embarq, a new company formed by the spin-off of Sprint's local telephone operations. In 2009, Embarq was acquired by CenturyLink and I was named to my current position as Director - State Regulatory Operations. In this position, I have responsibility for

1 development and implementation of regulatory policies for CenturyLink’s operations in a
2 number of states, including Oregon.

3
4 **II. PURPOSE OF TESTIMONY**

5
6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

7 A. The purpose of my testimony is to provide the data and analysis necessary to demonstrate
8 that the Oregon telecommunications market in the service area of Qwest Corporation d/b/a
9 CenturyLink QC (“CenturyLink QC”) in Oregon is subject to pervasive competition from a
10 variety of technologies and platforms. In light of this highly competitive environment,
11 CenturyLink QC seeks Commission approval to modify the terms of the Price Plan,
12 previously approved by the Commission in Order No. 08-408 in this docket, to provide
13 additional regulatory flexibility to meet the intense and increasing competition
14 CenturyLink QC is facing in its retail markets. CenturyLink QC’s modified Price Plan is
15 included as Exhibit A to the petition filed concurrent with this testimony and is included as
16 Exhibit CTL/109 to my testimony.

17
18 **III. OVERVIEW OF CENTURYLINK QC’S PETITION**

19
20 **Q. PLEASE EXPLAIN THE ORIGINS OF CENTURYLINK QC’S CURRENT PRICE**
21 **PLAN.**

22 A. The Commission approved CenturyLink QC’s current Price Plan in this docket in Order
23 No. 08-408, pursuant to ORS 759.255. CenturyLink QC’s Price Plan that was adopted by
24 the Commission resulted from a stipulation among a number of parties including
25 Commission Staff, the Citizens’ Utility Board of Oregon (CUB), TRACER and several
26 competitive local exchange carriers. CenturyLink QC notified the Commission of its
27 election to be subject to the terms of the Price Plan on August 14, 2008 and continues to
28 operate under those original terms today.

29
30 **Q. DO THE TERMS OF THE PRICE PLAN ALLOW FOR MODIFICATIONS?**

1 A. Yes. The terms of the current Price Plan provide for a review of CenturyLink QC's
2 performance under the Price Plan every five years. In accordance with the terms of the
3 Price Plan, CenturyLink QC filed a detailed report regarding its performance as compared
4 to the objectives of the Price Plan on November 13, 2012.¹ Section V.A.3 of the Price Plan
5 expressly permits future modifications, stating:

6 **Evaluation of market, modifications to plan.** The Commission will
7 review the data submitted by Qwest and other relevant evidence
8 regarding the competitiveness of the market for services that are
9 functionally equivalent or substitutable for services offered by Qwest and
10 determine whether other modifications to the plan are appropriate to
11 provide Qwest with additional regulatory flexibility beyond that included
12 in the original price plan or better ensure the plan is in the public interest
13 according to the factors set forth in ORS 759.255(2).²
14

15 **Q. WHAT ARE THE FACTORS IN ORS 759.255(2) THAT THE COMMISSION**
16 **SHOULD CONSIDER IN EVALUATING WHETHER CENTURYLINK QC'S**
17 **PROPOSED MODIFICATIONS TO ITS PRICE PLAN ARE IN THE PUBLIC**
18 **INTEREST?**

19 A. Per the statute, the Commission is to consider whether CenturyLink QC's modified Price
20 Plan:

- 21 (a) Ensures prices for telecommunications services that are just and
22 reasonable;
- 23 (b) Ensures high quality of existing telecommunications services and makes
24 new services available;
- 25 (c) Maintains the appropriate balance between the need for regulation and
26 competition; and
- 27 (d) Simplifies regulation.
28

29 **Q. WHAT IS THE BASIS FOR CENTURYLINK QC'S PETITION SEEKING**
30 **MODIFICATIONS TO ITS PRICE PLAN?**

31 A. The primary basis is the unprecedented level of competition CenturyLink QC faces in
32 virtually all of its markets in the state of Oregon. My testimony will describe the pervasive
33 competition from wireless providers, cable companies, CLECs and Voice over Internet

¹ CenturyLink filed a corrected report on January 14, 2013 to correct labeling of certain sections of the report – no substantive changes were made to the report.

² See Exhibit A, page 10 of 12 of Commission Order 08-408 in Docket UM 1354.

1 Protocol (“VoIP”) providers and provide evidence of the impact of this competition on
2 CenturyLink QC’s market share. The evidence clearly shows that these competitors offer
3 services that are either functionally equivalent to and/or substitutable for CenturyLink QC’s
4 service offerings on the basis of product design, price and availability and that CenturyLink
5 QC does not have a captive customer base or market power. Given the broad and thriving
6 competitive landscape in Oregon, the Commission should approve and adopt the Price Plan
7 modifications proposed by CenturyLink QC to provide additional regulatory flexibility to
8 allow the company to more effectively compete with its largely unregulated competitors.
9

10 **IV. COMPETITION IN THE OREGON LOCAL EXCHANGE MARKET**
11

12 **A. SUMMARY**

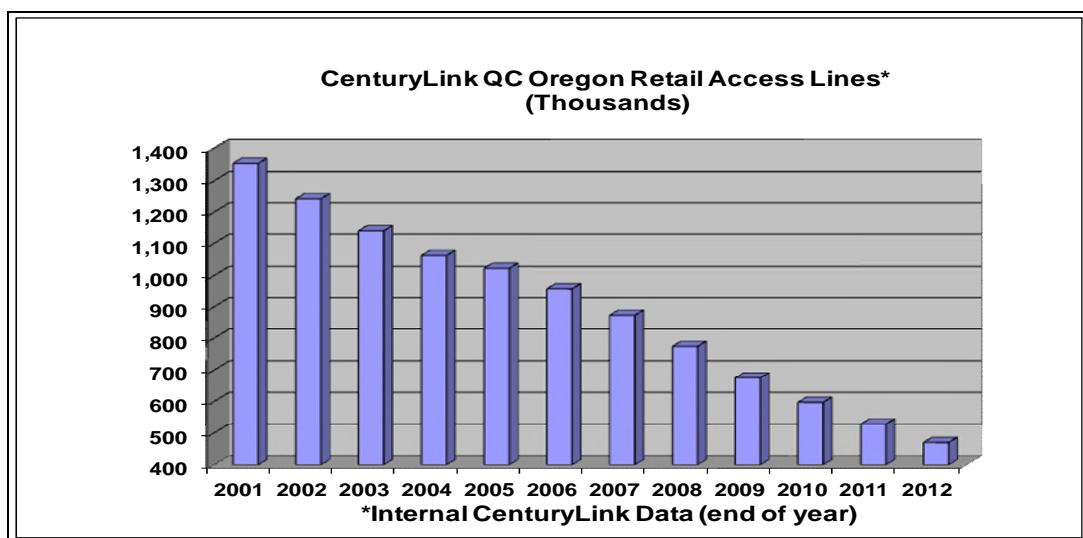
13 **Q. WHAT TYPES OF PROVIDERS COMPETE WITH CENTURYLINK QC IN THE**
14 **OREGON LOCAL EXCHANGE VOICE MARKET?**

15 A. As described below, the telecommunications market in Oregon is exceptionally
16 competitive, and the mix of competitive telecommunications alternatives continues to grow
17 and evolve. Traditional competitors such as Comcast, Charter, Wave Broadband and
18 BendBroadband, the major cable companies serving much of CenturyLink QC’s Oregon
19 territory, along with a number of CLECs (such as Integra, tw telecom, Windstream, XO
20 Communications, Level 3, AT&T and Verizon) continue to aggressively compete with
21 CenturyLink QC. At the same time, intermodal voice services from wireless companies
22 such as AT&T, Verizon, Sprint and T-Mobile, and VoIP services from companies like
23 Vonage, Magic Jack and Google are rapidly gaining a significant share of the
24 telecommunications market in the state. Oregon consumers and businesses have numerous
25 alternatives to meet their local voice calling and broadband needs. The Oregon
26 telecommunications market is becoming more competitive every day, and there is no
27 reason to conclude that this explosion of competitive alternatives will subside as new
28 technologies are developed and customer preferences evolve. CenturyLink QC’s market
29 power is constrained by competition today, and will continue to be constrained by
30 increasing competition in the future.
31

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

10
11 **Q. PLEASE DESCRIBE THE IMPACT OF THIS COMPETITION ON**
12 **CENTURYLINK QC ACCESS LINES IN OREGON.**

13 A. As competition for voice communications services has increased, CenturyLink QC has
14 experienced a *significant decline in access line volumes*. Between December 2001 and
15 December 2012, CenturyLink QC retail access lines in Oregon declined 65%, from
16 1,353,899 to 469,355.³ CenturyLink QC has experienced these declines across its entire
17 service territory in Oregon.⁴



18
³ Residential retail access lines have dropped 70% and business retail access lines have dropped 55% over this time frame.

⁴ See Confidential Exhibit CTL/101 for a comparison of retail access lines between December 2001 and December 2012 by CenturyLink wire center.

1 While CenturyLink QC has experienced a steady decline in residential and business access
2 lines over the past eleven years, U.S. Census data shows that both households and the
3 number of people in Oregon have increased. For example, between 2001 and 2012,
4 Oregon population increased from 3,472,867 in July 2001 to 3,899,353 in July 2012, an
5 increase of 12.2%.⁵ The number of households in Oregon increased from 1,476,466 in July
6 2001 to 1,682,502 in July 2012 (the latest data available); an increase of 14%.⁶ Many of
7 these customers continue to use telephone service from some provider, but most are not
8 using CenturyLink QC.

9
10 As Oregon has experienced a significant growth trend, demand for voice communications
11 services in Oregon has increased apace. FCC data shows that in the western U.S. (as well
12 as nationally), household expenditures for telephone service have increased steadily each
13 year since 2001,⁷ even as CenturyLink QC revenues have declined. However, despite the
14 large upward trend in households, population, and telephone service expenditures by the
15 public, CenturyLink QC's retail residential access line base in Oregon has fallen sharply
16 since 2001. These divergent trendlines show that consumers are increasingly taking
17 advantage of the expanding array of competitive alternatives to CenturyLink QC's wireline
18 voice telephone services. As CenturyLink QC's access lines decline, consumers are
19 increasingly meeting their telecommunications needs via services provided by cable
20 telephony providers, wireless providers, Voice over Internet Protocol ("VoIP") providers
21 and CLECs.

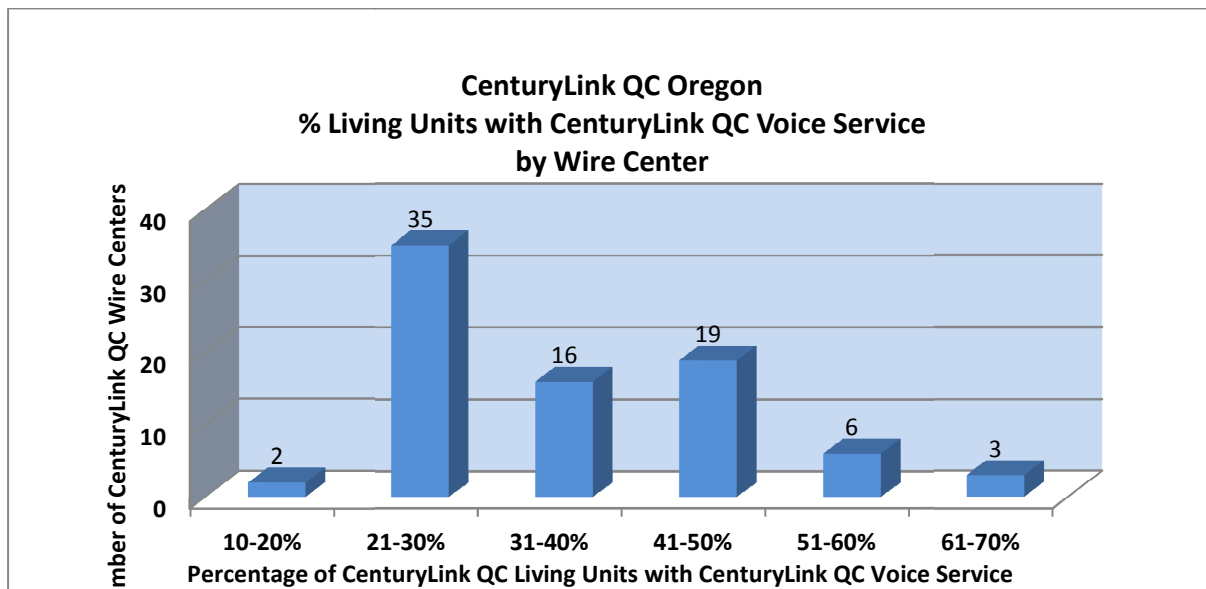
⁵ US Census Bureau; See: http://www.census.gov/popest/data/historical/2000s/vintage_2001/state.html "Time Series of State Population Estimates: April 1, 2000 to July 1, 2001" (ST-2001EST-01.xls) and <http://quickfacts.census.gov/qfd/states/41000.html>

⁶ US Census Bureau; See: http://www.census.gov/popest/data/historical/2000s/vintage_2001/housing.html (HU-EST2001-00.xls) and <http://quickfacts.census.gov/qfd/states/41000.html>

⁷ 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

1 **Q. WHAT DOES CENTURYLINK QC'S INTERNAL DATA ON LIVING UNITS**
2 **SERVED IN ITS OREGON TERRITORY DEMONSTRATE WITH RESPECT TO**
3 **THE IMPACTS OF COMPETITION ON THE COMPANY'S MARKET SHARE?**

4 A. The number of "Living Units"⁸ that CenturyLink QC actually serves in Oregon compared
5 to the number of Living Units it is able to serve demonstrates the impact of CenturyLink
6 QC's customer losses. Confidential Exhibit CTL/102 shows the total "Living Units" in
7 each CenturyLink QC wire center, along with the number of "Living Units" with active
8 voice service from CenturyLink QC as of the end of 2012. I have also calculated the
9 "Percentage of Living Units with Voice" which I will refer to as the CenturyLink QC
10 "Voice Penetration." In aggregate, CenturyLink QC is now providing voice service to only
11 26% of the Living Units to which it has facilities and is "ready to serve." Thus, *nearly*
12 *three quarters of the Living Units that CenturyLink QC could serve in Oregon purchase*
13 *no voice services from the company.* These voice penetration figures are not surprising
14 given the level of access line loss CenturyLink QC has experienced in a growing market.
15 The following chart plots the number of CenturyLink QC wire centers that fall within each
16 of the Living Unit penetration level percentages:



17 ⁸ A "Living Unit" is defined as a unique address where CenturyLink QC has a drop wire in place connecting a
18 premise. The address may or may not have current service from CenturyLink QC, but the company has the
capability of providing service. A multi-dwelling unit, business campus, or similar location will include multiple
Living Units to the extent the locations have unique addresses.

1 The chart shows the ubiquity of voice competition in CenturyLink QC's serving area. The
2 data demonstrate that there is significant voice competition in each and every CenturyLink
3 QC wire center. The company's voice penetration is less than 70% in every wire center,
4 and is less than 50% in all but nine of the 81 wire centers. Over 65% of wire centers have
5 less than a 40% CenturyLink QC voice penetration. This provides clear evidence that there
6 is *significant voice competition in every single CenturyLink QC wire center in Oregon.*
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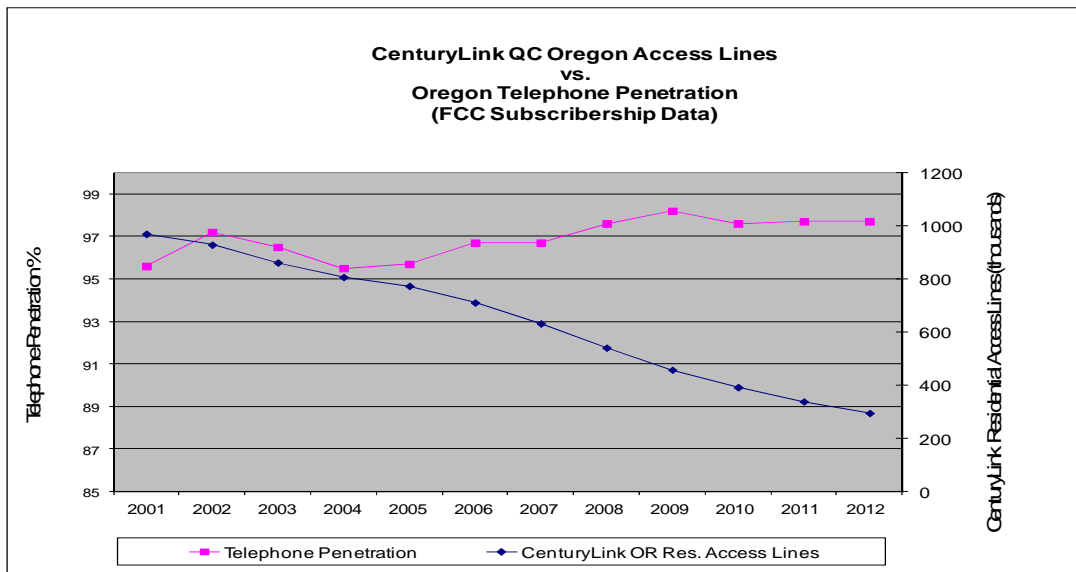
8 **Q. DO THESE LOW PENETRATION LEVELS FOR CENTURYLINK QC'S**
9 **SERVICE MEAN THAT CUSTOMERS ARE GIVING UP VOICE SERVICE?**

10 A. No. FCC subscribership data demonstrate that the portion of Oregon households without
11 voice service has remained relatively steady over the last eleven years even as CenturyLink
12 QC voice penetration rates have tumbled. When the FCC evaluates telephone
13 subscribership (and develops penetration percentages), it considers all local voice telephone
14 options available to consumers, including wireless, cable and VoIP—since these are real
15 voice telephone options available to consumers.⁹ The chart below shows that in the past
16 dozen years, the Oregon telephone subscriber penetration rate has remained relatively
17 steady (between 95% and 98%) even as the population has increased 12.4%. Stable
18 penetration rates coupled with a growing population demonstrate that the size of the overall
19 Oregon market for telephone services has grown substantially during the same period that
20 CenturyLink QC has lost 65% of its subscribers and access lines. The loss of access lines
21 in a growing market with stable penetration rates demonstrates that hundreds of thousands
22 of Oregonians have left CenturyLink QC for competitors; they have not gone “phoneless.”
23 The following chart shows CenturyLink QC's decline in Oregon *residential* access lines
24 along with the FCC's Oregon voice penetration rate between 2001 and 2012:¹⁰

⁹ 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-311523A1.pdf

¹⁰ *Id.*, Table 3.

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This chart clearly demonstrates that Oregon consumers leaving CenturyLink QC are not going without phone service; instead they are purchasing cable telephony, wireless or VoIP-based voice services from another provider as a substitute for CenturyLink QC services.

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Q. PLEASE DESCRIBE THE FCC’S VOICE MARKET DATA FOR OREGON.

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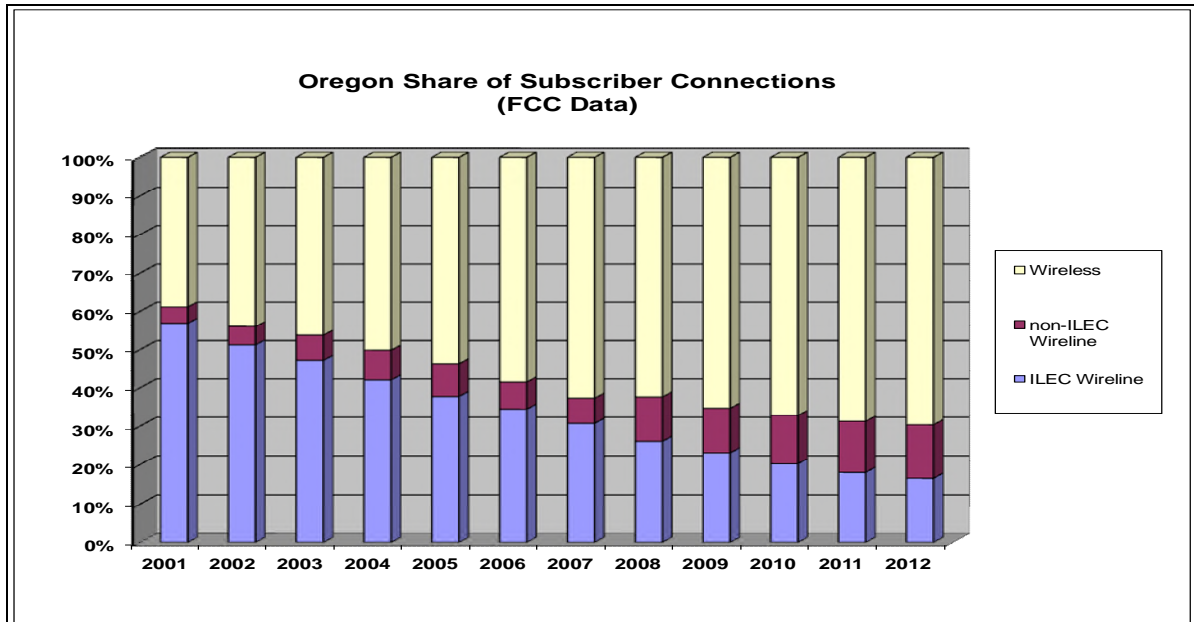
19

A. FCC data also show how competition in Oregon has impacted CenturyLink QC’s share of the local voice telephone market in the state. Every six months, the FCC compiles voice connection data reported by ILECs, CLECs and wireless providers, 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 eleven years as customers have chosen cable, wireless, CLEC and VoIP options. Based on the latest FCC report (using December 2012 data), the ILEC share of Oregon voice telecommunications connections (including residence and business lines) is now only 16.5% as compared to 13.8% for non-ILECs (including *reporting* VoIP providers) and 69.7% for wireless providers.¹¹ The trends in the migration of customers from CenturyLink QC and other ILEC providers to other wireline and wireless providers over

¹¹ *Local Telephone Competition: Status as of December 31, 2012*; Industry Analysis and Technology Division, Wireline Competition Bureau, November 2013, tables 9 & 18.

1 the past eleven years is demonstrated by the following chart:¹²

2



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4

5 **Q. CAN YOU ESTIMATE HOW COMPETITION IN OREGON HAS IMPACTED**
6 **CENTURYLINK QC'S SHARE OF THE LOCAL VOICE TELEPHONE MARKET**
7 **IN OREGON?**

8 A. Yes. While CenturyLink QC does not have access to the confidential access line and other
9 data from its competitors, the company has retained the consulting firm *Centris*¹³ to
10 estimate voice market share for CenturyLink QC and its competitors in the consumer, small
11 business and mid-sized business (“SMB”) markets across its entire service territory in
12 Oregon.

13

14 **Q. PLEASE DESCRIBE CENTURYLINK QC'S CONSUMER MARKET SHARE**
15 **DATA FOR OREGON.**

16 A. The *Centris* data is based on occupied households within the CenturyLink QC serving area
17 in Oregon, and shows the share of these households that purchase voice service from

¹² *Id.*, tables 13, 14 & 18. Also see *Local Telephone Competition: Status as of December 31, 2007*, Industry Analysis and Technology Division, Wireline Competition Bureau, September 2008, tables 9, 10 and 14.

¹³ *Centris* is a marketing science firm that provides services to CenturyLink and other companies. On its web site, *Centris* states: “Our ongoing survey programs, local market models and advanced analytic skills supplement the research departments of many of the world’s leading communication and entertainment companies.” *Centris* focuses on the voice, video and data markets. See: <http://www.centris.com/index.html>

1 CenturyLink QC, cable companies, other VoIP providers and CLECs. *Centris* also
2 identifies occupied households without any voice service. *Centris* summarizes its
3 methodology as follows:

4 Centris provides a data collection, data integration, modeling and reporting
5 platform for computing estimates of market size, market share and associated
6 metrics at local levels of geography. A number of these metrics are estimated by
7 provider: (1) This platform combines extensive market research with industry
8 analysis to ensure that the Centris estimates line up with published business
9 intelligence, company reports and other market and industry analyses; (2) The
10 process uses multiple layers of geography to provide projections of behavior by
11 provider and location; (3) For all product areas, Centris starts with assigning
12 occupied households to the CenturyLink footprint and then overlays cable
13 boundaries to provide the ability to look at market share by competitor. (4)
14 Absolute subscriber numbers and detailed flow share analysis are readily
15 available. For voice, Centris uses over a million LIDB (Line Information
16 Database) lookups to determine phone provider by local geography. Next
17 Centris uses CenturyLink subscribers, surveys and other data to set state and
18 footprint level constraints. Then Centris models voice demand (ILEC, CLEC,
19 cable voice, wireless only, VoIP).

20
21 The testimony which follows discloses data that *Centris* developed using the methods
22 described above; it does not rely on carrier confidential information from CenturyLink QC
23 companies or from the other carriers.

24
25 The *Centris* data demonstrate that the CenturyLink QC share of the consumer voice market
26 has been declining over the past several quarters, and that as of the second quarter of 2013,
27 CenturyLink QC provided voice service to *only* 27.6% of the occupied households in its
28 Oregon serving area:

Consumer Market Share			
	Connections (000)	Share	
1			
2			
3	Century Link QC	283	27.6%
4	Cable Telephony	278	27.2%
5	Other VoIP	14	01.4%
6	CLECs	27	02.6%
7	Wireless Only	399	39.0%
8	Other – no voice	22	02.2%
9	Total Occupied Households	1,023	100.0%

10
11 It is important to note that the “wireless only” share includes only households that do not
12 have wireline services at all. If a household has both wireless voice service and
13 CenturyLink QC wireline voice service, the household is included in the CenturyLink QC
14 wireline share,¹⁴ not the wireless only share.

15
16 Note that the CLEC and VoIP shares in the *Centris* consumer share study are limited. The
17 CLEC share is limited because (1) it does not include the cable providers, such as Comcast
18 or Charter, who are stated separately, and (2) most of the traditional CLECs operating in
19 Oregon are focused on marketing services to business customers rather than the consumer
20 market. The VoIP share is limited because it does not include cable providers such as
21 Comcast or Charter who provide managed VoIP services.¹⁵

22
23 **Q. HAS CENTRIS IDENTIFIED RECENT TRENDS IN THE CONSUMER VOICE**
24 **MARKET IN OREGON?**

25 A. Yes. Recent trends in the *Centris* consumer study are delineated in Confidential Exhibit
26 CTL/103. This exhibit provides CenturyLink QC share data for several quarters, and also

¹⁴ The CenturyLink share estimated in the *Centris* study is higher than the ILEC share estimated with the FCC data primarily because the *Centris* study counts CenturyLink households that have both a wireline phone and a wireless phone as a wireline household. The FCC share is based on an analysis that counts each wireline and wireless connection separately, regardless of whether or not the household has both wireline and wireless service. Thus, if a household has a wireline phone and a wireless phone, the FCC analysis would count one wireline connection and one wireless connection, rather than simply one wireline connection. In addition, there may be some differences in the characteristics of CenturyLink QC and other ILEC areas within Oregon.

¹⁵ Managed VoIP services utilize private networks, and do not traverse the public internet.

1 shows the share for each cable provider. This exhibit demonstrates the trend of declining
2 CenturyLink QC share, along with increasing cable and wireless-only share.

3
4 **Q. WHAT DO YOU CONCLUDE REGARDING THE CONSUMER MARKET?**

5 A. *Over seventy percent* of the consumer households in the CenturyLink QC serving area in
6 Oregon are not utilizing CenturyLink QC for voice services. Instead, the vast majority of
7 customers are purchasing voice services from cable providers, wireless providers, VoIP
8 providers and CLECs, which have gained significant market share at the expense of
9 CenturyLink QC. The Oregon telecommunications market today is extremely competitive,
10 with these alternative providers successfully offering functionally equivalent or substitute
11 services that are readily available to customers. In this competitive environment,
12 CenturyLink QC lacks any effective market power. Regulation should change to account
13 for this development.

14
15 **Q. HAS CENTRIS IDENTIFIED ANY MARKET SHARE DATA FOR THE SMALL
16 AND MEDIUM BUSINESS (“SMB”) VOICE MARKET IN OREGON?**

17 A. Yes. *Centris* has also estimated the share of the Oregon small and medium business
18 (“SMB”) voice market for CenturyLink QC and its competitors. The study shows that for
19 the second quarter of 2013, the CenturyLink QC share of the small business *wireline* voice
20 market was 51.6%, and the CenturyLink QC share of the medium business wireline market
21 was 42.8%.¹⁶ Confidential Exhibit CTL/104 shows the market share for each of the major
22 competitors in the small and medium sized business markets in the CenturyLink QC
23 serving area in Oregon. The major wireline competitors in the SMB markets in Oregon are
24 Comcast, Integra, Level 3, Charter and others. For the small business voice market, 12.2%
25 of the market is classified as “all other type” which primarily represents “wireless only”
26 businesses that have “cut the cord.” However, the study does not show the full impact of
27 wireless competition in the SMB market, because if a customer has both CenturyLink QC
28 and wireless service, they are included in the CenturyLink QC share.

¹⁶ Small business is defined as firms spending <\$1,500 / month (excluding wireless) and Mid Markets are firms spending between \$1,500 and \$5,000/ month (excluding wireless).

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Q. ACCORDING TO THE *CENTRIS* DATA, THE CENTURYLINK QC SMB MARKET SHARE IS LARGER THAN THE SHARE IN THE CONSUMER MARKET. DOES THAT MEAN THAT THE SMB MARKET IS NOT COMPETITIVE?

A. No. As described above, the *Centris* SMB data does not include the full impact of wireless services in the SMB market. But even disregarding this fact, the SMB market is highly competitive. Most of the traditional CLECs operating in Oregon are solely focused on marketing services to business customers rather than the consumer market. Thus, the number of competitors is greater in the SMB market than in the consumer market and the SMB market segment is very competitive given the availability of alternative providers to customers, and CenturyLink QC has already lost a significant share to competitors such as Comcast, Charter, Integra, tw telecom, Level 3, XO and Windstream. Numerous CLECs compete vigorously with CenturyLink QC in the SMB segment, offering functionally equivalent or substitute services that constrain CenturyLink QC's prices and limit its market power. I will describe some of these competing providers below.

Q. HAS CENTURYLINK QC CONDUCTED A MARKET SHARE ANALYSIS FOR THE LARGE BUSINESS VOICE MARKET IN OREGON?

A. CenturyLink QC has not conducted a market share analysis of the large business market that is *specific* to Oregon. However, the large business (Enterprise) market should be viewed within a larger context, since many large business customers operate in multiple states, sometimes with nationwide telecommunications contracts. An enterprise customer may purchase hundreds of thousands of dollars of telecommunications services each month nationwide, but expend only a limited amount for services in Oregon under the same or coordinated contracts. Thus, the "relevant market" for enterprise services is nationwide, not confined to Oregon. National research firm Atlantic ACM found that in 2012, AT&T held 31.2% of the business total *wireline* market while Verizon held 20.4% of this market, and CenturyLink 8.7%.¹⁷

¹⁷ *Strategic Services Take the State: U.S. Telecom Wired and Wireless sizing and Share 2013-2018*, Atlantic ACM, 2013, page 72.

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Q. WHAT DO YOU CONCLUDE REGARDING THE ENTERPRISE MARKET?

A. The large business or Enterprise voice market is an extremely competitive market segment. Enterprise and large Governmental customers have the alternative to purchase services from AT&T, Verizon, CenturyLink and other carriers who are increasingly focused on the large business market, such as Comcast, tw telecom, XO, Windstream, Level 3 and others. Large Enterprise and Government Customers are very sophisticated, and have the purchasing power to drive the market, since they can commit to quantities and terms on such a large scale that they request and receive significant discounts from tariffed rates that are negotiated on an individual contract basis (“ICB”).

I will describe the competitive market in Oregon in more detail in the next section of my testimony.

B. WIRELINE COMPETITION

1. Cable Telephony

Q. PLEASE DESCRIBE TELEPHONE COMPETITION FROM CABLE COMPANIES IN OREGON.

A. Cable companies provide phone service (along with video and high speed internet) throughout CenturyLink QC’s Oregon serving territory. Comcast is the major cable company, offering digital telephone and broadband service to customers in many parts of the state. Other cable companies operating in Oregon that provide telephone service include Charter, Cable One, Wave Broadband and BendBroadband. As shown in Confidential Exhibit CTL/105, cable telephony service is available to customers in 79 of CenturyLink QC’s 82 wire centers¹⁸ in Oregon and these wire centers account for approximately 99.6% of CenturyLink QC’s Oregon residential access lines.¹⁹ Thus, cable telephone service is now available to a large majority of CenturyLink QC’s exchanges in Oregon.

¹⁸ Based on data from *Centris*.
¹⁹ 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.

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Q. HOW DO CABLE COMPANIES PROVIDE VOICE SERVICE IN OREGON?

A. 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. Cable providers generally 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.

The cable companies listed in Confidential Exhibit CTL/105 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 ingredient in their strategy to expand their customer bases and improve revenue streams by marketing multiple services in addition to cable television service, and that their service offerings are functionally equivalent to and substitutable for CenturyLink QC's voice services.

Q. HOW DOES COMCAST COMPETE WITH CENTURYLINK QC IN OREGON?

A. Comcast is the major cable company operating in Oregon and now offers digital telephone service to customers in nearly all of its cable serving area, which includes most of the major cities and towns served by CenturyLink QC, including Portland, Salem, Corvallis, Eugene, Roseburg, Milwaukie, Oregon City and Albany and many medium sized cities. As shown in Confidential Exhibit CTL/105, Comcast offers "Digital Voice" phone service to customers in 31 of CenturyLink QC's 82 wire centers in Oregon today, and these wire centers account for over 62% of CenturyLink QC's residential access lines in the state as of December 31, 2012. Nationally, Comcast now makes digital voice available to 53 million homes and businesses and provides voice services to 10 million subscribers for a

1 penetration rate of 18.9%.²⁰ According to Comcast, “We offer voice service plans, using
2 an interconnected Voice over Internet Protocol (“VoIP”) technology, that provide either
3 usage-based or unlimited local and domestic long-distance calling, includ[ing] the option
4 for a variety of international calling plans, voice mail, caller ID, call waiting and other
5 features, including the ability to access and manage voice mail and other account
6 information online and through our mobile applications using smartphones and tablets.”²¹
7

8 **Q. ARE COMCAST’S RESIDENTIAL OFFERINGS FUNCTIONALLY**
9 **EQUIVALENT TO AND SUBSTITUTABLE FOR THE SERVICES OFFERED BY**
10 **CENTURYLINK QC IN OREGON?**

11 A. Yes. Like Comcast, CenturyLink QC offers packages that include features and long
12 distance calling. CenturyLink QC’s Home Phone package, priced at \$35 per month,
13 includes local service with unlimited calling plus eleven features. The customer may
14 specify features or order the recommended package that includes Caller ID, Call Waiting
15 ID, Voice Mail, Three Way Calling, Last Call Return, Call Rejection, Call Forwarding,
16 Easy Access, No Solicitation, Call Following (Remote Access Call Forwarding), and
17 Selective Call Forwarding.²² The CenturyLink QC Home Phone Unlimited plan offers
18 unlimited local and long distance calling plus the eleven features for \$44.95 per month.
19

20 In Oregon, Comcast markets its digital voice phone service to residential customers along
21 with cable TV and broadband internet access in Triple Play bundles that it provides for \$99
22 per month for the first 12 months.²³ Comcast also offers its voice service on a standalone
23 basis with unlimited local and long distance calling as “XFINITY® Voice Unlimited” for
24 \$29.99 per month for 6 months. Comcast’s digital voice services are advertised as
25 providing unlimited nationwide calling and numerous calling features, including Caller ID
26 and Voicemail.²⁴ This package is designed to compete with CenturyLink QC’s Home
27 Phone package that includes a basic line and numerous features for \$35 per month.

²⁰ Comcast 2012 Annual Report (10K), page 44. See: <http://files.shareholder.com/downloads/CMCSA/2372812231x0xS1193125-13-67658/1166691/filing.pdf>

²¹ *Id.*, page 4.

²² See: https://shop.centurylink.com/MasterWebPortal/freeRange/shop/ShopNC_viewNCBundlesPage?Phone=true

²³ See: http://www.comcastoffers.com/Triple-Play/?exp=xp1_pilot

²⁴ See: http://www.comcastoffers.com/Voice/?exp=xp1_pilot

1 CenturyLink QC offers a version of Home Phone that includes unlimited nationwide
2 calling for an additional charge of \$10 per month.

3
4 Comcast also offers services to businesses of all sizes via its “Comcast Business Class”
5 offerings, which are prominently marketed on the Comcast web site. Comcast markets
6 internet and voice services in packages starting at \$89.90 per month, as well as standalone
7 unlimited nationwide voice services starting at \$59.95 per month.²⁵ Comcast continues to
8 significantly increase its presence in the business market, offering “cable services to small
9 (up to 20 employees) and medium-sized (up to 500 employees) businesses (“business
10 services”).” Comcast also states: “In addition to the features provided to our residential
11 cable services customers, our services for business customers include a website hosting
12 service, an interactive tool that allows customers to share, coordinate and store documents
13 online, hosted voice services using cloud network servers, a business directory listing, and
14 the added capacity for multiple phone lines that meet the needs of our business customers.
15 In 2012, we began increasing the number of services we offer to medium-sized business
16 customers, including adding advanced voice services and our metro Ethernet network
17 services. We also provide cellular backhaul services to mobile network operators, which
18 help our customers manage continued growth in demand for network bandwidth.”²⁶

19
20 **Q. DO COMCAST AND CENTURYLINK QC BOTH OFFER BUNDLES OF**
21 **SERVICES AT DISCOUNTED RATES?**

22 A. Yes. Both Comcast and CenturyLink QC offer discounts for customers that bundle
23 telephone service with high speed internet and video services. Comcast offers bundles of
24 phone, internet and video service for as low as \$99 per month for the first twelve months.²⁷
25 CenturyLink QC offers bundles of phone, internet and video (DirecTV) for as low as
26 \$94.95 per month. Both companies offer additional bundles with added functions (e.g.,
27 faster internet speeds, more video channels) at higher prices. Comcast and CenturyLink
28 QC market bundles to attract and retain customers, and such offerings are the hallmark of a
29 competitive market.

²⁵ See: http://www.comcastoffers.com/Business/?exp=xp1_pilot

²⁶ Comcast 2012 Annual Report (10K), page 4.

²⁷ See: http://www.comcastoffers.com/Triple-Play/?exp=xp1_pilot

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Q. DOES COMCAST POST PRICES FOR ITS BUSINESS SERVICES ON ITS WEB SITE?

A. Comcast does post prices for some basic business voice plans on its web site, but in many cases, Comcast, like CenturyLink QC, provides services to businesses on an ICB or contract basis. However, Comcast is not required to file its ICB contracts or pricing with the Commission. Therefore, unlike in the consumer market, it is difficult to directly compare prices on a public basis.

Q. HAS COMCAST GAINED A SIGNIFICANT SHARE OF THE BUSINESS MARKET IN THE CENTURYLINK QC AREAS IN OREGON?

A. Yes. According to the *Centris* data, when considering just wireline services, Comcast has realized significant shares of both the small business and the mid-size business markets in the CenturyLink QC areas in Oregon, as shown in Confidential Exhibit CTL/104. Comcast is also actively marketing services in the Enterprise (large business) market, although CenturyLink QC does not have data available to define Comcast’s share of this market.

Q. IS COMCAST LIKELY TO GROW SIGNIFICANTLY IN OREGON IN THE FUTURE?

A. Yes. Comcast has expanded the availability of digital phone service in Oregon markedly, and as noted above, nearly all Comcast customers in Comcast’s service area can now order Comcast Digital Voice service. It is significant that Comcast has seen exponential growth in its digital voice offering nationally. As noted above, according to its 2012 year-end report, Comcast now serves 10 million digital voice customers in the United States—up from 1.9 million in 2006 and 4.4 million in 2007—a growth rate of more than 400% in five years. In 2009 Comcast announced that it was the third largest phone company in the U.S. serving residential customers:

Comcast, the nation’s leading provider of entertainment, information and communication products and services, today announced that consumers switching to Comcast’s Digital Voice service have made Comcast the third-largest residential phone service provider in the country. . . . Comcast Digital Voice® now serves 6.47 million customers, *which exceeds Qwest’s reported*

1 *residential subscriber base.* The popularity of Comcast’s innovative offerings
2 with consumers has enabled Comcast to add residential subscribers in each of
3 the last twelve quarters.”²⁸ (emphasis added)

4 Comcast’s has increased its presence in the Oregon telephone market rapidly, and the
5 potential for future growth is even larger, since Comcast has the capacity *today* to serve
6 many more customers in CenturyLink QC’s serving area. As CenturyLink QC’s access
7 line counts have continued to decline, Comcast’s presence in the Oregon telephone market
8 has grown to a substantial number of subscribers as delineated in Confidential Exhibit
9 CTL/105.

10
11 **Q. PLEASE DESCRIBE HOW CHARTER COMPETES WITH CENTURYLINK QC**
12 **IN THE OREGON VOICE MARKET?**

13 A. As described above, CenturyLink QC competes with Charter in Oregon. Charter was
14 founded in 1993, became a publicly-traded company in 1999 and has been a Fortune 500
15 company since 2001. Charter describes itself as follows:

16 A leading broadband communications company and the fourth-largest cable operator in
17 the United States, Charter today employs more than 21,000 and provides services to more
18 than 5.7 million customers in 29 states. Headquartered in Stamford, CT, the company is
19 focused on integrating the highest-quality service with clearly superior entertainment and
20 communications products. Over the years, billions have been invested in the communities
21 Charter serves through infrastructure upgrades to deliver video, high-speed Internet and
22 phone service to homes and businesses.²⁹

23
24 Charter is a large, well funded competitor to CenturyLink QC reporting revenues of \$7.682
25 billion for the twelve months that ended on June 30, 2013.³⁰ As of the second quarter of
26 2013, Charter served over 2 million voice customers.³¹

27
28 Confidential Exhibit CTL/105 shows that Charter provides service in 36 of the 82
29 CenturyLink QC wire centers in Oregon. Similar to Comcast, Charter offers voice services
30 (along with cable and high speed internet) to residence and business customers in the areas

²⁸ Comcast Press Release, March 11, 2009, see:

<http://www.comcast.com/About/PressRelease/PressReleaseDetail.ashx?PRID=844>

²⁹ See: <http://www.charter.com/browse/content/about-charter>.

³⁰ See Charter Second Quarter Financial Results Presentation at: <http://phx.corporate-ir.net/phoenix.zhtml?c=112298&p=irol-newsArticle&ID=1844970&highlight>

³¹ *Id.*

1 they serve and offer packages and bundles that directly compete with CenturyLink QC's
2 offerings. For example, Charter offers a package of unlimited voice service with 11
3 calling features, high speed internet and cable TV service for \$29.99 each (\$89.96
4 combined) per month for the first twelve months and \$109.97 for year two.³² Charter's
5 bundled offering provides unlimited local and long distance calling, voicemail and "13
6 popular features like call waiting and call forwarding," and "free 411 calls." Bundling
7 offers customers more features including faster internet, high definition, premium channels,
8 and On Demand.

9
10 This package is designed to compete with services like CenturyLink QC's Home Phone
11 package that includes a basic line and eleven features for \$35 per month,³³ or the Home
12 Phone Unlimited package that also includes unlimited nationwide calling for \$45 per
13 month in Oregon. Charter also provides bundled services at promotional rates via several
14 "Triple Play" packages. For example, the "Value" package with phone, internet and 175
15 cable channels sells for \$89.85 for the first 12 months.³⁴ It appears that customers cannot
16 order stand-alone voice service without internet or cable TV from Charter, who presumably
17 finds it unprofitable to sell voice service as a stand-alone service.

18
19 Charter also markets services to businesses of all sizes as evidenced by the following quote
20 from the company's website: "Serving companies from start-ups to national enterprises,
21 Charter Business has a wide variety of Internet, Ethernet Phone, and TV services that can
22 help businesses of all sizes be more productive."³⁵ For small business customers, voice
23 service bundled with internet service is offered for \$102.55 per month,³⁶ and includes
24 unlimited long distance calling and 21 business features. Charter offers a number of
25 services to meet the needs of larger business customers, including PRI and SIP trunking."³⁷
26 Charter also offers Oregon business customers fiber internet service, metro and optical
27 Ethernet services, layer 3 VPN and Wavelength networking services, Web Hosting, Hosted

³² See: <http://www.charter.com/browse/browse-bundles/bundles>

³³ Exchange and Network Services Tariff, Section 5.9.1.D

³⁴ See: <http://www.charter.com/browse/browse-bundles/bundles>

³⁵ See: <https://www.charterbusiness.com/content/products>

³⁶ See: <https://www.charterbusiness.com/bundles>

³⁷ See: <https://www.charterbusiness.com/content/business-solutions>

1 Voice and high speed digital trunks.³⁸ Prices for these services are not provided on the
2 company's web site.

3
4 **Q. WHAT OTHER CABLE COMPANIES COMPETE WITH CENTURYLINK QC IN**
5 **THE OREGON VOICE MARKET?**

6 **A.** Cable One, Wave Broadband and BendBroadband also compete with CenturyLink QC in
7 select markets in Oregon. Similar to Comcast and Charter, each of these cable providers
8 offers voice services (along with cable TV and high speed internet) to residence and
9 business customers in the areas they serve and offer packages and bundles that directly
10 compete with CenturyLink QC's offerings.

11
12 Wave Broadband offers residential telephone service for as low as \$19.95 per month.
13 Wave Broadband phone services include local and long-distance calling, voicemail
14 including "online access to your voicemail and settings" and "15 calling features including
15 Caller ID, Call Waiting, Call Forwarding and more."³⁹ Wave Broadband also offers
16 packages including basic cable TV, high speed internet, and phone service for as low as
17 \$89.95 per month for a twelve-month promotional period.⁴⁰ Wave Broadband also offers
18 voice, Internet and video solutions for a wide range of business customers. Wave
19 Broadband offers business class phone service for \$39.95 when bundled with Internet or
20 \$49.95 a la carte that includes voice mail, calling features and unlimited local, regional and
21 nationwide long-distance calling. Wave Broadband also provides solutions for Enterprise
22 customers including voice services via T1s and SIP trunking and data solutions such as
23 metro Ethernet and collocation services.⁴¹

24
25 Cable One offers an Economy Phone voice telephone service for as low as \$20 per month.
26 Their Standard Phone offer which includes unlimited long distance calling and 14 calling
27 features is \$50 per month when purchased as a stand-alone service, but is discounted to \$33
28 per month when purchased with a bundle package of phone, cable TV and internet. Cable

³⁸ *Id.*

³⁹ See: <http://www.wavebroadband.com/phone/wavephone-packages.php>

⁴⁰ See: <http://www.wavebroadband.com/bundles/cable-internet-phone-packages.php>

⁴¹ See: <http://www.wavebroadband.com/business/enterprise-data.php>

1 One's Elite Package of phone, cable TV and Internet services is \$99 per month for 12
2 months.⁴² Cable One also offers business phone and Internet services, but does not provide
3 specific products or pricing information on its website.
4

5 BendBroadband offers its residential Basic Phone service for as low as \$15 per month for
6 12 months (\$20 month for the second year) when the customer purchases one or more
7 additional services (cable TV or Internet services).⁴³ Residential customers can purchase
8 the Unlimited Phone offering for \$25 for year 1 (\$30 for the second year) when also
9 purchasing cable TV and/or Internet services.⁴⁴ The Unlimited Phone offering provides
10 unlimited local and long distance calling, unlimited features and voicemail services.
11 Customers can choose from a variety of cable TV and Internet packages to combine with
12 BendBroadband's voice service offerings. BendBroadband also data, voice, video and
13 managed services for business customers, including services directed at enterprise as well
14 as small and medium businesses.⁴⁵ Information on specific business services or pricing is
15 not provided on the company's website.
16

17 **Q. WHAT DO YOU CONCLUDE REGARDING CABLE TELEPHONY**
18 **COMPETITION IN OREGON?**

19 A. It is clear that the vast majority of the households in CenturyLink QC's Oregon service
20 areas have been greatly impacted by the cable industry's push into the voice market. With
21 voice, cable TV and high speed internet, cable companies can offer a full bundle of services
22 using their own facilities. As demonstrated above, cable providers—especially Comcast
23 and Charter—have gained a significant and growing share of the voice market throughout
24 Oregon by offering functionally equivalent or substitute services readily available at
25 competitive rates, terms and conditions. In addition, the widespread availability of these
26 services ensures that CenturyLink QC will continue to offer its functionally equivalent
27 services in these markets at competitive rates that are just and reasonable, and that it will
28 continue to offer high quality and new services in order to remain competitive.

⁴² See: <https://www.cableone.net/FYH/Pages/phone.aspx>

⁴³ See: <http://www.bendbroadband.com/residential/pricing.asp>

⁴⁴ *Ibid.*

⁴⁵ See: <http://www.bendbroadband.com/business/index.asp?adct=2>

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2. Other Competitive Local Exchange Providers (“CLECs”)

Q. WHAT OTHER WIRELINE PROVIDERS COMPETE WITH CENTURYLINK QC IN THE OREGON VOICE MARKET?

A. According to data from the Commission’s 2013 Local Telecommunication Competition Survey⁴⁶, there were 241 CLECs certified in Oregon, with 155 of those CLECs providing local exchange services as of December 2012. While not all certificated providers currently offer voice services in Oregon, in addition to Comcast, Charter and other cable providers, there are numerous unaffiliated CLECs actively competing with CenturyLink QC for customers in Oregon, including Integra, Level 3, XO, tw telecom, Windstream, AT&T, Verizon and Level 3 and many smaller CLECs including Rio Communications, Zayo, Eastern Oregon Telecom, Bandwidth.Com and Astound Broadband. *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 Local Services Platform (“CLSP”) or Unbundled Loops (UNE-L)). CLECs are serving business and governmental customers of virtually all sizes. While not all certificated providers currently offer voice services in the state, in addition to Comcast and other cable providers, CenturyLink QC believes there are at least 34 CLECs actively competing with CenturyLink QC for customers in Oregon utilizing CenturyLink QC provided unbundled network elements (such as unbundled loops), CenturyLink’s Local Services Platform (“CLSP”) or their own facilities. These CLECs include Integra, AT&T, Verizon, tw telecom, Windstream, XO Communications, Level 3, and many smaller CLECs. In addition, there are at least 94 CLECs utilizing resale of CenturyLink QC’s facilities to provide services to customers in CenturyLink QC’s service area. *Most* of these CLECs are primarily focused on serving business customers (although there are a number of resellers serving the residence market).

I will now briefly describe a few of the many CLECs that compete with CenturyLink QC in Oregon.

⁴⁶ Local Telecommunication Competition Survey, 2013 Annual Report, Staff Report, Public Utility Commission of Oregon, December 2013.

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Q. PLEASE DESCRIBE HOW INTEGRA COMPETES WITH CENTURYLINK QC.

A. Integra is a major player in the Oregon business market, offering services in many of CenturyLink QC’s Oregon markets including Portland, Corvallis, Eugene, Lake Oswego, Oregon City, Portland and Salem. Integra is a facilities-based CLEC providing a range of services to small, medium and Enterprise business customers, including voice services (basic business voice lines, long distance services, ISDN PRI, SIP Solutions), high speed internet access, dynamic T-1 bundles, Ethernet services, MPLS VPN, Private Line, Server Collocation, Managed PBX Services and Private line services.⁴⁷ According to Integra:

Integra is one of the largest facilities-based providers of communication and networking services in the western United States. We connect businesses of all sizes with advanced networking, communications and technology solutions in 35 metropolitan markets. Integra owns and operates an enterprise-class network consisting of a 5,000-mile long-haul fiber-optic network, 3,000 miles of metropolitan fiber and a nationwide IP/MPLS network. Our fiber network connects directly to more than 2,200 enterprise buildings and data centers. Through our expansive Ethernet-over-copper footprint, we can deliver high-bandwidth services to more than 400,000 businesses.⁴⁸

Q. HOW DOES LEVEL 3 COMMUNICATIONS COMPETE WITH CENTURYLINK QC IN OREGON?

A. Level 3 Communications is an international provider of IP-based communications and data services to enterprise, content, government and wholesale customers in a number of CenturyLink QC’s Oregon markets including Bend, Eugene, Klamath Falls, Ontario, Portland, Redmond and Salem. Level 3 offers an array of voice communications services including collaboration services, enterprise voice solutions utilizing TDM or SIP, and wholesale/carrier voice services.⁴⁹ Level 3 also offers a range of data services and solutions including Internet services, content delivery network, converged business network, private line services, rural access solutions, wavelength service and virtual private network services.⁵⁰

⁴⁷ See: <http://www.integratelecom.com/Pages/default.aspx>
⁴⁸ See: <http://www.integratelecom.com/about/Pages/default.aspx>
⁴⁹ See: <http://www.level3.com/en/products-and-services/voice/>
⁵⁰ See: <http://www.level3.com/en/products-and-services/data-and-internet/>

1 **Q. HOW DOES XO COMMUNICATIONS COMPETE WITH CENTURYLINK QC IN**
2 **OREGON?**

3 A. XO Communications is one of the nation’s largest service providers exclusively serving
4 businesses, government, carriers and service providers.⁵¹ XO Communications is an active
5 participant in the Bend, Eugene, Lake Oswego, Milwaukie, Oregon City and Portland
6 telecommunications markets in Oregon. XO Communications operates a “high capacity IP
7 network with terabit-capable routing core” and an “advanced transport network with terabit
8 capacity deployed nationwide.”⁵² XO offers a full slate of business communications
9 services, including VoIP and SIP trunking, Hosted PBX services, traditional local and long
10 distance voice, cloud communications and conferencing. XO also offers network services
11 including high speed internet access, MPLS IP-VPN, Ethernet VPLS, Ethernet Access
12 services, collocation and fixed wireless. XO also offers Security Services and Hosted IT
13 Services.⁵³

14
15 XO states that it has approximately one million miles of metro fiber, a 19,000-route mile
16 nationwide inter-city fiber network, 1,000 central office collocations, more than 3,300
17 fiber-fed buildings on-net, and a fully peered Tier 1 IP network with more than 100 private
18 and public peering relationships.⁵⁴

19
20 **Q. HOW DOES TW TELECOM COMPETE WITH CENTURYLINK QC IN**
21 **OREGON?**

22 A. tw telecom (which changed its name from Time Warner Telecom on July 1, 2008) is a
23 facilities-based CLEC operating in 75 markets encompassing 30 states.⁵⁵ tw telecom
24 provides services to all sizes of business, but is increasingly focused on the Enterprise
25 market. It provides voice services, Ethernet services, IP and managed services, security
26 services and transport and wavelength services.⁵⁶ tw telecom describes itself as follows:

⁵¹ See: <http://www.xo.com/services/Pages/overview.aspx>

⁵² See: <http://www.xo.com/about/network/Pages/overview.aspx>

⁵³ See: <http://www.xo.com/services/Pages/overview.aspx>

⁵⁴ See: http://www.xo.com/SiteCollectionDocuments/XO_Communications_Fact_Sheet.pdf

⁵⁵ See: <http://www.twtelecom.com/why-tw/>

⁵⁶ See: <http://www.twtelecom.com/telecom-solutions/voice-solutions/>

1 For nearly 20 years, tw telecom has delivered managed data, Internet and voice
2 networking solutions to businesses and large organizations throughout the U.S. As
3 one of the three largest providers of Business Ethernet in the nation, we connect more
4 than 18,000 commercial buildings to our national fiber network.⁵⁷
5

6 In its announcement of 2012 financial results, tw telecom's Chairman, CEO and President,
7 Larissa Herda stated: "In 2012, we achieved strong comprehensive financial results while
8 rapidly deploying industry-leading Intelligent Network and advanced Ethernet capabilities.
9 In 2013, we're further advancing our long-term strategic vision which includes providing
10 customers with unprecedented control and visibility of their network that we believe will
11 accelerate the momentum in our business. We're implementing several growth initiatives
12 including investing in new technologies to drive ongoing innovative capabilities, expanding
13 our sales resources for greater distribution and further automating network functionality for
14 more dynamic customer connectivity. These initiatives are all focused on further driving
15 our revenue growth."⁵⁸
16

17 **Q. HOW DOES AT&T COMPETE WITH CENTURYLINK QC IN OREGON**

18 A. AT&T is not an incumbent local exchange carrier in Oregon, but it operates as a CLEC and
19 IXC, with a primary focus on serving business customers. AT&T, the largest telecom
20 company in the U.S., offers a wide range of telecommunications services to small, medium
21 and enterprise business customers, as well as governmental customers in Oregon. AT&T
22 has significant fiber network facilities in Oregon and provides services using both its own
23 facilities and via the purchase of wholesale services from CenturyLink QC.
24
25

⁵⁷ See: <http://www.twtelecom.com/about-us/>

⁵⁸ See: <http://newsroom.twtelecom.com/2013-02-11-tw-telecom-Reports-Fourth-Quarter-and-Full-Year-2012-Results>

1 **Q. PLEASE DESCRIBE HOW VERIZON COMPETES WITH CENTURYLINK QC**
2 **IN OREGON.**

3 A. Like AT&T, Verizon is not an incumbent local exchange carrier in Oregon, but it operates
4 as a CLEC and IXC, with a primary focus on serving business customers. Verizon is the
5 second largest telecom company in the U.S. and offers a wide range of telecommunications
6 services to small, medium and enterprise business customers, as well as governmental
7 customers in Oregon. Verizon, which purchased MCI several years ago, also has a
8 substantial fiber network in Oregon.

9
10 **Q. PLEASE DESCRIBE HOW WINDSTREAM COMPETES WITH CENTURYLINK**
11 **QC IN OREGON.**

12 A. Windstream recently purchased PAETEC (which had purchased McLeod several years
13 ago), and is actively competing with CenturyLink QC in selected markets in Oregon.
14 Windstream's CLEC operations are focused on marketing Internet Protocol ("IP") based
15 voice and data services to business customers, stating: "Our core offerings span data,
16 voice, network and cloud services; our value-added portfolio encompasses data center
17 services, telecommunications management solutions and equipment."⁵⁹ Windstream offers
18 a "complete portfolio of advanced technology solutions." It states:

19 Windstream Business enterprise solutions bring comprehensive IP-based voice and
20 data services, MPLS networking, data center, cloud computing and managed hosting
21 services and communication systems to business, government, finance, healthcare,
22 education, retail and other industries and organizations.

23 Windstream Business Voice Solutions offers advanced, enterprise-class business
24 phone services with traditional and next-generation business phone solutions
25 including digital channelized service (DCS), ISDN and Centrex key system, PBX-
26 type service.⁶⁰

27 Windstream also offers a wide array of solutions for small businesses include business
28 voice lines, features, voice mail, long distance, Internet and computer support and cloud
29 services.⁶¹ Windstream/PAETEC does not post prices on its website.

30

⁵⁹ See: <http://www.windstreambusiness.com/services>

⁶⁰ See: <http://www.windstreambusiness.com/enterprise>

⁶¹ See: <http://www.windstreambusiness.com/small-business>

1 **Q. WHAT DO YOU CONCLUDE REGARDING COMPETITION FROM CLECS?**

2 A. As described above, there are numerous CLECs competing with CenturyLink QC in
3 Oregon, and CLEC services may be purchased by many of CenturyLink QC's Oregon
4 customers. CLECs are able to make functionally equivalent or substitute services readily
5 available at competitive rates, terms and conditions for business and consumer customers.
6 CLECs can easily enter and exit the market, and can offer services by purchasing UNEs or
7 resold services from CenturyLink QC, or by building their own facilities. In addition, the
8 widespread availability of these services ensures that CenturyLink QC will continue to
9 offer its functionally equivalent services in these markets at competitive rates that are just
10 and reasonable, and that it will continue to offer high quality and new services in order to
11 remain competitive.

12
13 **C. WIRELESS COMPETITION**

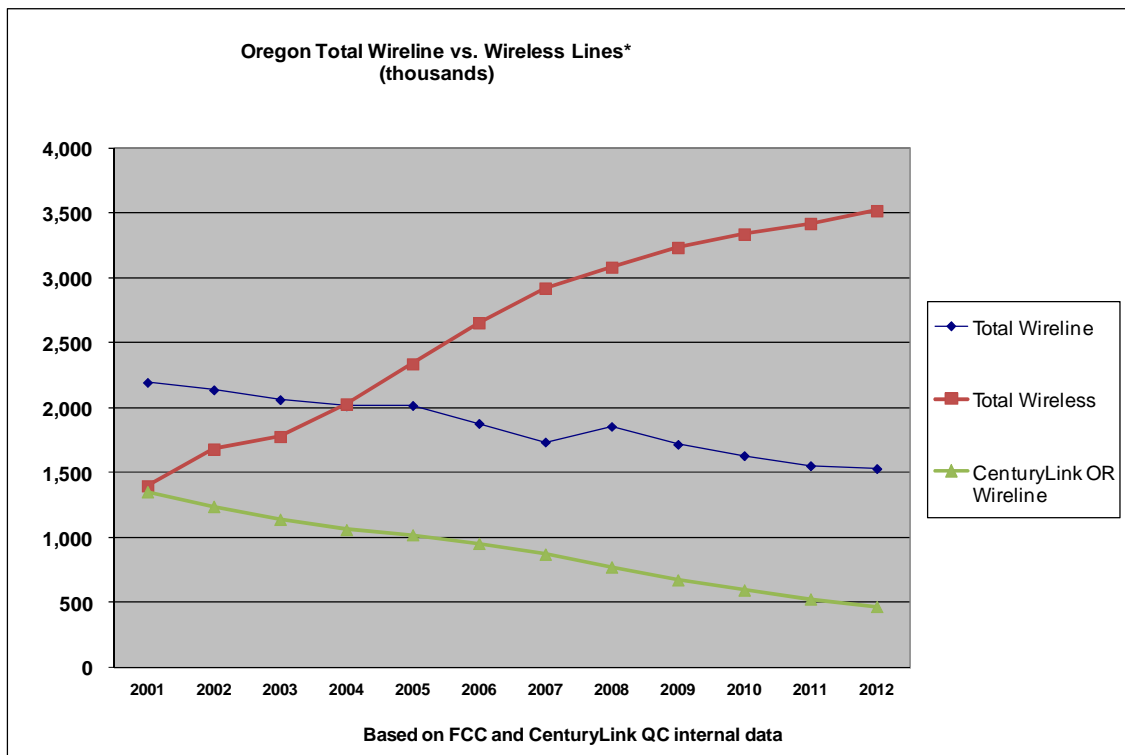
14
15 **Q. IS COMPETITION FROM WIRELESS PROVIDERS FLOURISHING IN**
16 **OREGON?**

17 A. Yes. According to the FCC's Local Competition Report, as of December 31, 2012 there
18 were 3.519 million wireless subscribers in Oregon, while there were only 1.532 million
19 wirelines (both ILEC and non-ILEC).⁶² In fact, wireless connections have increased 151%
20 in Oregon from only 1.399 million in December 2001.⁶³ The FCC data shows that the
21 wireless share of the total voice connection market has grown significantly over this
22 timeframe, as described earlier in my testimony. While wireless subscribers have increased
23 dramatically, CenturyLink QC access lines (residence and business) in Oregon dropped
24 65% over the same time frame—from 1,353,899 in December 2001 to 469,3335 in
25 December 2012. The following graph shows the relationship of wireless connections, total
26 wirelines and CenturyLink QC access lines in Oregon:

27

⁶² *Local Telephone Competition: Status as of December 31, 2012*; Industry Analysis and Technology Division, Wireline Competition Bureau, November 2013, tables 9 and 18.

⁶³ *Local Telephone Competition: Status as of December 31, 2001*; Industry Analysis and Technology Division, Wireline Competition Bureau, July 2002, table 11.



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Nearly all Oregon consumers, except those in extremely remote areas, have wireless options. In fact, the vast majority of CenturyLink QC customers have multiple wireless options. Exhibit CTL/106 contains a map prepared by the FCC showing the number of wireless providers throughout Oregon. It is readily apparent that there are three or more wireless carriers in significant portions of the areas served by CenturyLink QC. Exhibit CTL/107 provides maps showing the areas served by CenturyLink QC, along with the areas served by several major wireless carriers – AT&T, Verizon, Sprint, T-Mobile, Cricket and US Cellular.⁶⁴ It may be observed that there are very few areas within CenturyLink QC wire center 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.

Q. DOES CENTURYLINK QC PROVIDE WIRELESS SERVICE IN OREGON?

A. No. While CenturyLink does have an agreement with Verizon Wireless designed to provide CenturyLink QC wireline customers with a wireless option as part of a

⁶⁴ Wireless coverage based on maps provided on carrier web sites.

1 CenturyLink QC service bundle, the service is provided by and branded as Verizon
2 Wireless.⁶⁵ When a customer disconnects his or her CenturyLink QC service and becomes
3 a wireless-only customer, CenturyLink QC will lose the customer, even if he or she
4 subscribes to Verizon Wireless.

5
6 **Q. PLEASE DESCRIBE THE TYPES OF VOICE PRICING PLANS AVAILABLE**
7 **FROM THE MAJOR WIRELESS CARRIERS IN OREGON.**

8 A. Wireless carriers today feature plans that include voice, text and data, but some voice-only
9 plans are still available. These plans are competitive with CenturyLink QC local exchange
10 service, and start at about \$30 per month, including features. While the plans are many and
11 varied, some examples follow:

- 12
- 13 ■ AT&T Wireless offers basic voice plans, including a plan with 450 “anytime”
14 minutes for \$39.99 per month with 5,000 night and weekend minutes, no long
15 distance charges, calling features, and no roaming charges. AT&T offers several
16 other voice plans, including its 900 minute plan for \$59.99 per month, an unlimited
17 voice plan for \$69.99 per month, and a senior plan with 500 minutes for only \$29.99
18 per month.⁶⁶ AT&T also offers many individual “data connect” plans with additional
19 charges based on the level of data usage ordered. For example, 250mb of data can be
20 purchased for an additional \$14.99 per month while 5gb can be purchased for an
21 additional \$50.00 per month.⁶⁷ AT&T also offers “Mobile Share” plans with
22 unlimited talk, text and data shared between multiple phones. Prepaid plans are also
23 offered.

 - 24 ■ Verizon offers a basic “Share Everything” voice plan with 700 minutes of usage,
25 calling features and no domestic long distance charges, for \$40.00 per month.⁶⁸ This
26 plan includes “pay as you go” texting and data. Verizon also offers many other plans
27 that include voice, text and data. For example, Verizon offers a “Share Everything”

⁶⁵ This arrangement is similar to the agreement CenturyLink has in place to offer DirecTV service as part of a bundle of services.

⁶⁶ See: <http://www.att.com/shop/wireless/plans/individualplans.html>

⁶⁷ See: http://www.att.com/shop/wireless/plans/dataplans.html#planlist-ptip_sku6450427

⁶⁸ See: <http://www.verizonwireless.com>

1 plan with unlimited talk and text and 500mb of data for \$70 per month or 1gb of data
2 for \$80 per month. Many other data choices are available. Verizon also offers
3 prepaid plans for as low as \$35 per month with 500 “anytime” minutes.⁶⁹

- 4 ▪ T-Mobile offers an individual plan with unlimited talk and text and 500mb of data for
5 \$50 per month. With the addition of 2.5gb of data the monthly rate is \$60 and with
6 the addition of unlimited data the price is \$70 per month.⁷⁰ T-Mobile also offers a
7 variety of family plans and prepaid plans.

- 8 ▪ Sprint offers its “Unlimited My Way” plan that includes unlimited talk and text for
9 \$50.00 per month, with additional charges for data. For basic phones, unlimited data
10 is available for an additional \$10 per month. For smartphones, 1gb of data is
11 available for an additional \$20 per month, and unlimited data is available for an
12 additional \$30 per month. Sprint also offers “All In” plans with unlimited talk, text
13 and data along with 5gb of Hotspot usage starting at \$110 per month.⁷¹

14 These and a variety of other wireless plans provide an alternative to CenturyLink QC
15 wireline service. Wireless carriers provide functionally equivalent or substitute services
16 readily available at competitive rates, terms and conditions, and there are a significant
17 number of alternative providers of the service in Oregon. As described below, many
18 customers substitute wireless service for CenturyLink QC basic local exchange service.

19
20 **Q. HAVE THE WIRELESS CARRIERS DEVELOPED SERVICE OFFERINGS TO**
21 **APPEAL TO CUSTOMERS DESIRING TO REPLACE THEIR WIRELINE**
22 **TELEPHONE SERVICE WITH A WIRELESS BASED SERVICE?**

- 23 A. Yes. Sprint, AT&T and Verizon each make available a home phone service that uses an
24 adapter to provide home phone service utilizing the company’s wireless service. Details of
25 these offerings are included below:

⁶⁹ *Id.*

⁷⁰ See: <http://www.t-mobile.com/cell-phone-plans/individual.html>

⁷¹ See: http://shop.sprint.com/mysprint/shop/plan/plan_wall.jsp?flow=AAL&planFamilyType=Individual&requestid=677152

- 1 ▪ Sprint’s Phone Connect System is a fixed wireless voice terminal that provides home
2 and office phone service using the Sprint voice network instead of a landline or
3 broadband connection for customers’ home phone service. Sprint offers the service
4 for \$19.99 per month, and that includes unlimited calling as well as three-way calling,
5 voicemail, call waiting, caller ID and call forwarding.⁷²
- 6 ▪ Verizon’s Home Phone Connect service utilizes an analog telephone adapter that
7 provides home phone service on Verizon Wireless network. Verizon charges \$20 per
8 month for the service which includes the following features: call waiting, call
9 forwarding, 3-way calling, voicemail and caller ID (number only).⁷³
- 10 ▪ AT&T’s Wireless Home Phone service utilizes a base unit that allows home phone
11 equipment to connect to the AT&T wireless network to make and receive calls.
12 AT&T charges \$20 per month for the service which includes unlimited local and long
13 distance calling as well as caller number ID, call forwarding and voicemail.⁷⁴

14
15 **Q. HAVE A SIGNIFICANT NUMBER OF TELEPHONE CUSTOMERS “CUT THE**
16 **CORD,” RELYING SOLELY ON WIRELESS SERVICE TO MEET THEIR**
17 **VOICE TELECOMMUNICATIONS NEEDS?**

- 18 A. Yes. The decline in CenturyLink QC landlines, coupled with the dramatic increase in
19 wireless connections, demonstrates that an ever-increasing number of Oregon customers
20 view wireless phones as a substitute for wireline service, and that wireless phones are
21 replacing wireline phones. In fact, a significant number of voice customers have already
22 “cut the cord,” relying solely on wireless service to meet their telecommunications needs,
23 and this trend is accelerating. According to the latest survey conducted by the National
24 Center for Health Statistics (“NCHS”), in the first half of 2013, 39.4% of U.S. households
25 did not have a traditional landline telephone, but did have at least one wireless telephone.
26 The study states:

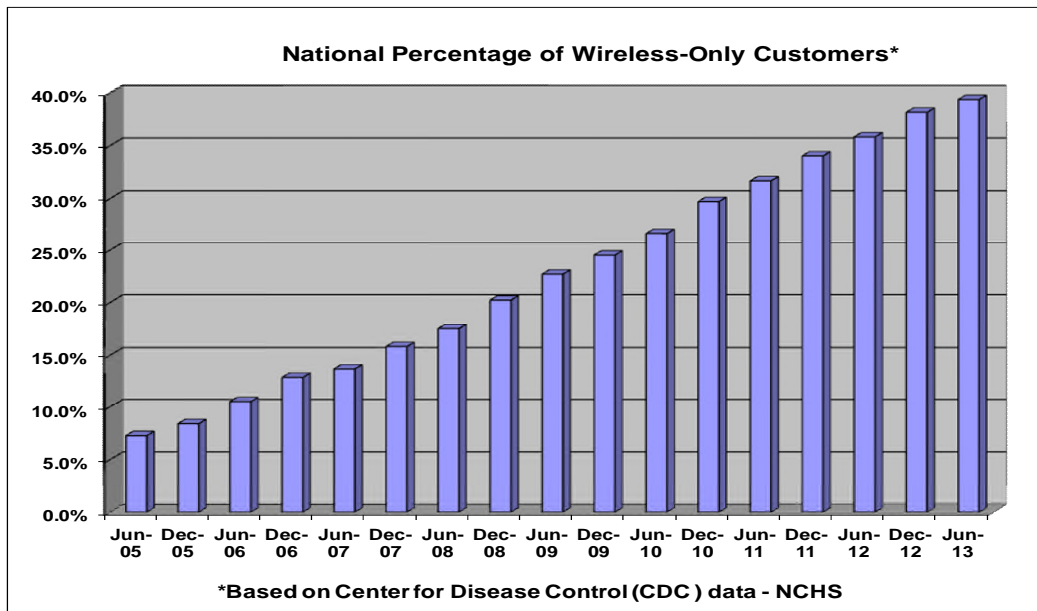
72 See: http://shop.sprint.com/mysprint/shop/phone_details.jsp?prodId=dvc6630005prd&deviceSKUId=66300086&flow=AAL&planSKUId=&ptn=&tabId=dvcTab1820005

73 See: <http://www.verizonwireless.com/b2c/device/home-phone-connect>

74 See: <http://www.att.com/gethomephone>

1 Two in every five American homes (39.4%) had only wireless telephones (also
 2 known as cellular telephones, cell phones, or mobile phones) during the second half
 3 of 2012—an increase of 1.2 percentage points since the second half of 2012. In
 4 addition, nearly one of every six American homes (15.7%) received all or almost all
 5 calls on wireless telephones despite also having a landline telephone.⁷⁵

6 Thus, while 39.4% of households have already “cut the cord,” another 15.7% of households
 7 are “wireless mostly” and use their wireless phone for nearly all calling. In total, these
 8 wireless only and “wireless mostly” households make up over half (55.1%) of households.
 9 The chart below depicts how wireless-only households in the U.S. have increased over
 10 time, according to the NCHS study:



11
 12
 13 There is little doubt that this trend will continue in the future, especially given the large
 14 amount of “wireless mostly” households that exist today. These customers are particularly
 15 likely to “cut the cord” in the future.

16

⁷⁵ Centers for Disease Control and Prevention, National Center for Health Statistics, *Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, January-June 2013*, released December 2013, 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.”

1 **Q. DOES “CORD CUTTING” IN OREGON FOLLOW THE TREND OF THE**
2 **NATION AS A WHOLE?**

3 A. Yes. On December 18, 2013, the NCHS released a detailed analysis of its Wireless
4 Substitution report—with state-specific data—for the 2012. For the January to December
5 2012 time period, the NCHS found that 36.8% of adult Oregon households were “wireless
6 only.”⁷⁶

7
8 **Q. DOES THE ABILITY TO SUBSTITUTE WIRELESS SERVICE FOR WIRELINE**
9 **SERVICE PLACE STRONG COMPETITIVE PRESSURE ON WIRELINE**
10 **SERVICE PRICES?**

11 A. Yes. In areas where wireless alternatives exist—which includes nearly all of CenturyLink
12 QC’s Oregon service territory—it is viewed as a viable local service alternative by a large
13 number of customers. This fact is made clear by the growing number of consumers who
14 have already “cut the cord” as well as the “wireless mostly” customers who are considering
15 “cutting the cord.” The existence of wireless alternatives constrains CenturyLink QC’s
16 ability to raise prices for wireline basic exchange service above market levels because such
17 an increase would likely cause even more customers to replace their wireline service with a
18 wireless phone, thereby potentially reducing CenturyLink QC’s profitability. Thus,
19 wireless is an effective price-constraining substitute for wireline service.

20
21 **Q. WHY WOULD “WIRELESS MOSTLY” HOUSEHOLDS BE PARTICULARLY**
22 **LIKELY TO “CUT THE CORD” IN THE FUTURE?**

23 A. “Wireless mostly” households are particularly likely to “cut the cord” in the future because
24 the customers already have a wireline phone and a wireless phone, but are using their
25 wireline phones less and less. Minimal wireline usage causes customers to question the
26 value of maintaining and paying for both a wireless and wireline phone, especially if
27 wireline rates increase. Ultimately, a “wireless mostly” customer may decide to “cut the
28 cord;” a scenario that is obviously occurring regularly as evidenced by the NCHS data.

⁷⁶ *Centers for Disease Control and Prevention, National Center for Health Statistics, Wireless Substitution: State-level Estimates From the National Health Interview Survey, 2012, released December 18, 2013, Table 1.*

1 The behavior of these customers helps to constrain a wireline company like CenturyLink
2 QC from raising rates above the appropriate market level.

3
4 **Q. FOR WIRELESS TO SERVE AS A PRICE-CONSTRAINING SUBSTITUTE FOR**
5 **WIRELINE SERVICES, MUST ALL CUSTOMERS VIEW IT AS A SUBSTITUTE?**

6 A. No. In various regulatory forums, some parties have argued that wireless service should
7 not be considered to be a substitute for wireline service because *all* customers may not
8 view it as a substitute. There is no doubt that some customers do not view wireless service
9 to be a substitute for wireline service, and some of these customers may not want to give up
10 their wireline phone under any circumstances. However, as long as there are enough
11 customers willing to “cut the cord” (often called customers “at the margin”), this constrains
12 CenturyLink QC’s prices.

13
14 **Q. FOR WIRELESS TO SERVE AS A PRICE-CONSTRAINING SUBSTITUTE FOR**
15 **WIRELINE SERVICES, DOES IT NEED TO BE IDENTICAL TO WIRELINE**
16 **SERVICE?**

17 A. No. Some parties have also argued that wireless service should not be considered to be a
18 functionally equivalent substitute for wireline voice service because it is not *identical* to
19 wireline service. They argue that since it is not identical, it is not *functionally equivalent*
20 and should not be considered as a competitive substitute. Such arguments distort the
21 language of the relevant statutes, but also misstate how the market works. Wireless service
22 does not need to be *identical* to wireline service in order for it to be *functionally equivalent*
23 or serve as an *effective substitute* for wireline services that constrains CenturyLink QC’s
24 retail wireline prices. There will *always* be some differences between wireline and wireless
25 service in terms of quality of transmission, data capability, mobility, ergonomics, etc. For
26 example, a wireless phone will always have more mobility than a wireline phone, and
27 handsets are likely to be smaller. This does not mean that they are not substitutes for voice
28 services. A simple non-telephone example may help to put this into perspective. One
29 might argue that metropolitan bus service and subway service are not competitive
30 substitutes for one another because they utilize different technologies, may charge different
31 fares, run different routes to connect the same two points, take different amounts of time to

1 connect the same two points and likely offer tangibly different levels of comfort and ease in
2 the perception of some commuters. While the bus and subway are clearly not perfect
3 substitutes for all commuters, there can be no doubt that bus use would increase if the
4 subway significantly increased its prices. Similarly, if the bus significantly raised fares,
5 many would migrate to subway travel.

6
7 The bottom line is that wireless does not have to be identical to wireline service, nor does it
8 have to be a substitute for all customers, in order for it to constrain CenturyLink QC's
9 pricing of local exchange service and to limit CenturyLink QC's market power. Wireless
10 providers today are making functionally equivalent or substitute services readily available
11 at competitive rates, terms and conditions and CenturyLink QC's market power is limited.
12 The widespread availability of wireless service ensures that CenturyLink QC will continue
13 to offer its functionally equivalent services in these markets at competitive rates that are just
14 and reasonable, and that it will continue to offer high quality and new services in order to
15 remain competitive.

16
17 **D. VOICE OVER INTERNET PROTOCOL COMPETITION**

18
19 **Q. PLEASE DESCRIBE VOICE OVER INTERNET PROTOCOL ("VoIP")**
20 **SERVICES.**

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

29
30 From a customer perspective, VoIP service functions in a manner similar to standard circuit
31 switched telephony, and allows a customer to utilize a standard telephone set to originate

1 and receive telephone calls using the same dialing patterns that are used for standard
2 wireline telephone service.⁷⁷ To utilize VoIP services, a customer must have a high speed
3 connection, such as Digital Subscriber Line (“DSL”), a high-speed wireless connection,
4 satellite broadband, or a cable modem. The FCC describes VoIP as follows:
5 Interconnected VoIP service “(1) [e]nables real-time, two-way voice communications; (2)
6 [r]equires a broadband connection from the user’s location; (3) [r]equires IP-compatible
7 customer premises equipment (CPE); and (4) [p]ermits users generally to receive calls that
8 originate on the public switched telephone network and to terminate calls to the public
9 switched telephone network.”⁷⁸

10
11 **Q. DO VOIP-BASED SERVICES REPRESENT A VIABLE ALTERNATIVE TO**
12 **TRADITIONAL VOICE SERVICES?**

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

17
18 Consumers increasingly use interconnected VoIP service as a replacement for
19 traditional voice service, and as interconnected VoIP service improves and
20 proliferates, consumers’ expectations for this type of service trend toward their
21 expectations for other telephone services.⁷⁹

22 The FCC has also noted in its NPRM regarding Intercarrier Compensation and Universal
23 Service, that “the emergence of VoIP provides another alternative to traditional wireline
24 phone service”⁸⁰ and that “consumer demand for VoIP services continues to increase.”⁸¹

⁷⁷ 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.

⁷⁸ *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. 01-92, 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.

⁷⁹ *Report and Order*, In the Matter of IP-Enabled Services, Federal Communications Commission, WC Docket No. 04-36, Released: May 13, 2009, ¶ 2.

⁸⁰ *ICC/USF NPRM*, ¶ 503

1 More recently, in its Report and Order and Further Notice of Proposed Rulemaking in this
2 docket, the FCC found that “Interconnected VoIP services, among other things, allow
3 customers to make real-time voice calls to, and receive calls from, the PSTN, and
4 increasingly appear to be viewed by consumers as substitutes for traditional voice
5 telephone services.”⁸² In addition, as described earlier, the FCC includes VoIP-based
6 telephone service when it is developing telephone subscribership data, and the FCC now
7 includes VoIP-based services in its *Local Competition Report*, where it includes the
8 number of reported “End-User Switched Access Lines and VoIP Subscriptions.”⁸³ As
9 noted in the most recent *Local Competition Report*, non-ILEC VoIP subscriptions in
10 Oregon increased to 468,000 in December 2012.⁸⁴ VoIP-based telephone offerings
11 represent an increasing and significant form of competition for CenturyLink QC’s local
12 exchange service.

13
14 **Q. IS THE PROVISION OF VOIP-BASED SERVICES INCREASING IN OREGON?**

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

⁸¹ *Id.* ¶610

⁸² *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.

⁸³ It is not clear that all over-the-top VoIP providers report VoIP lines to the FCC.

⁸⁴ *Local Telephone Competition: Status as of December 31, 2012*; Industry Analysis and Technology Division, Wireline Competition Bureau, November 2013, table 9.

1 broadband infrastructure to all Americans will in turn make services such as interconnected
2 VoIP service accessible to more Americans.”⁸⁵

3
4 Broadband access has been increasing rapidly in Oregon. According to the FCC’s latest
5 *Internet Access Services Report*, ADSL broadband connections in Oregon have grown from
6 57,899 in December 2001 to 373,000 in December 2012—an increase of over 500 percent,
7 and cable modem broadband connections in Oregon have grown over this timeframe from
8 approximately 100,000 to 711,000—an increase of over 600 percent.⁸⁶ As of December
9 31, 2012, according to the FCC, there were 373,000 ADSL connections, 711,000 cable
10 modem connections, 67,000 fiber connections, 16,000 fixed wireless broadband
11 connections, 2,014,000 mobile wireless broadband connections, and 30,000 other
12 broadband connections, for a total of 3,211,000 broadband connections.⁸⁷ Thus, the
13 number of broadband connections in Oregon far exceeds the 469,355 total CenturyLink QC
14 basic exchange access lines that were in service in Oregon on December 31, 2012.
15 According to the FCC, as of June 2012, high speed internet access was available to 92% of
16 ILEC residential end-user premises and 98% of cable residential end-user premises in
17 Oregon.⁸⁸ As of December 2012, 71% of Oregon residential households subscribed to a
18 high speed internet connection from one of the 86 broadband providers in the state.⁸⁹ Thus,
19 competitive broadband services are now widely available from multiple providers in
20 Oregon, and these services have been embraced by a rapidly increasing number of
21 customers. Each broadband connection represents an existing or potential VoIP subscriber.

⁸⁵ *ICC/USF Order*, ¶67

⁸⁶ *Internet Access Services: Status as of December 31, 2012*, FCC Industry Analysis and Technology Division, Wireline Competition Bureau, December 2013, Table 16, 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 and 12.

⁸⁷ *Internet Access Services: Status as of December 31, 2012*, FCC Industry Analysis and Technology Division, Wireline Competition Bureau, December, Table 16.

⁸⁸ *Internet Access Services: Status as of June 30, 2012*, FCC Industry Analysis and Technology Division, Wireline Competition Bureau, May 2013, Table 22.

⁸⁹ *Id.*, Tables 14 and 21.

1 **Q. CAN CENTURYLINK QC DSL CUSTOMERS SUBSCRIBE TO VoIP**
2 **TELEPHONE SERVICE PROVIDED BY ANOTHER PROVIDER?**

3 A. Yes. CenturyLink QC DSL service subscribers have the option of utilizing their DSL
4 connection to subscribe to VoIP service from another provider, in lieu of traditional
5 CenturyLink QC local exchange services. Residential and business customers within
6 CenturyLink QC's service territory in Oregon may subscribe to CenturyLink QC DSL
7 service on a "stand-alone" basis (i.e., they are not required to subscribe to standard
8 CenturyLink QC local exchange service as a precondition to subscribing to CenturyLink
9 QC DSL service). These customers may order VoIP telephone service from a wide range
10 of non-CenturyLink QC VoIP providers as a replacement for CenturyLink QC basic
11 exchange voice service.

12
13 **Q. PLEASE PROVIDE EXAMPLES OF SOME OF THE VOIP-BASED TELEPHONE**
14 **SERVICE OFFERINGS AVAILABLE IN OREGON.**

15 A. Numerous companies offer VoIP services in Oregon, including Vonage, Lingo, 8x8,
16 MagicJack, VoIP.com, viataalk, Intalk, PhonePower, CallCentric, VoIPYourLife and many
17 others. There are numerous pricing plans and services available for residential and
18 business customers. Vonage offers "Vonage World" service for \$26.99 per month (\$9.99
19 for the first three months), which includes unlimited domestic usage and unlimited calls to
20 60 countries, Voicemail, Caller ID, Call Waiting, Anonymous Call Block, 3-Way-Calling
21 and many other standard features, online account access and portability ("Take your
22 Vonage adapter anywhere there's a high-speed Internet connection and use your service just
23 like at home.") Vonage also offers its "U.S. & Canada 400" plan for \$12.99 per month that
24 includes 400 minutes of outbound local and long distance home phone service across U.S.,
25 Canada and Puerto Rico, with 5 cents for each additional minute, along with the same
26 features listed above.⁹⁰ Lingo offers numerous plans, including the "America Unlimited"
27 plan that provides unlimited calling in the U.S. and Canada for \$232.95 per month (first
28 month free), with many calling features. Lingo also offers international plans such as the
29 "World Select" plan with 1,000 minutes of calls to 65+ countries for \$23.95 per month

⁹⁰ See: <http://www.vonage.com>

1 (first month free), including many calling features.⁹¹ Other providers offer similar plans,
2 and many carriers offer additional business-related features.

3
4 **Q. WHAT DO YOU CONCLUDE REGARDING COMPETITION FROM “OVER**
5 **THE TOP” VOIP PROVIDERS?**

6 A. VoIP providers offer very attractively priced phone services today; these are functionally
7 equivalent or substitute services readily available at competitive rates, terms and
8 conditions. As with cable, CLEC and wireless competition, this limits CenturyLink QC’s
9 market power. There are dozens of VoIP providers offering voice service to Oregonians.

10
11 **V. CENTURYLINK QC PRICE PLAN MODIFICATIONS**

12
13 **Q. PLEASE DESCRIBE THE AREAS IN THE PRICE PLAN THAT CENTURYLINK**
14 **QC IS PROPOSING TO MODIFY?**

15 A. CenturyLink QC’s proposed Price Plan modifications are in the following general areas:
16 pricing, service quality reporting, specific commitments contained in the current Price Plan
17 and waiver of statutes and rules.

18
19 **Q. PLEASE DESCRIBE THE MODIFICATIONS CENTURYLINK QC IS**
20 **PROPOSING WITH RESPECT TO PRICING?**

21 A. CenturyLink QC proposes to eliminate certain of the price caps that exist in the current
22 Price Plan, including the price caps in the following categories: Primary Line Basic
23 Service, Business Basic Services in Rate Group 3, Unlisted Numbers/Directory Listings,
24 DS-1 Service, ISDN-PRI service, new services and Other Retail Services. Finally, while
25 the price cap for extended area service (EAS) rates will remain capped, CenturyLink QC is
26 proposing that it be permitted to combine rates for primary line basic service and EAS
27 additives into a single rate.

28

⁹¹ See: <http://www.lingo.com/voip/residential/world.jsp>

1 **Q. PLEASE DESCRIBE THE MODIFICATIONS CENTURYLINK QC IS**
2 **PROPOSING WITH RESPECT TO SERVICE QUALITY REPORTING?**

3 A. CenturyLink QC affirms that it will continue to be subject to the Retail
4 Telecommunications Service Standards for Large Telecommunications Utilities identified
5 in OAR 860-023-055. However, CenturyLink QC seeks the following exceptions from the
6 rule with respect to reporting requirements:

- 7 1. CenturyLink QC will provide reports on a quarterly basis instead of monthly.
- 8 2. CenturyLink QC will provide only exception information for any measures that did not
9 meet the established standard during the quarter.

10

11 The highly competitive market, not regulation, ensures and will continue to ensure that
12 customers receive high quality and efficient telecommunications services. In today's
13 highly competitive market, if CenturyLink QC does not provide a high quality product that
14 is efficiently provisioned and attractive to customers, it will not survive.

15

16 **Q. PLEASE DESCRIBE THE MODIFICATIONS CENTURYLINK QC IS**
17 **PROPOSING WITH RESPECT TO SPECIFIC COMMITMENTS CONTAINED IN**
18 **THE INITIAL PRICE PLAN?**

19 A. CenturyLink QC seeks removal of the service guarantee program as a specific requirement
20 of the Price Plan. As outlined in CenturyLink QC's Corrected Price Plan Report previously
21 filed in this docket, the company remains highly focused on its service quality results and is
22 exceeding the Commission's standards in many areas. However, the service guarantee
23 program imposes additional requirements on CenturyLink QC that go beyond the
24 requirements of the Commission standards in two respects. First, the service guarantee
25 program requires that CenturyLink QC provide customer credits for missed installation or
26 out-of-service repair appointments, neither of which is a Commission required service
27 objective. Second, the service guarantee program requires CenturyLink QC provide
28 customer credits for every missed installation or out-of-service repair commitment. While
29 this metric is a Commission required service quality objective, the standard to be met is
30 90%. Requiring CenturyLink QC to credit customers for every missed commitment when
31 the Commission standard is 90% results in imposition of an unreasonable performance

1 expectation. CenturyLink QC should have the flexibility to determine whether a service
2 guarantee program is an important part of its relationship with its customers, and should
3 have the flexibility to tailor any such program to meet market conditions and address
4 customer expectations. The increasingly fierce competition that CenturyLink QC faces in
5 the marketplace is a better incentive to ensure service quality.

6
7 CenturyLink QC also seeks elimination of the commitment from the initial Price Plan that
8 it will not seek an exemption from its current service quality reporting requirements
9 pursuant to OAR 860-023-0055(15)(c). That rule provision allows a large
10 telecommunications company to petition for an exemption from service quality reporting
11 requirements if the meets all service quality objective service levels set forth in sections (4)
12 through (8) of the rule for the 12 months prior to the month in which the petition is filed.
13 CenturyLink QC should not be restricted from petitioning for such an exemption from
14 service quality reporting requirements if its service levels meet the standard simply because
15 it is operating under a Price Plan.

16
17 **Q. PLEASE COMMENT ON THE NETWORK AND OTHER PROJECT**
18 **INVESTMENTS COMMITMENT FROM THE INITIAL PRICE PLAN?**

19 A. In the initial Price Plan, CenturyLink QC agreed to make incremental investments of \$4
20 million in network improvements and other projects as a shareholder expense. As outlined
21 in the company's Corrected Price Plan Performance Report previously filed in this docket,
22 and a final update report filed in this docket on April 9, 2013, CenturyLink QC completed
23 all of its commitments under this provision. Therefore, it is appropriate to remove this
24 provision from the Price Plan.

25
26 **Q. PLEASE DESCRIBE CENTURYLINK QC'S PROPOSED CHANGES TO THE**
27 **WAIVER OF STATUTES AND RULES SECTION OF THE INITIAL PRICE**
28 **PLAN?**

29 A. CenturyLink QC seeks additional and expanded statute and rule waivers from those
30 provided for in the initial Price Plan. These proposed additional and expanded waivers are
31 needed to reflect the additional regulatory flexibility sought by CenturyLink QC in its

1 proposed Price Plan. In addition, certain of the proposed changes are needed to relieve
2 regulatory burdens associated with financial reporting that are currently required of
3 CenturyLink QC, but are not imposed on its competitors. Exhibit CTL/108 details these
4 proposed changes.
5

6 VI. CONCLUSION

7
8 **Q. PER ORS 759.255 THE COMMISSION IS TO CONSIDER WHETHER**
9 **CENTURYLINK QC'S MODIFIED PRICE PLAN IS IN THE PUBLIC INTEREST**
10 **BASED ON AN EVALUATION OF CERTAIN PUBLIC POLICY GOALS. DOES**
11 **CENTURYLINK QC'S PRICE PLAN PROPOSAL SATISFY THESE PUBLIC**
12 **POLICY GOALS?**

13 A. Yes. The public policy goals cited by the statute are satisfied under CenturyLink QC's
14 modified Price Plan submitted in this proceeding. I will address each of the goals set forth
15 in the statute below.
16

17 **1. Ensures prices for telecommunications services that are just and reasonable**

18 Given the highly competitive environment described above, CenturyLink QC's pricing
19 is constrained by the market. CenturyLink QC must set rates at levels that allow for the
20 recovery of costs and investment in the network, while operating within competitive
21 price constraints. If prices are set too low, CenturyLink QC may not recover costs or
22 be profitable, and CenturyLink QC is constrained by a statutory cost floor under the
23 Price Plan. If prices are set too high, CenturyLink QC may experience a mass exodus
24 of customers to the competition, with a potential loss in profitability. The nearly
25 ubiquitous availability of cable telephony, wireless service, VoIP-based services and
26 CLEC services provide protection for Oregon consumers. If customers are unhappy
27 with CenturyLink QC prices or service quality, they may easily move to a competitor's
28 services—whether cable, another CLEC, wireless or VoIP. And, CenturyLink QC's
29 competitors are not constrained by artificial caps on the prices they can charge. This is
30 the way competitive markets work, and this disciplines CenturyLink QC's prices. If
31 CenturyLink QC sets rates too high or provides poor service quality, then customers

1 will simply leave CenturyLink QC for another option. For example, the threat of a
2 customer “cutting the cord” constrains CenturyLink QC’s local exchange prices. If
3 CenturyLink QC sets local exchange rates too high, many customers will simply
4 disconnect their wireline phone and use their wireless phones for all calls. Many
5 customers already use their wireless phone for most calls, and a rate increase that
6 consumers perceive to be unreasonable would cause CenturyLink QC to lose more
7 customers to the competition, exerting pressure on CenturyLink QC to provide a
8 competitive response, including considering a rate reduction. Thus, wireless
9 competition, along with cable telephony, CLEC and VoIP-based competition protects
10 Oregon residential customers from unreasonable rate increases because the competitive
11 market determines what rates are reasonable and disciplines competitors whose rates
12 are not reasonable.
13

14 **2. Ensures high quality of existing telecommunications services and makes new**
15 **services available.**

16 Nothing in CenturyLink QC’s modified Price Plan affects its current retail or wholesale
17 service quality obligations, with the exception of the proposed modifications to
18 simplify CenturyLink QC’s service quality reporting requirements. The highly
19 competitive market, not regulation, ensures and will continue to ensure that customers
20 receive high quality telecommunications services. In today’s highly competitive
21 market, if CenturyLink QC does not provide a high quality product that is efficiently
22 provisioned and attractive to customers, they have an array of alternatives and, as
23 demonstrated, are willing to exercise them. Further, CenturyLink QC must continue to
24 deploy new services to compete with other providers. The more freedom that
25 CenturyLink QC has from regulations that do not apply to its competitors, the better
26 able it will be to deploy new services to compete with other providers.
27

28 **3. Maintains the appropriate balance between the need for regulation and**
29 **competition.**

30 CenturyLink QC’s modified Price Plan balances the need for regulation and
31 competition. As explained throughout my testimony, the highly competitive

1 marketplace provides sufficient discipline for CenturyLink QC's pricing, rendering
2 Commission oversight of pricing unnecessary. In addition, CenturyLink QC's Price
3 Plan seeks elimination of certain accounting and financial reporting requirements
4 because the company's pricing is no longer related to those accounting results.
5 Conversely, although the competitive marketplace is sufficient to ensure continued
6 provision of high quality service is maintained, CenturyLink QC's modified Price Plan
7 maintains Commission oversight of service quality.

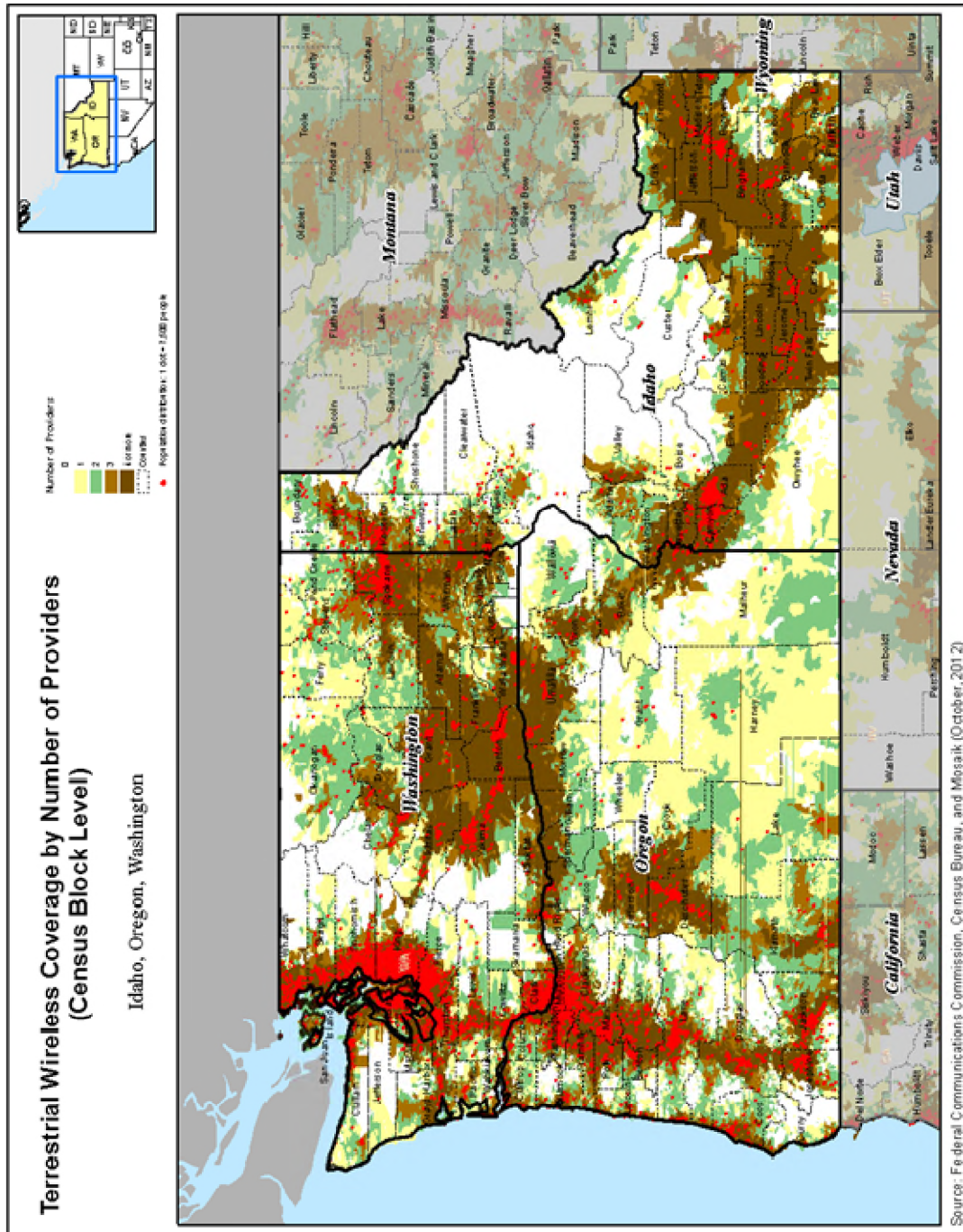
8
9 **4. Simplifies regulation.**

10 CenturyLink's modified Price Plan will simplify regulation through streamlined
11 financial and service quality reporting and more efficient accounting and product
12 management and pricing processes.

13
14 In sum, granting CenturyLink QC's petition meets the public policy goals under ORS
15 759.255, and is therefore consistent with the public interest.

16
17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

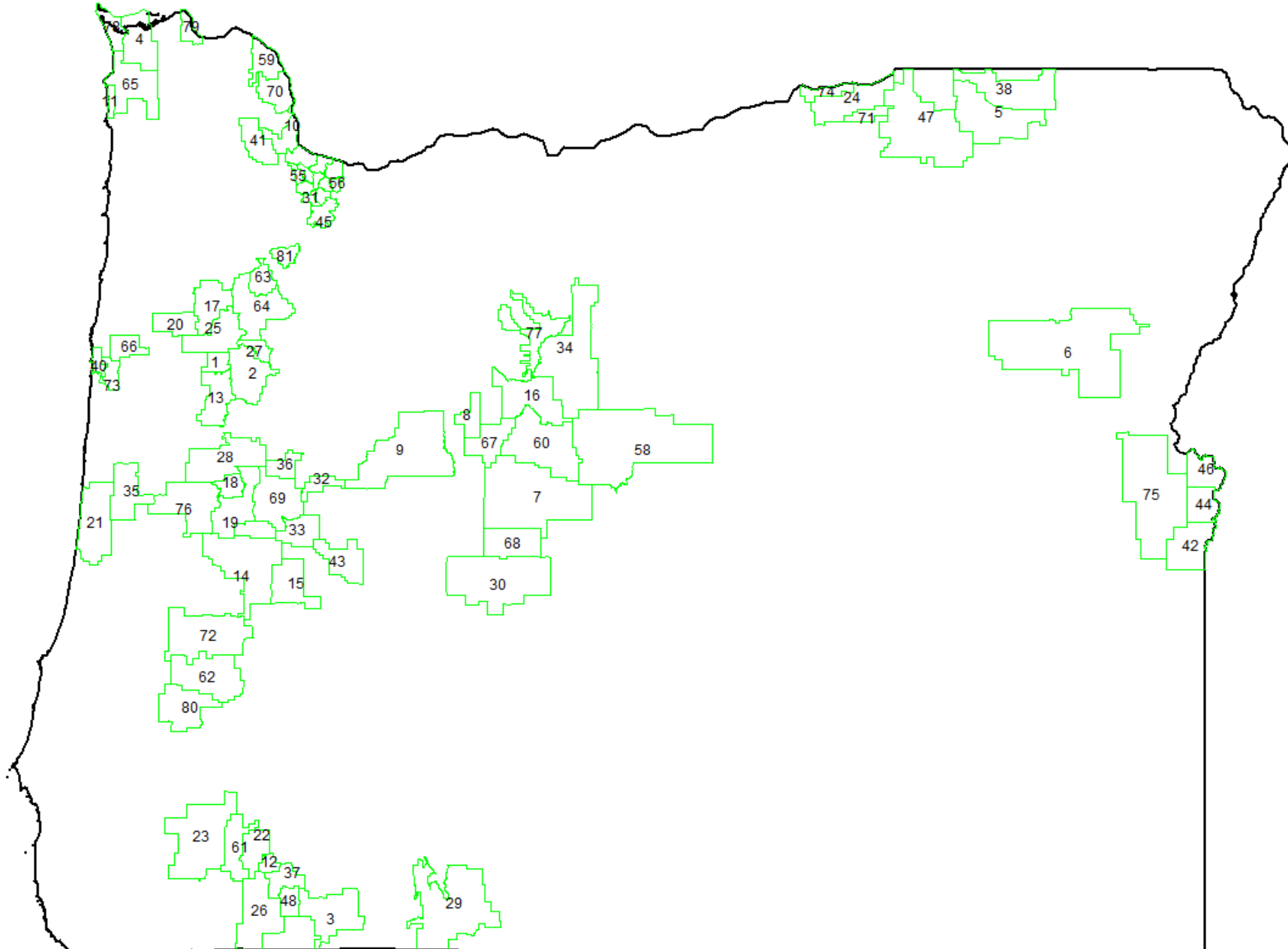
18 A. Yes, it does.



Source: Map C-12: Wireless Coverage by Number of Providers by Region (9), 2012; 16th Mobile Wireless Competition Report (FCC 13-34) – March 21, 2013 http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-13-34A1.pdf

CenturyLink QC (Qwest) Oregon Wire Centers

Exhibit CTL/107
Felz/1



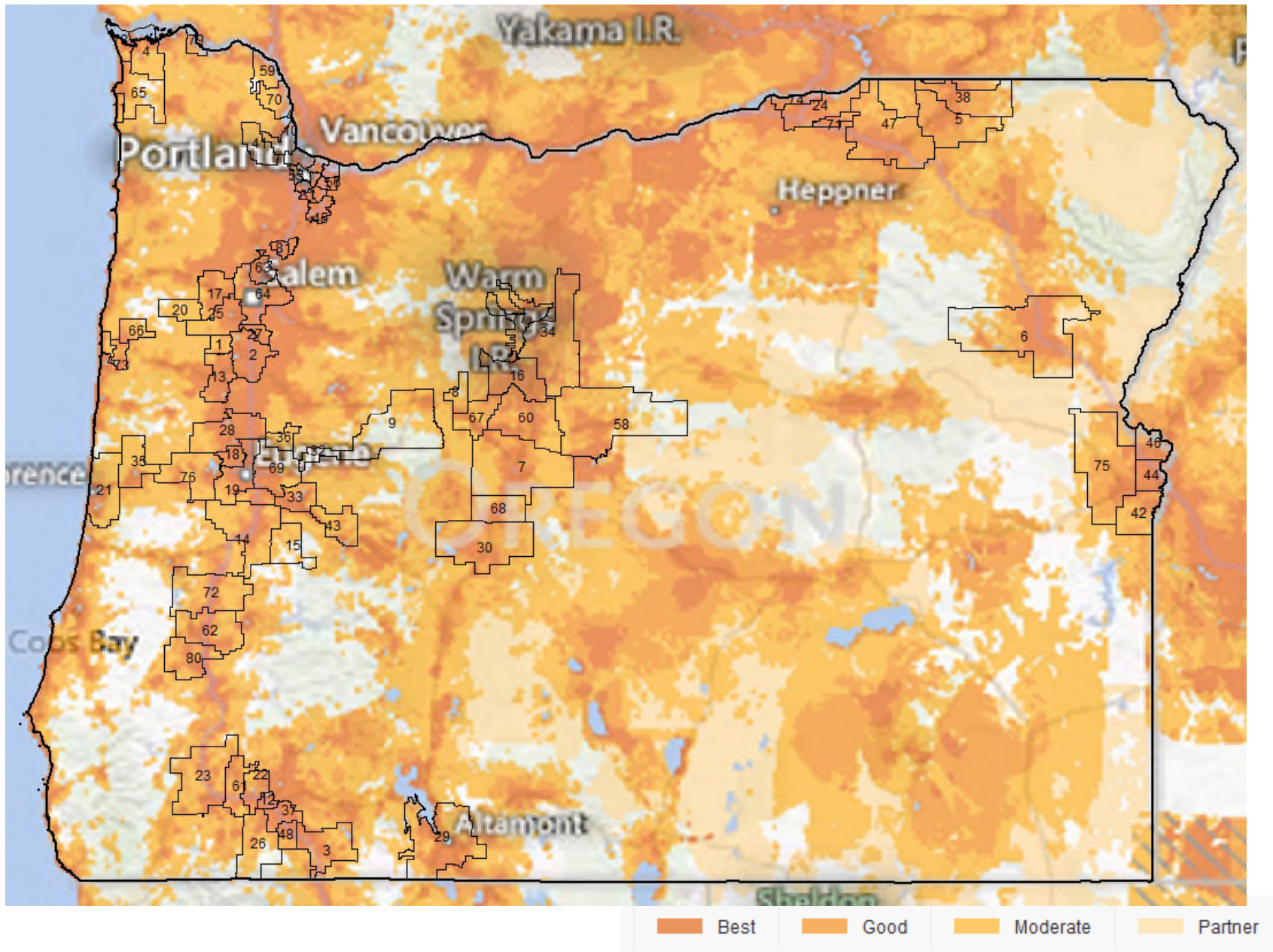
CenturyLink QC (Qwest) Oregon Wire Centers

Exhibit CTL/107
Felz/2

<u>REF</u>	<u>WIRE CENTER</u>	<u>REF</u>	<u>WIRE CENTER</u>	<u>REF</u>	<u>WIRE CENTER</u>
1	ADAIR	38	MILTON	75	VALE
2	ALBANY	39	MILWAUKIE	76	VENETA
3	ASHLAND	40	NEWPORT	77	WARMSPRINGS
4	ASTORIA	41	NORTH PLAINS	78	WARRENTON
5	ATHENA	42	NYSSA	79	WESTPORT
6	BAKER	43	OAKRIDGE	80	WINSTON
7	BEND	44	ONTARIO	81	WOODBURN
8	BLACK BUTTE	45	OREGON CITY		
9	BLUE RIVER	46	OREGONSLOP		
10	BURLINGTON	47	PENDLETON		
11	CANNON BEACH	48	PHOENIX		
12	CENTRAL POINT	49	PORTLAND ALPINE		
13	CORVALLIS	50	PORTLAND ATLANTIC		
14	COTTAGE GROVE	51	PORTLAND BELMONT		
15	CULP CREEK	52	PORTLAND BUTLER		
16	CULVER	53	PORTLAND CAPITOL		
17	DALLAS	54	PORTLAND CHERRY		
18	EUGENE RIVER ROAD	55	PORTLAND CYPRESS		
19	EUGENE 10TH AVE	56	PORTLAND HAROLD		
20	FALLS CITY	57	PORTLAND PROSPECT		
21	FLORENCE	58	PRINEVILLE		
22	GOLD HILL	59	RAINIER		
23	GRANTS PASS	60	REDMOND		
24	HERMISTON	61	ROGUE RIVER		
25	INDEPENDENCE	62	ROSEBURG		
26	JACKSONVILLE	63	SALEM 10TH AVE		
27	JEFFERSON	64	SALEM MAIN		
28	JUNCTION CITY	65	SEASIDE		
29	KLAMATH FALLS	66	SILETZ		
30	LA PINE	67	SISTERS		
31	LAKE OSWEGO	68	SPRING RIVER		
32	LEABURG	69	SPRINGFIELD		
33	LOWELL	70	ST HELENS		
34	MADRAS	71	STANFIELD		
35	MAPLETON	72	SUTHERLIN		
36	MARCOLA	73	TOLEDO		
37	MEDFORD	74	UMATILLA		

AT&T Wireless Coverage and CenturyLink QC (Qwest) Oregon Wire Centers

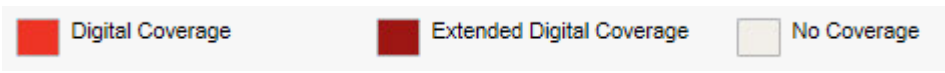
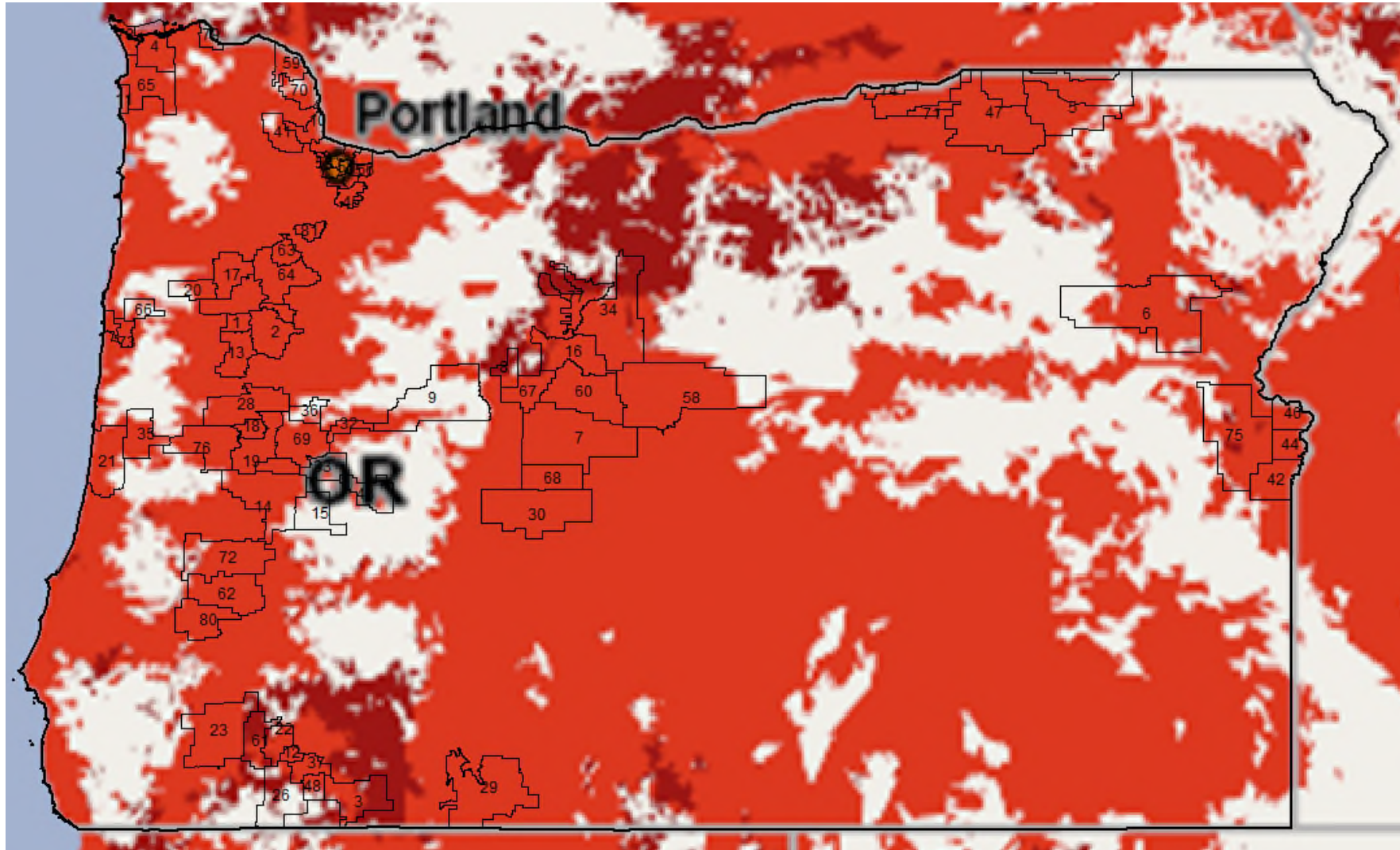
Source: AT&T Coverage website on 01/10/14



Verizon Wireless Coverage and CenturyLink QC (Qwest) Oregon Wire Centers

Exhibit CTL/107
Felz/4

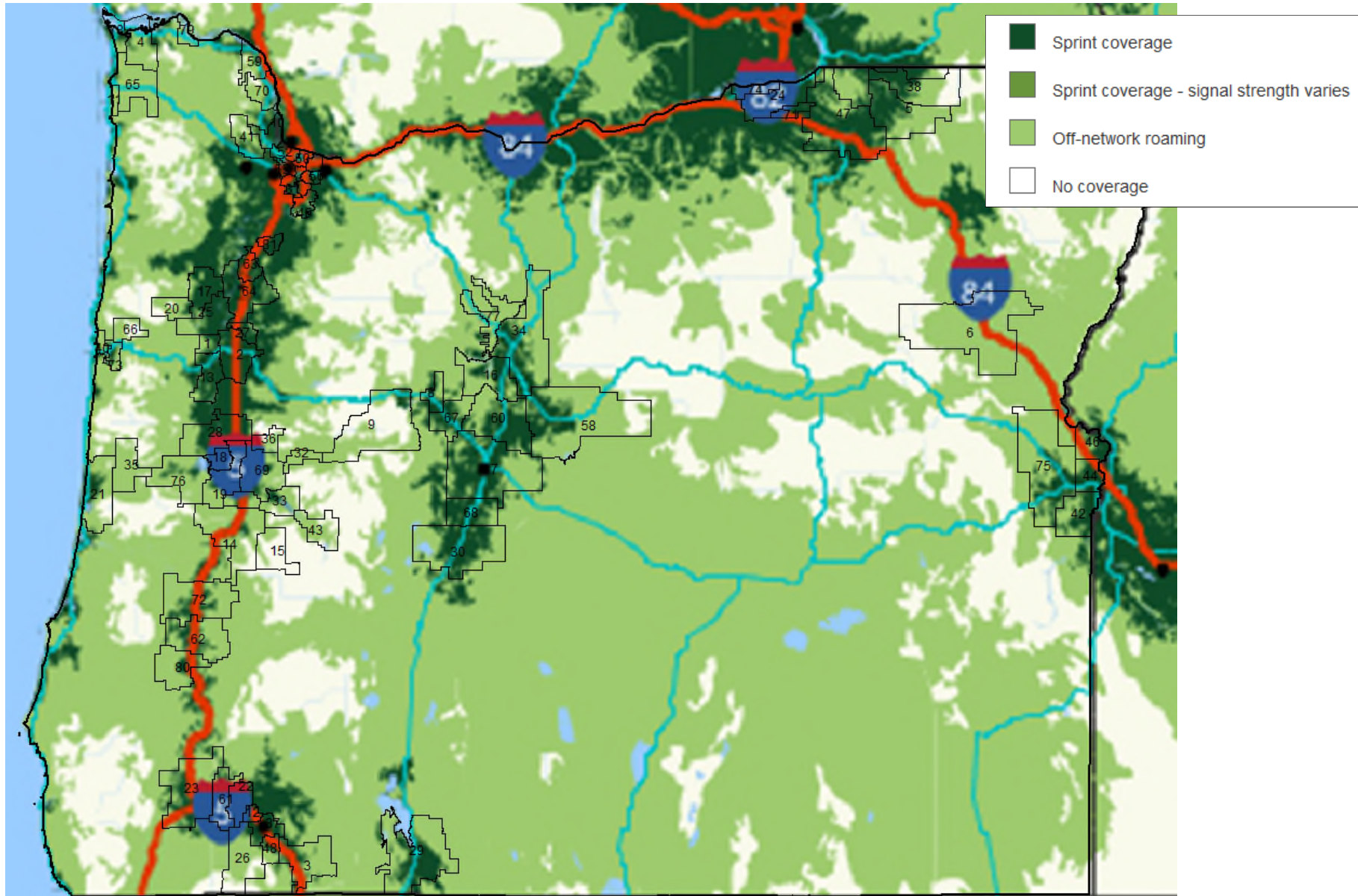
Source: Verizon Coverage website on 01/10/14



Sprint Wireless Coverage and CenturyLink QC (Qwest) Oregon Wire Centers

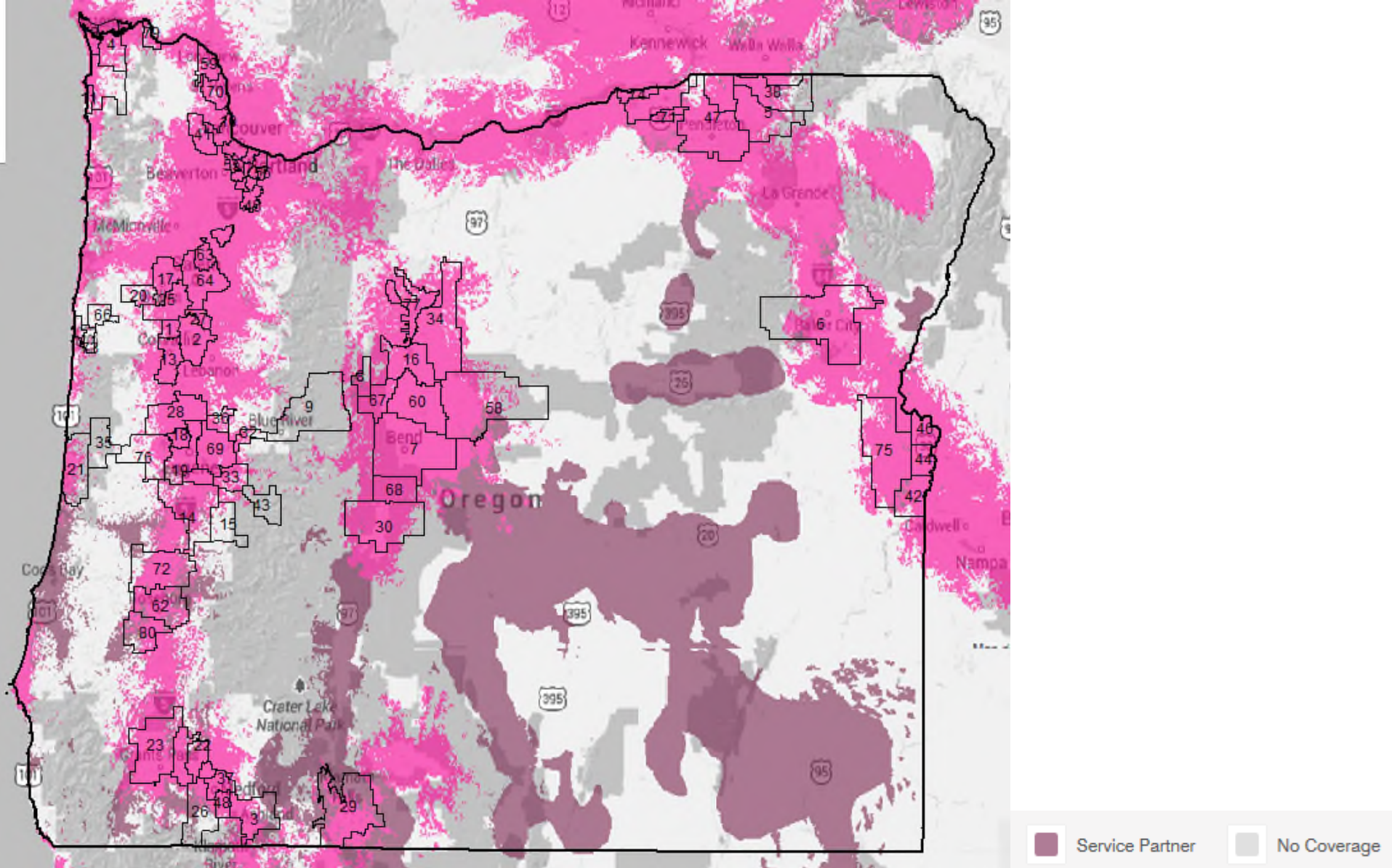
Exhibit CTL/107
Felz/5

Source: Sprint Coverage website on 01/10/14



T-Mobile Wireless Coverage and CenturyLink QC (Qwest) Oregon Wire Centers

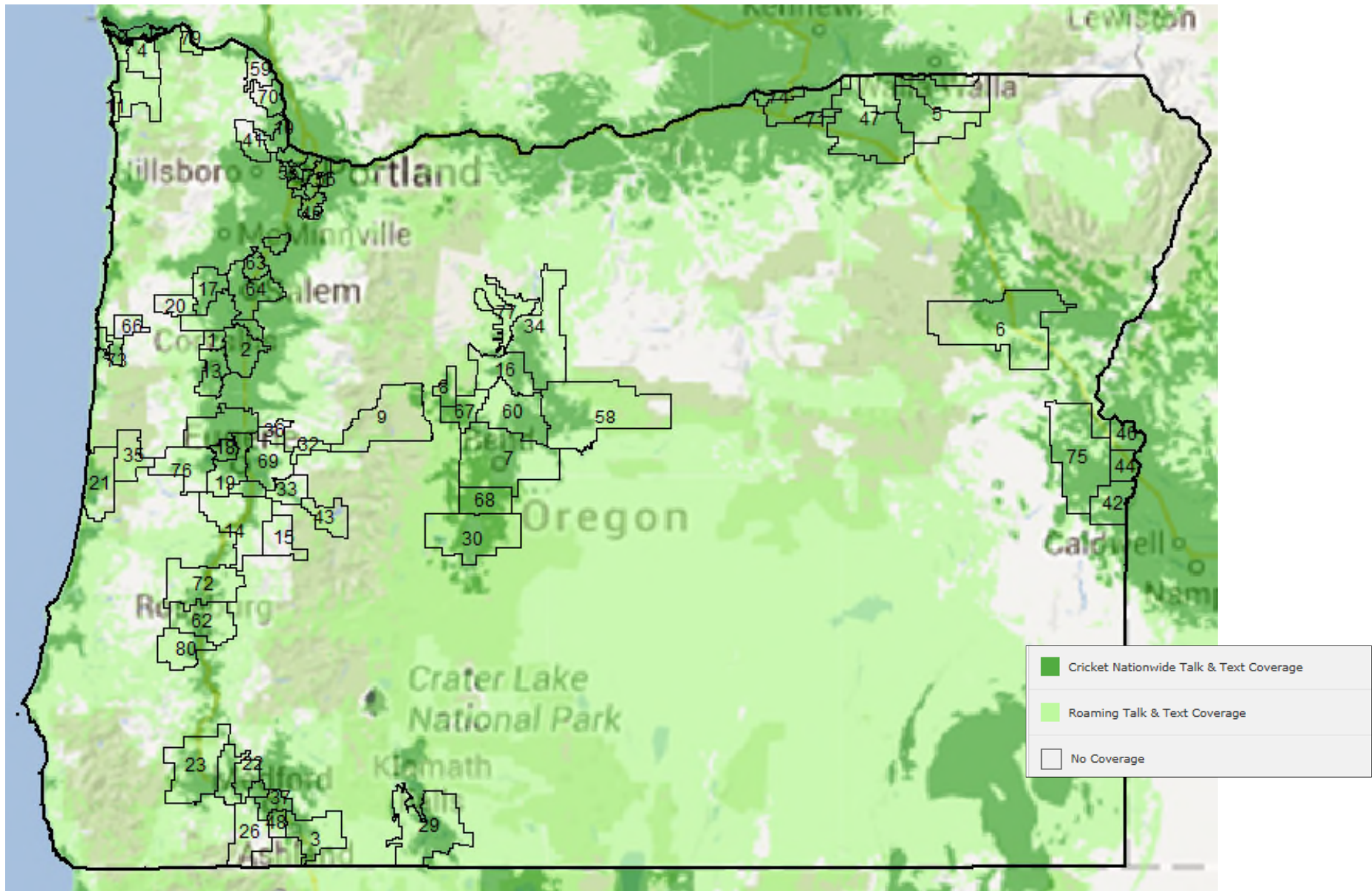
Source: T-Mobile Coverage website on 01/10/14



Cricket Wireless Coverage and CenturyLink QC (Qwest) Oregon Wire Centers

Exhibit CTL/107
Felz/7

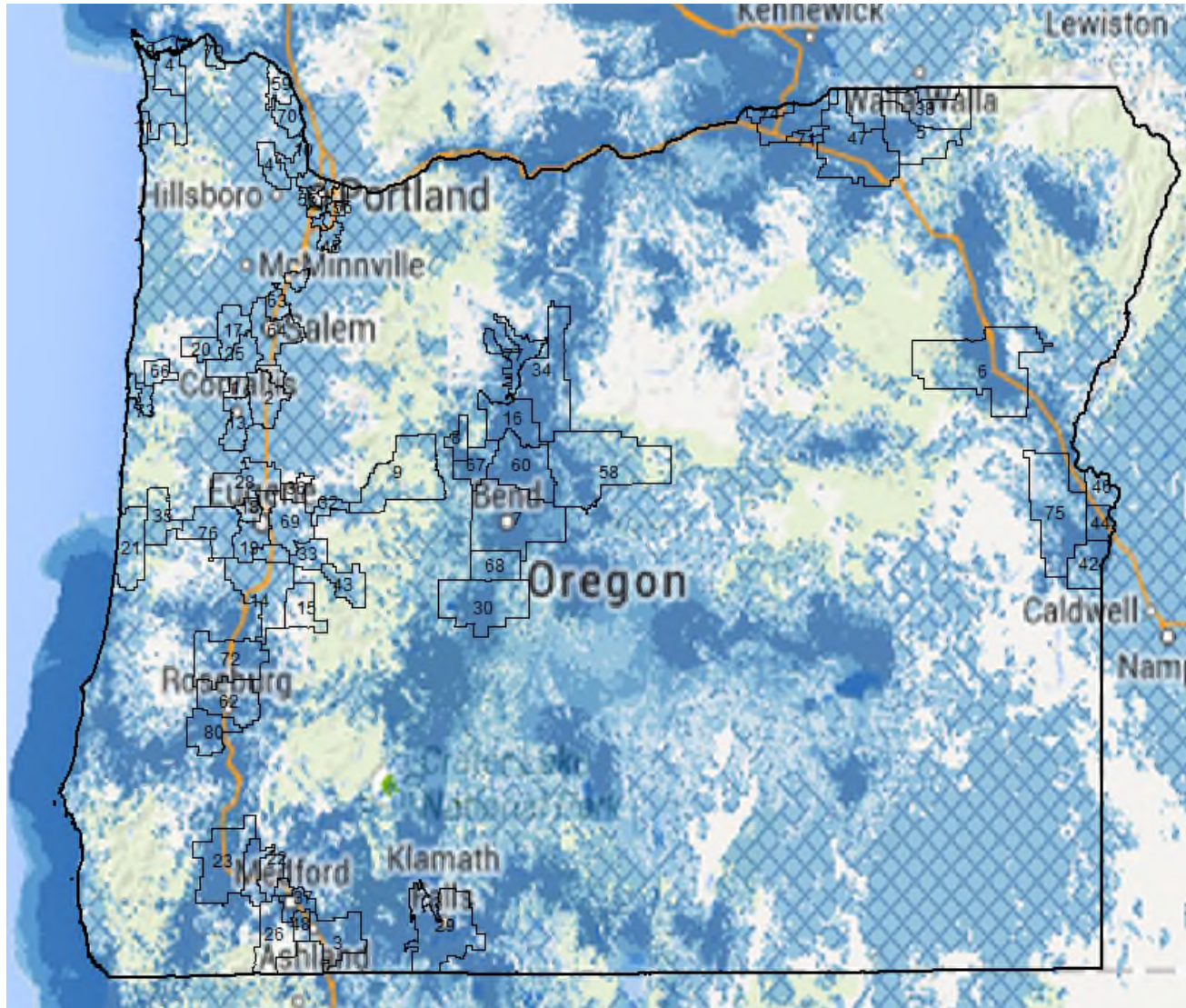
Source: Cricket Coverage website on 01/10/14



US Cellular Wireless Coverage and CenturyLink QC (Qwest) Oregon Wire Centers

Exhibit CTL/107
Felz/8

Source: US Cellular Coverage website on 01/10/14



<p>Best You should be able to place a call outdoors, in a vehicle and in most buildings.</p>	<p>Better You should be able to place a call outdoors or in a vehicle, but may not get service in some buildings.</p>	<p>Good You should be able to place a call outdoors or in a vehicle, but may not get service in buildings.</p>	<p>Fair You should be able to place a call outdoors or in a vehicle, but typically may not get service in buildings.</p>
<p> Partner Coverage - Strength Varies</p>		<p> No Coverage</p>	

CenturyLink QC Proposed Price Plan
Changes to Waivers of Statutes and Rules

Statute or Rule Reference	Statute or Rule Title	Rationale for Waiver
ORS 759.120	Form and manner of accounts prescribed by Commission	<p>Commission prescription of accounting form and manner is unnecessary in cases where the Commission does not rely on accounting results to regulate prices. CenturyLink's competitors are not subject to these regulations.</p> <p>Note: Partial waiver granted in current Price Plan, to the extent allowed in Commission Order No. 06-514</p>
ORS 759.125	Records and accounts prescribed by commission	<p>Commission prescription of records and accounts is unnecessary in cases where the Commission does not rely on accounting results to regulate prices. CenturyLink's competitors are not subject to these regulations.</p> <p>Note: Partial waiver granted in current Price Plan, to the extent allowed in Commission Order No. 06-514</p>
ORS 759.130	Closing date of accounts	<p>Commission regulation of accounting practices is unnecessary in cases where the Commission does not rely on accounting results to regulate prices. CenturyLink's competitors are not subject to these regulations.</p> <p>Note: Partial waiver was granted in current Price Plan, to the extent allowed in correspondence between CenturyLink QC and the Commission from May 4, 2004 through December 21, 2004, which in part waived sections of Form O and allowed replacement of other Form O sections and the entire Form I with company reports. However, waiver was overridden by merger condition 11 – see next item.</p>
Condition 11 in Commission Order No. 11-095 in Docket UM 1484	This merger condition reinstated submission of standard Annual Report Form O and Oregon Separated Results of Operations Report Form I	<p>Reporting of accounting results is unnecessary in cases where the Commission does not rely on accounting results to regulate prices. CenturyLink QC had been relieved of much of Form O and all of Form I reporting. However, merger condition 11 reimposed Form O and Form I reporting as a condition of merger approval. CenturyLink's competitors are not subject to these regulations. As the third year anniversary of the merger close approaches in April 2014, these unnecessary reporting obligations should be eliminated.</p>
ORS 759.135	Depreciation accounts; undepreciated investment allowed in rates; conditions	<p>Commission prescription of depreciation is unnecessary in cases where the Commission does not rely on depreciation accounting results to regulate prices. CenturyLink's competitors are not subject to these regulations.</p> <p>Note: Partial waiver granted in current Price Plan, to the extent allowed in Commission Order No. 06-514</p>

CenturyLink QC Proposed Price Plan
Changes to Waivers of Statutes and Rules

Statute or Rule Reference	Statute or Rule Title	Rationale for Waiver
Condition 18 in Commission Order No. 11-095 in Docket UM 1484	This merger condition removed the waiver from ORS 759.375 and ORS 759.380 granted in the original Price Plan in Docket UM 1354	CenturyLink seeks reinstatement of the exemption from ORS 759.375 and ORS 759.380 originally granted in Docket UM 1354.
OAR 860-022-0025(2)	Requirements for filing tariffs or schedules; changing rates	Waiver of this rule is consistent with the pricing flexibility proposed by CenturyLink QC as the Commission would no longer have authority over CenturyLink QC's price changes.
OAR 860-022-0030	Requirements for filing tariffs or schedules naming increased rates	Waiver of this rule is consistent with the pricing flexibility proposed by CenturyLink QC as the Commission would no longer have authority over CenturyLink QC's price changes.
OAR 860-022-0042	Relating to city privilege taxes, fees, and other assessments imposed upon a large telecommunications utility	CenturyLink QC seeks waiver of paragraph (4) which limits the pass through of privilege taxes on only amounts in excess of 4 percent. CenturyLink QC is disadvantaged in relation to its competitors who have freedom to fully pass through government imposed privilege taxes. CenturyLink QC seeks the ability to fully recover government imposed privilege taxes.
OAR 860-023-0055	Retail telecommunications service standards for large telecommunications utilities	Partial waiver of the rule to accommodate CenturyLink QC proposal in Section V.A of the Price Plan seeking modifications to service quality reporting requirements.
OAR 860-027-0100	Reporting of affiliated transactions	Commission regulation of accounting requirements should not be required of company that is no longer rate-of-return regulated.
OAR 860-027-0015	New construction budget	Commission regulation of accounting requirements should not be required of company that is no longer rate-of-return regulated. Additionally, statutory authority in ORS 759.100 was repealed in SB 600 in 2005. Note: Partial waiver granted in current Price Plan, to the extent allowed in correspondence between CenturyLink QC and the Commission in 2004.
OAR 860-027-0025	Applications for authority to sell, lease assign, mortgage, merge, consolidate or otherwise dispose of or encumber its property, or to acquire stock, bonds, or property of another utility	Consistent with waivers from ORS 759.375 and ORS 759.380 granted in prior Price Plan.

CenturyLink QC Proposed Price Plan
Changes to Waivers of Statutes and Rules

Statute or Rule Reference	Statute or Rule Title	Rationale for Waiver
OAR 860-027-0050	Uniform System of Accounts for large telecommunications utilities	<p>Commission regulation of accounting requirements should not be required of company that is no longer rate-of-return regulated.</p> <p>Note: Partial waiver granted in current Price Plan, to the extent allowed in Commission Order No. 06-514</p>
OAR 860-027-0070	Annual report requirements for large telecommunications utilities	<p>Commission regulation of accounting requirements should not be required of company that is no longer rate-of-return regulated.</p> <p>Note: Partial waiver granted in current Price Plan, to the extent allowed in correspondence between CenturyLink QC and the Commission from May 4, 2004 through December 21, 2004 which in part waived section of Form O and allowed replacement of other Form O sections and the entire Form I with company reports. However, waiver was overridden by merger condition 11 – see Condition 11 discussion above.</p>

CENTURYLINK QC'S PRICE PLAN UNDER ORS 759.255

I. Definitions

- A.** "Alternative provider" means a provider, other than Qwest Corporation d/b/a CenturyLink QC ("CenturyLink QC") or any affiliate of CenturyLink QC, of any service that is a functionally equivalent or substitutable service, without regard to the technology used to provide the service and without regard to whether the provider is subject to regulation by the Commission or any other agency. "Alternative provider" includes but is not limited to telecommunications carriers, radio common carriers, cable telephony providers, and providers of voice over internet protocol ("VoIP") service.
- B.** "Essential functions" means those unbundled network elements (UNEs) that ILECs are required to provide pursuant to 47 U.S.C. § 251(c)(3) according to the most current requirements of the FCC. "Nonessential functions" are all other functions used in providing a telecommunications service that are not essential functions. The price of essential functions is the Commission-approved price for UNE purchases by wholesale customers; the price for UNEs without Commission-approved prices is the rate in CenturyLink QC's most current Negotiations Template Agreement for Oregon, Exhibit A, which is available at <http://www.centurylink.com/wholesale/clecs/nta.html>.
- C.** "Functionally equivalent or substitutable" means that a service is reasonably interchangeable with the service to which it is being compared, even if the services are not identical, without regard to the technology used to provide the service or whether the service or provider are subject to regulation by the Commission.
- D.** "New service" means a retail telecommunications service that is offered in Oregon for the first time following the effective date of this price plan. A service is not a new service if it merely renames, repackages, or is a variation of an existing service, or if it is reintroduced in substantially the same form after having being withdrawn or abandoned.
- E.** "Pre-plan rates" means the rates charged by CenturyLink QC in Oregon pursuant to its tariffs or price lists that were effective on August 14, 2013.
- F.** "Primary line residential basic service" means the first line only of residential basic local exchange service for an individual residential customer account at a single location that is not sold as part of a package. For purposes of this definition, "residential basic local exchange service" means residential single party flat rate local exchange service and residential single party measured local exchange service, including local exchange usage.

II. Objectives of Price Plan

- A. **General objectives.** CenturyLink QC's price plan will achieve the following objectives:
1. Ensure the plan is operating in a way that is in the public interest.
 2. Produce prices for CenturyLink QC's retail telecommunications services that are just and reasonable.
 3. Ensure that the quality of existing telecommunications services will stay at or above current high levels.
 4. Maintain the availability of primary line residential basic service at affordable rates.
 5. Allow CenturyLink QC to price other services competitively with services offered by alternative providers, including those using landline, wireless, cable, and VoIP technologies.
 6. Increase CenturyLink QC's pricing flexibility to meet changing market conditions.
 7. Make new telecommunications services available.
 8. Simplify and reduce the burden of regulation for both CenturyLink QC and the Commission.

III. Pricing and Availability of Services Under Price Plan

- A. **Initial Rates.** The rates that CenturyLink QC charges upon commencing operation under the price plan will be its pre-plan rates. These rates are subject to adjustment as provided below.
- B. **Primary line residential basic service.**
1. **Price caps removed.**
 - a. Price caps for non-recurring and recurring charges for primary line basic services are removed as of the effective date of the plan.
 - b. CenturyLink QC is permitted to adjust recurring and non-recurring charges for primary line residential basic service upward or downward with decreases subject to the applicable price floors for primary line basic service.

2. **Availability.** CenturyLink QC will continue to offer primary line residential basic service on a stand-alone basis (*i.e.*, CenturyLink QC will not require customers to purchase a package to obtain this service).
 3. CenturyLink QC agrees that it will not geographically deaverage the rates for primary line basic services under the plan any further than they were as of the effective date of this plan.
- C. Telephone Assistance Plans.** CenturyLink QC will continue to offer current Telephone Assistance Plans (OTAP, Tribal Lifeline, and Tribal Link-Up) pursuant to state and federal requirements.
- D. Switched Access.** Rates for intrastate switched access services are capped at pre-plan rates. The Commission may adjust the price caps if required by FCC action.
- E. EAS.** Rates for extended area service (EAS) are capped at pre-plan rates. However, CenturyLink QC is permitted to combine rates for primary line residential basic service and EAS additives into a single rate. CenturyLink QC will not be required to establish any new or expanded EAS routes as long as it operates under the price plan.
- F. New Services.** Any new service introduced after the effective date of the price plan will be price listed and will not be subject to price caps.
- G. Other Retail Services.** All remaining residential and business services not previously listed in this section ("Other Services") will not be subject to price caps.
- H. Packages and Bundles.** CenturyLink QC may combine any regulated telecommunications service with any other service(s) to offer packages and bundles of services, which may include primary line residential basic service and EAS, at any price subject to the following conditions:
1. Customers can purchase separately from the company's tariff or price list any regulated telecommunications service included in the package or bundle.
 2. The package or bundle price is not less than the sum of the price floors (determined pursuant to ORS 759.255(4)) of the regulated telecommunications services included the package or bundle.
 3. The package or bundle price is not more than the sum of the retail prices of all services available in the package or bundle.
 4. Terms applicable to new packages or bundles, including those that include primary line residential basic service, will be established in the company's price list at least one day prior to their effective date.

- I. Notice of price changes.** CenturyLink QC will provide the Commission notice of price increases for services within Sections III.B. to III.E. by making tariff filings at least 15 days prior to the effective date of such price changes. CenturyLink QC will provide the Commission notice of price decreases for services within Sections III.B. to III.E. by making tariff filings at least one day prior to the effective date of such price decreases.

CenturyLink QC will make price list changes for new services, Other Retail Services and packages and bundles within Sections III.F. to III.H, at least one day prior to the effective date of any price change. CenturyLink QC will also provide customers with at least 30 days' prior notice of price increases for services they are purchasing at the time of the price increase. For services purchased on a per-call basis, CenturyLink QC will give reasonable notice to the customer of the price prior to the customer's use of the service.

- J. Services exempt from regulation.** Services that the Commission has already ordered to be exempt from regulation will remain exempt from regulation subject to the conditions of the order that exempted the service from regulation. CenturyLink QC retains the ability to petition the Commission to exempt additional services from regulation under ORS 759.052.

- K. Promotions.** CenturyLink QC may offer promotions for primary line residential basic service and other regulated services pursuant to ORS 759.182.

IV. Tariffs and Price Lists

- A.** Tariffs for the services within Sections III.B to III.E will be filed with the Commission pursuant to the provisions of OAR 860-022-0015 and 860-022-0025(1). For price increases to primary line residential basic service allowed under provisions III.B.1 of the price plan, CenturyLink QC is not required to comply with the provisions of OAR 860-022-0025(2) or 860-022-0030.

V. Service Quality

- A.** CenturyLink QC will continue to be subject the Retail Telecommunications Service Standards for Large Telecommunications Utilities identified in OAR 860-023-055 with the following exceptions:

1. CenturyLink QC will provide reports on a quarterly basis instead of monthly.
2. CenturyLink QC will provide only exception information for those measures that did not meet the established standard during the quarter.

VI. Waiver of statutes and rules

- A. Statutes.** CenturyLink QC's compliance with the following statutes, and all Commission rules implementing these statutes, is waived in full, unless a partial waiver is noted:
- ORS 759.120 Form and manner of accounts prescribed by commission.
 - ORS 759.125 Records and accounts prescribed by commission; prohibition on other records or accounts; exception; blanks for reports.
 - ORS 759.130 Closing date of accounts; filing balance sheet; audit.
 - Waiver of condition 11 in Commission Order No. 11-095 (Appendix A) in Docket UM 1484 (In the Matter of the Application for Approval of Merger between CenturyTel, Inc. and Qwest Communications International, Inc.). Condition 11 imposed as a condition of approval of the merger a requirement that CenturyLink QC reinstitute submission of the Commission standard *Annual Report* Form O and *Oregon Separated Results of Operations Report* Form I.
 - ORS 759.135 Depreciation accounts; undepreciated investment allowed in rates; conditions.
 - ORS 759.180 to ORS 759.200 (with the exception of ORS 759.182).
 - 759.180 Hearing on reasonableness of rates; procedures; exceptions
 - 759.185 Suspension of rates pending hearing; time limitation; refund of revenue collected; interim rates.
 - 759.190 Notice of schedule change.
 - 759.195 Price listing of services; conditions; maximum rates; essential services; justification by utility of rates for price-listed services.
 - 759.200 Inclusion of amortizations in rates; deferral of certain expenses or revenues; limitation on amounts; prohibited uses.
 - ORS 759.215(2) Public access to schedules.
 - ORS 759.220 Joint rates and classifications; procedure; considerations - with regard to joint rates and establishment of new through services, but not with regard to canceling any existing through service.
 - ORS 759.285 Charging rates based on cost of property not presently providing service.
 - ORS 759.300 to ORS 759.393

- Issuance of Securities
 - 759.300 “Stocks” defined.
 - 759.305 Power to regulate issuance of telecommunications stocks.
 - 759.310 When issuance of securities void.
 - 759.315 Purposes for which securities may be issued; order required; exceptions.
 - 759.320 Application of ORS 759.315.
 - 759.325 Application of ORS 759.375.
 - 759.330 Hearings and supplemental orders for securities issuance; joint approval for issuance by utility operating in another state.
 - 759.335 Obligation of state as consequence of approval of issuance
 - 759.340 Conditional approval of issuance.
 - 759.345 Use of proceeds from issuance; accounting.
 - 759.350 Limitation on authority of utility to guarantee debt of another.
 - 759.355 Issuance or use of proceeds contrary to commission order.
 - 759.360 Prohibited acts regarding issuance of securities.

- Transactions of Utilities
 - 759.375 Approval prior to sale, mortgage or disposal of operative utility property.
 - 759.380 Purchase of stock or property of another utility.
 - 759.385 Contracts regarding use of utility property; filing with commission; investigation.
 - 759.390 Contracts with affiliated interests; procedure; use in rate proceedings.
 - 759.393 Applicability of ORS 759.385 and 759.390.
 - Waiver of condition 18 in Commission Order No. 11-095 (Appendix A) in Docket UM 1484 (In the Matter of the Application for Approval of Merger between CenturyTel, Inc. and Qwest Communications International, Inc.). Condition 18 imposed as a condition of approval of the merger the removal of the CenturyLink QC price plan exemption from the requirements of ORS 759.380 and ORS 759.375. Condition 18 did allow an exemption from ORS 759.375(1)(a) for property sales where the sales price is less than \$10 million, except that the sale of any CenturyLink QC exchange will be subject to Commission approval under ORS 759.375. CenturyLink QC seeks reinstatement of the exemption from ORS 759.380 and ORS 759.375 originally granted in Docket UM 1354.

B. Rules. CenturyLink QC's compliance with the following Commission rules is waived in full, unless a partial waiver is noted:

- OAR 860-022-0025(2) Requirements for Filing Tariffs or Schedules Changing Rates.
- OAR 860-022-0030 Requirements for Filing Tariffs or Schedules Naming Increased Rates.
- OAR 860-022-0042 Relating to City Privilege Taxes, Fees, and Other Assessments Imposed Upon a Large Telecommunications Utility. Partial waiver of paragraph (4) limiting the pass through of privilege taxes to only amounts in excess of 4 percent.
- OAR 860-023-0055 Retail Telecommunications Service Standards for Large Telecommunications Utilities (partial as outlined in Section V.A).
- OAR 860-027-0100 Reporting of Affiliated Transactions.
- OAR 860-027-0015 New Construction Budget.
- OAR 860-027-0025 Applications for Authority to Sell, Lease, Assign, Mortgage, Merge, Consolidate or Otherwise Dispose of or Encumber its Property, or to Acquire Stock, Bonds, or Property of Another Utility.
- OAR 860-027-0050 Uniform System of Accounts for Large Telecommunications Utilities.
- OAR 860-027-0052 Allocation of Costs by a Large Telecommunications Utility.
- OAR 860-027-0070 Annual Report Requirements for Electric, Large Telecommunications, Gas, and Steam Heat Utilities.
- Waiver of condition 11 in Commission Order No. 11-095 (Appendix A) in Docket UM 1484 (In the Matter of the Application for Approval of Merger between CenturyTel, Inc. and Qwest Communications International, Inc.) Condition 11 imposed as a condition of approval of the merger a requirement that CenturyLink QC reinstitute submission of the Commission standard *Annual Report* Form O and *Oregon Separated Results of Operations Report* Form I.
- OAR 860-032-0190 Definition of Basic Telephone Service (partial). This rule defines "basic telephone service" for purposes of administering ORS 759.425, among other statutes. For all other purposes involving application of the rule, including administration and distribution of the universal service fund, CenturyLink QC would still be subject to the definition of "basic telephone service" found in OAR 860-032-0190.

VII. Conditions for Review of CenturyLink QC's Performance Under Plan

A. Five-year reviews. CenturyLink QC's performance under the price plan will be comprehensively reviewed by the Commission every five years. To commence that review, CenturyLink QC will 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, and every five years thereafter unless and until ordered otherwise by the Commission. CenturyLink QC will promptly respond to data requests submitted by Staff and other parties related to information contained in CenturyLink QC's report.

1. Contents of Report. The report will review how the objectives of the plan are being met and will include the following information:

- a. A summary of CenturyLink QC's performance for the review period with respect to the Commission's retail service quality standards and any other relevant information.
- b. 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.
- c. Data regarding the gain or loss of access lines, organized by CenturyLink QC Oregon wire center.
- d. A discussion of how the pricing flexibility allows CenturyLink QC to meet the plan's objectives.
- e. Identification of any new services CenturyLink QC has introduced.
- f. Identification of any ways in which the burden of regulation for both CenturyLink QC and the Commission has been simplified or reduced.

2. Performance of objectives. The Commission will evaluate CenturyLink QC's performance as compared to the objectives of the plan. If the Commission determines that CenturyLink QC has not substantially satisfied its objectives, as set forth in Section II of this plan, the Commission may enter discussions with CenturyLink QC to establish an agreement, including a timeline and a process, under which CenturyLink QC will achieve compliance with the objectives. If the Commission and CenturyLink QC cannot reach such an agreement within a reasonable time of commencing such discussions the Commission may order modifications to the plan, following notice and an opportunity for hearing, or open an investigation under Section VII.B.2. of this plan.

3. **Evaluation of market, modifications to plan.** The Commission will review the data submitted by CenturyLink QC and other relevant evidence regarding the competitiveness of the market for services that are functionally equivalent or substitutable for services offered by CenturyLink QC and determine whether other modifications to the plan are appropriate to provide CenturyLink QC with additional regulatory flexibility beyond that included in the original price plan or better ensure the plan is in the public interest according to the factors set forth in ORS 759.255(2).

B. Ongoing conditions for review

1. **Review of service quality.** The Commission may review CenturyLink QC's retail customer service quality at any time during operation of the price plan. If CenturyLink QC does not meet the objective service levels for one or more individual standards in OAR 860-023-0055 for three months out of a twelve month sliding window,¹ then the Commission may require CenturyLink QC to submit a performance plan pursuant to ORS 759.450(5) and may suspend CenturyLink QC's authority under the price plan to increase retail prices until such time as CenturyLink QC has met all the goals of the performance plan. If the Commission determines after a notice and an opportunity for hearing that CenturyLink QC has not met the goals of a performance plan within six months, or if the plan is disapproved by the Commission, then, in addition to the remedies set forth in ORS 759.450(5) – (7), the Commission may open an investigation under Section VII.B.2. of this plan.

2. Public interest.

- a. The Commission may open an investigation at any time pursuant to ORS 756.515 to determine whether further adjustments to the price plan or termination of the price plan is required by the public interest, according to the factors set forth in ORS 759.255(2). The Commission may order further adjustments to the price plan or termination of the price plan only after providing CenturyLink QC notice and an opportunity for hearing. If the Commission determines to hold such a hearing, it may suspend CenturyLink QC's authority to increase prices pending the conclusion of the proceeding. In any such investigation and proceeding, the Parties agree that the Commission should first attempt to identify and require adjustments to the price plan such that continuation of the price plan is in the

¹ Sliding 12-month window: The 12-month window consists of the current reporting month and data from the previous eleven months. For example, using "commitments for service" with an objective service level of 90 percent (OAR 860-023-0055(4)(b)(A)), a performance plan may be required if three or more months during the 12-month window were reported with less than 90 percent commitments met. Each new month would look at the adjusted 12-month window and the data would be compared to the objective service level.

public interest before it orders termination of the price plan (unless this proceeding was opened pursuant to Section VII.A.2. of the plan).

- b. If the Commission orders termination of the price plan, CenturyLink QC would no longer be able increase its rates as it was permitted to do under the price plan, but CenturyLink QC would be allowed to decrease its rates subject to any applicable price floor.
- c. If the Commission orders termination of the price plan, CenturyLink QC may thereafter pursue any form of price regulation or relief therefrom then permitted under Oregon law, including but not limited to: exemptions from regulation pursuant to ORS 759.052; price listing pursuant to ORS 759.054, 759.056, and/or 759.195; rate regulation pursuant to ORS 759.175 – 759.190; another price plan pursuant to ORS 759.255; or price cap regulation pursuant to ORS 759.405 – 759.410.