BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1484

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|--|---|---------------------------|
| In the Matter of |) | CITIZENS' UTILITY BOARD |
| |) | OF OREGON'S OPENING BRIEF |
| CENTURYLINK, INC. Application for |) | |
| Approval of Merger between CenturyTel, |) | |
| Inc. and Qwest Communications |) | |
| International, Inc. |) | |
| |) | |

I. INTRODUCTION

The Citizens' Utility Board of Oregon (CUB) was born when the people of Oregon voted to create an effective consumer advocate to assure that public policies affecting the quality and price of utility services reflected their needs and interests¹. CUB has now been the Oregon utility rate payer advocate for twenty six years. In that time CUB has analyzed many mergers supporting some – with the imposition of appropriate conditions – and opposing others - when there were insufficient conditions to make those deals meet the public interest, no harm standard.²

This particular merger docket commenced on May 24, 2010, with the filing by CenturyLink, Inc., (hereafter, "CenturyLink") of an "Application for Expedited Approval of Indirect Transfer of Control." The Application stated that, "[t]he transaction combines

² For example, CUB opposed Texas Pacific's bid to buy PGE in OPUC Docket No. UM 1121. CUB notes here and below (*infra* at 3) that the "in the public interest, no harm" standard is used by the Commission in consideration of telecommunication merger and transfer of control transactions. For examples, see Order No. 95-526, Order No. 09-169 and Order No. 10-067.

¹ ORS 774.020.

two leading communications companies with customer-focused, industry-leading capabilities, together with complementary networks and operating footprints. The Transaction is a stock-for-stock-transaction that requires no new financing or refinancing and adds no new debt."³ The transaction pertained to the indirect transfer of control of Qwest Corporation (hereafter, "Qwest") to CenturyLink, Inc.⁴ Qwest Corporation intervened in the docket and filed supporting testimony on May 24, 2010. CUB, in its role as consumer advocate, set out to determine whether this proposed transfer of control would indeed cause no harm and would be in the public interest.

The CenturyLink - Qwest, merger is a merger that CUB finds is capable of being "in the public interest, no harm" - with the imposition of appropriate conditions. Hereafter CUB will refer to the post merger-transaction companies as the "Merged Companies" and the pre merger-transaction companies as CenturyLink - Qwest. This is why CUB joined the Stipulation filed on December 2, 2010, and filed joint testimony on December 10, 2010. However, CUB also wrote separately on the need for two additional conditions in order for the merger to, in CUB's view, be fully compliant with the "in the public interest, no harm" standard. 8

CUB writes now to both support the previously filed Stipulation and to advocate for the imposition of the two additional, necessary conditions:

a) A Trouble Report Complaint Reporting condition for DSL broadband, and

³ Application of Century Link at page 2, section I. Introduction.

⁴ *Id*.

⁵ Petition to Intervene By Qwest Communications International, May 24, 2010.

⁶ UM 1484/CUB/100/Feighner/3 at lines 15 to 21 and at 4 lines 1-2. *Reply Testimony of the Citizens' Utility Board.*

⁷ [Errata] Testimony in Support of Stipulation by the Parties to the Stipulation, December 10, 2010.

⁸ UM 1484/CUB/200/Feighner. Testimony in Support of Imposition of Most-Favored State Commitment Condition and Broadband Trouble Report Complaint Reporting Condition of the Citizens' Utility Board of Oregon.

b) A Most-Favored State condition.

II. ARGUMENT

1. The Standard of Review

Telecommunications companies that wish to merge operations in Oregon are subject to the provisions of ORS 759.375 and ORS 759.380. These statutes have been interpreted in various merger dockets and held to require the meeting of an "in the public interest, no harm" standard. This standard has been found to be less stringent than the energy merger docket standard of "in the public interest, net benefit". No net benefit need be found in the telecom arena, but the telecom arena still requires that the merger cause "no harm." CUB believes that, with the imposition of the conditions in the Stipulation and, with the imposition of Staff's requested conditions on Broadband Trouble Report Compliant Reporting and Most-Favored State issues, the CenturyLink-Qwest merger transaction will meet the standard of "in the public interest, no harm."

2. The Stipulation and its conditions

When this proceeding first began it was CUB's position that the application could meet the standard if an appropriate set of conditions was imposed. ¹¹ But Staff recommended, in its Direct Testimony, that the application should be denied until CenturyLink-Qwest agreed to certain conditions. ¹² Faced with the above, the Company entered into the Stipulation. CUB, while pleased that many problems have been resolved in the Stipulation, still feels that two further conditions are needed in order for the

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⁹ See for example, (UM 1416 In the Matter of EMBARQ CORPORATION and CENTURYTEL, INC. Order No. 09-169 at 3; UM 1431 Verizon Communications Inc. And Frontier Communications Corporation Order No. 10-067 at 6.

¹⁰ UM 1461 In the Matter of EMBARQ Corporation and CenturyTel, Inc. Order No. 09-169 at 3Fn. 5.

¹¹ UM 1484/CUB/100/Feighner/3 at lines 15 to 21 and at 4 lines 1-2. *Reply Testimony of the Citizens' Utility Board.*

¹² Staff/100/Dougherty/1 lines 18-19 and Staff/100/Dougherty/2 lines 1-5.

transaction to be truly "in the public interest, no harm". CUB, in the sections which follow, therefore advocates strongly for the imposition of two additional conditions related to Trouble Report Complaint Reporting and Most-Favored State coverage.

Prior to describing these conditions, we must first explore the Stipulation. "The Stipulation includes 53 enumerated and agreed-upon conditions some of which are subdivided with subdivisions containing additional condition provisions." The conditions were summarized as follows:

| □ Conditions 1-12, and 14 – This group of conditions covers general compliance with law or Oregon rule in addition to providing consumer protection in the event of tariff, service or rate changes that may occur after the close of the Transaction. This provides an assurance that Oregon customers will not be impacted by changes in rates or services resulting from the Transaction and confirms that the Commission will have ongoing access to documents, data, records, and information about material changes to the Transaction, as well as other general matters; |
|---|
| ☐ Condition 13 is a broadband commitment by CenturyLink, which includes |
| investment levels, timing, and reporting criteria for Oregon broadband deployment; |
| ☐ Conditions 15-19 are financial conditions, which include CenturyLink's commitment to notify Staff regarding the leverage resulting from the Transaction, assurances that the Oregon assets will not be encumbered without seeking Commission approval, a commitment that customers will not be obligated to pay for any acquisition premium and adjustments to the Qwest price plan to ensure the Commission will have approval authority for future transactions involving CenturyLink or Qwest properties in the state; |
| ☐ Conditions 20-23 address service quality standards, including CenturyLink's commitments related to certain Commission reporting requirements in the areas of service quality metrics, the condition of specific network assets and planned capital expenditures; |
| ☐ Conditions 24-26 are conditions relating to safety, 1 including compliance with all |
| applicable federal and Oregon standards and requirements, commitments to honor CenturyLink's previous safety-related obligations and a commitment by CenturyLink to construct a physical communication link between Lincoln City and Newport; |

¹³ [Errata] Joint Testimony of Staff, CUB, CenurtyLink and Qwest December 10, 2010 at 4 liens 19-21.

| ☐ Condition 27 addresses retail and wholesale Operating Support Systems |
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| ("OSS"), |
| including commitments by CenturyLink regarding the transition of retail and wholesale operating systems, and specific sharing of information with the Commission and CLECs regarding the software and systems transitions. There are also commitments by CenturyLink with regard to Qwest wholesale OSS to ensure stability and continuity for wholesale customers. |
| \square Conditions 28-41 address wholesale conditions designed to ensure stability in rates, terms, conditions and service quality for wholesale customers. |
| ☐ Condition 42 pertains to long distance service and it preserves rights that |
| consumers have with regard to notification of long distance carrier changes and provides a period of time for waiver of change charges. |
| ☐ Conditions 43-50 address OTAP reporting and communication commitments |
| to ensure the preservation of the exchange of data. In addition, the conditions require continued CenturyLink participation on the OTAP advisory board to retain the current working relationship between the company and the OTAP staff. |
| ☐ Conditions 51-53 address Affiliated Interests, which assures the Commission |
| that CenturyLink will comply with all applicable affiliated interest reporting requirements. 14 |

CUB respectfully refers the Commission to the Joint Testimony for a deeper review of these conditions. CUB believes that, with the imposition of these conditions, the Commission will receive sufficient access to the Company's records that it will be able to effectively monitor the Company's performance and financial condition, ¹⁵ any requested rate hikes, and any reductions in service offerings or declines in service. ¹⁶ CUB is also pleased with the \$45 million broadband deployment commitment made by CenturyLink-Qwest, ¹⁷ although, as stated in section 3 below, CUB continues to advocate for an additional condition in this arena in the form of a broadband Trouble Report Complaint Reporting condition.¹⁸

 ¹⁴ [Errata] Joint testimony of Staff, CUB, CenturyLink and Qwest December 10, 2010 at 5-7.
 ¹⁵ [Errata] Joint testimony of Staff, CUB, CenturyLink and Qwest December 10, 2010 at 10-11.

¹⁶ [Errata] Joint testimony of Staff, CUB, CenturyLink and Qwest December 10, 2010 at 11-12.

¹⁷ [Errata] Joint testimony of Staff, CUB, CenturyLink and Qwest December 10, 2010 at 8-10. ¹⁸ *Id.*

CUB is also pleased with the safety-related commitments that CenturyLink
Qwest have made and with the Operating System (OSS) commitments. While focused on residential customers, CUB knows that background wholesale rates and service quality can severely impact residential customers' ultimate usage experience and cash flow.

Thus, CUB was also engaged in the review of the wholesale conditions offered by the Company. While these conditions do not fall under CUB's area of expertise, CUB believes that the wholesale conditions sought by Staff and Stipulated to by the Company will ensure that the transaction is "in the public interest, no harm."

CUB notes that those opposing the CUB, Staff, CenturyLink, Qwest Stipulation do so not because they dispute the need for any of the conditions that CUB and Staff have requested and CenturyLink-Qwest have Stipulated to, or that Staff and CUB continue to seek, but rather because they wish to see those conditions enhanced. While CUB understands the other intervenors' positions, CUB believes the conditions that CUB helped craft, and the two additional conditions that CUB continues to advocate for, will on their own, without the addition of further restrictions, meet the "in the public interest, no harm" standard. Anything else that the Commission should choose to impose would, to CUB's way of reasoning, constitute icing on the cake (a net benefit), and the telecom standard, whether for good or ill, requires only a finding of "in the public interest, no harm."

In summary, CUB believes, upon resolution and imposition of the final two requested conditions pertaining to Trouble Report Complaint Reporting and Most-Favored State, the complete set of conditions will assure that the transaction will not

¹⁹ Charter Fiberlink/14/Pruitt/2 lines 9-28 and at 3 lines 1-17; Joint CLECs/23/Gates/2 lines 8-10 and at 4 lines 11-23 and at 5 lines 1-12; *Sprint's Objections to Stipulation* at 2 "Without additional or modified conditions, the merger will do harm as the competitive marketplace will suffer".

cause harm and that it will be in the public interest.²⁰ The addition of the enhanced language sought by the other intervenors would be the icing on the cake.

3. The Need for Imposition of a Trouble Report Complaint Reporting Condition

Trouble Report Complaint Reporting conditions are not new in the state of Oregon. The Commission ordered the imposition of just such a condition in Docket UM 1431 – Order No. 10-067 – see Condition 57. The condition that Staff and CUB are advocating for in this docket (original Condition 14) was set forth at Staff/100,/Dougherty/49 and was repeated in Staff/700/Dougherty/2-3. The proposed condition reads as follows:

- 14. Given that the Commission is approving the transaction based in part on the increased availability of broadband, CenturyLink is directed to provide the following reporting requirements:
 - a. Not less than 90 days following the first anniversary of the close of the transaction, and for the four subsequent annual periods, CenturyLink shall provide the following reports on the preceding twelve-month period, regarding the provision of DSL service in Oregon:
 - b. By month, the numbers of initial and verified trouble report complaint (TRC) data.
 - c. The types and duration of TRCs.
 - d. A brief caption as to the cause of each TRC. (TRCs may be grouped into categories for administrative reporting simplicity.)

The filing must thoroughly document what information CenturyLink collects in the form of customer complaints about DSL service on the number, types, and causes of trouble that impinge on CenturyLink's provisions of DSL service in Oregon.

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²⁰ [Errata] Joint testimony of Staff, CUB, CenturyLink and Qwest December 10, 2010 at 8 lines 8-12.

CenturyLink must also file a report with the Commission not less than 90 days following the first anniversary of the close of the transaction, and for the four subsequent annual periods, the following:

- a. By customer class, wire center, by month, the number of DSL subscriptions.
- b. By customer class, wire center, by month, the number of requested DSL subscriptions.

As stated by Mr. Feighner in "Testimony in Support of Imposition of Most-Favored State Commitment Condition and Broadband Trouble Report Complaint Reporting Condition of the Citizens' Utility Board of Oregon'²¹, CUB supports Condition 14. CUB believes this condition is necessary for the Commission to effectively monitor CenturyLink-Qwest's commitment to increase broadband availability in Oregon.²²

CUB believes it is within the Commission's domain to ensure that unregulated services provided by the merging companies are maintained during and after the merger in a manner that is also in the public interest and causes no harm. ²³ A Commission requirement for the merged companies to issue reports on the quality of broadband services is not an unduly burdensome request and should provide an incentive for the merged companies to continue to provide a quality product to Oregon customers.²⁴

Rather than being a disincentive to competitive neutrality, CUB believes Condition 14 should in fact provide further incentive to the Merged Companies to maintain a high-functioning broadband capability. CUB also finds a strong relationship between increased numbers of broadband accounts and Trouble Report Complaints.

²¹ UM 1484/CUB/200/Feighner/4-5.

²² *But see*, CTL/1100/Jones/2 lines 5-9.

²³*But see, Id.* at lines 19-21.

²⁴ But see, *Id.* at lines 21 – 23 and at UM 1484/CUB/200/Feighner/5 lines 1-3.

CUB's concern is that, in its haste to roll out additional broadband services, the Company may suffer a drop-off in quality of service that would result in harm to consumers. CUB does not think that the other reporting measures that have been put in place through the Stipulation are adequate to provide the monitoring needed for service quality consumer protection. Broadband deployment reports will not tell Commission Staff anything about quality of service. CUB thus finds a direct link between the meeting of the "in the public interest, no harm" standard and Condition 14.

Furthermore, as Staff pointed out, the Commission considered broadband reporting important enough to include just such a condition in the UM 1431 docket Order No. 10-067 just a matter of months ago. For consistency's sake, and to have a reliable data sample, the Commission should impose the same condition here. ²⁵

CUB respectfully requests that the Commission impose the requested Trouble Report Complaint Reporting condition upon CenturyLink-Qwest in this docket.

4. The Need for Imposition of a Most-Favored State Condition

The Most-Favored State condition, advocated for by Staff, CUB and multiple others, was originally set forth in Staff/100/Dougherty/57-58 and was repeated in Staff/700/Dougherty/3-4. The proposed condition reads as follows:

57. CenturyLink agrees that the Conditions may be expanded or modified as a result of regulatory decisions in other states and the FCC, including decisions based upon settlements, that impose conditions or commitments related to this merger proposal. CenturyLink agrees that the Commission may adopt any commitments or conditions from other states and the FCC that are adopted after the final order in UM 1484 is issued that are related to addressing harms of this transaction if:

The commitment or condition does not result in the combined company being required to provide a "net benefit" and either:

i. The Commission or Staff had not previously identified the harm to Oregon ratepayers and such harm is applicable to Oregon; or

²⁵ Staff/700 Dougherty/3.

ii. The commitments or conditions in a final order of another state and the FCC are more effective at preventing a harm previously identified by the Commission or Staff.

Should new commitments or conditions meeting the requirements of subsections i. or ii. of this paragraph occur, CenturyLink will commit to the following process to facilitate a prompt decision from the Commission under this section:

- a) Within fifteen (15) calendar days after a final order adopting a new condition or stipulation with new or amended commitments by a commission in another state jurisdiction and the FCC, CenturyLink will send a copy of the stipulation and commitment to Oregon Commission Staff and to all parties in UM 1484.
- b) CenturyLink will notify the Commission that they have received the last such final order from other states and the FCC adopting new conditions, stipulations or commitments (the "Final Filing") within fifteen (15) calendar days of receipt and send it to Staff and all UM 1484 parties.
- c) Within fifteen calendar days after the last such filing from the other states and the FCC ("Final Filing"), any party to this proceeding may file with the Commission its response, including its position as to whether any of the covenants, commitments and conditions from the other jurisdictions (without modification of the language thereof except such non-substantive changes as are necessary to make the commitment or condition applicable to Oregon), meets the two requirements set forth above, and should be adopted in Oregon. Any party filing such a response should serve it upon the UM 1484 parties.

CUB supports the imposition of this condition with one small correction. Upon the writing of this brief CUB, noted the omission of two words in section a) above. That sentence should be changed to read, "Within fifteen (15) calendar days after a final order adopting a new condition or stipulation with new or amended commitments by a commission in another state jurisdiction and the FCC *is entered*, CenturyLink will send a copy of the stipulation and commitment to Oregon Commission Staff and to all parties in UM 1484." Sprint and the Joint CLECs also support the imposition of a Most-Favored State provision. ²⁶ As noted by Mr. Gates, "This condition would ensure that the public

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²⁶ Sprint Objections to Stipulation at 3 "Even though Sprint does not support the Stipulation, if the Commission does accept it then the Stipulation should include a Most Favored States condition. On this

interest benefits obtained as a result of conditions agreed to by CenturyLink/Qwest in other jurisdictions, or at the FCC, can also be applied in Oregon."²⁷ Since the Companies sought expedited approval and Oregon has sought to accommodate them, Oregon should not be penalized for going before other states and losing the benefit of those states' conditions.²⁸

CUB believes that the benefits obtained by one set of customers need to be shared with others. Specifically, CUB believes that when a state agrees to settle prior to all states settling, the State should be able to benefit from the knowledge gained and conditions imposed in later filings. Right now rulings are still pending from three other state commissions and the FCC. CUB is not clairvoyant and does not know what conditions will be negotiated in those states or might be entered by the FCC. But most importantly, even if there were only one state which had not yet made a ruling, CUB would still advocate for the Most-Favored State condition because, as I will discuss below, that condition is the best tool in the box to ensure that the transaction is fully "in the public interest, no harm."

The Company makes several additional arguments as to why the Most-Favored State condition should not be imposed on them. The first pertains to its assessment that each set of negotiations should be fully independent from the others and that there should be certainty about the conditions.

CenturyLink-Qwest have been on notice since August 2010 that several intervening parties in Oregon would seek a Most-Favored State provision. That

point Sprint supports Mr. Dougherty's testimony in Staff Exhibit 700 and Mr. Feighner's testimony in CUB Exhibit 200 requesting that the Commission impose conditions upon the Merged Firm that are imposed upon them by other states and the FCC."; Joint CLECs/23 Gates/47-50.

^{2†} Joint CLECs/23/Gates/47 at lines 6-8.
²⁸ Joint CLECs/23/Gates/47 at lines 8-20 and at 48 lines 1-5; UM 1484 CUB/200/Feighner/2-3.

information has not stopped CenturyLink and Qwest from entering into settlement agreements with entities involved in the Oregon litigation or with entities involved in the litigation in other states. ²⁹ Other state commissions have also adopted Most-Favored State clauses. 30

Next, CenturyLink argues that it is unfair to include the FCC in this condition;³¹ CUB respectfully disagrees. With each merger docket that Staff and CUB review, they become more savvy about which conditions work, don't work, need to revised, and should be implemented in the future. This growing knowledge base should not be stifled by CenturyLink-Qwest's desire to have nothing done onto them that has not been done onto any other company. There is no competitive advantage or disadvantage to this condition, but there is an advantage for consumers in Oregon who may benefit from work done for consumers in other states. To CUB, the unfairness would arise were consumers in Oregon prohibited from sharing the benefits reaped by consumers of the Merged Company in another, or multiple other, states. Furthermore, it would be shortsighted to not seek the means within which to keep this settlement in line with future pronouncements by the FCC.

CUB also writes in response to CenturyLink's argument that the imposition of a Most-Favored State condition is "one-sided". 32 There is nothing one-sided about a condition that Staff and Intervenors have sought to have included in the process from the get go. While CenturyLink-Qwest may not like this condition because the good conditions negotiated in one state can be applied in other states and the bad conditions

Joint CLECs/23/Gates 49 lines 7-14.
 Joint CLECs/23/Gates/49 lines 16-18 and at 50 lines 1-2.

³¹ CTL/1100/Jones/6 lines 12-22 and 7 lines 1-2.

³² CTL/1100/Jones/7 lines 4-14.

will likely stay at home, it would be less than prudent for the Commission to fail to wield the powers that it has to ensure that this agreement is fully in the Oregon public's interest and that no harm is done to the Oregon public by this transaction being better in one state than another. This condition is one of the best tools in the Commission's merger tool box. CUB respectfully requests that the Commission utilize this tool and wield it forcefully.

Furthermore, in each of the recent telecom merger dockets, the Commission has seen fit to impose additional conditions upon the applicants.³³ Included in the additional conditions was a Most-Favored State clause. The OPUC's reasoning was as follows:

Our experience in prior cases has demonstrated the value of MFS clauses and, as noted by both Staff and CUB, such commitments benefit the various stakeholders in Oregon while, at the same time, allow applicants to promptly conclude the regulatory approval process. Nevertheless, the Applicants have demonstrated that, with respect to this transaction, different states have greatly differing priorities and that a modification to the MFS clause in this proceeding is warranted to reflect our intention that any clause should be related only to Oregon conditions. Thus, the clause we adopt in this order as new Condition 56, will read in relevant part as follows:

The commitment or condition does not result in the combined company being required to provide a "net benefit" and either: i. The Commission or Staff had not previously identified the harm to Oregon ratepayers and such harm is applicable to Oregon; or ii. The commitments or conditions in a final order of another state are more effective at preventing a harm previously identified by the Commission or Staff. (Added language in **bold.**)

With this change to the Staff recommendation, we adopt new Condition 56.³⁴

The additional conditions we impose here include: (1) a commitment by Frontier to spend an additional \$15 million (total: \$25 million) for broadband deployment and enhancement over the next three years; (2) the required filing of annual reports detailing service quality data and consumer complaint incidents with respect to broadband services; (3) the required filing of quarterly reports on the financial health of both Frontier Corporation and its operating company subsidiary; and (4) a

"most favored state" requirement that Oregon will benefit from protections for customers achieved by other states that, if adopted in Oregon, would help further mitigate the risks of the transaction.

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³³ See UM 1431 Order No. 10-067, where the Commission required the additional conditions of:

CUB hereby respectfully requests that the Commission see fit to impose the additional and necessary conditions petitioned for by CUB in this docket:

- a) The previously discussed Trouble Report Complaint Reporting condition for DSL broadband, and
- b) The Most-Favored State condition.

III. CONCLUSION

A lot of testimony, both written and oral, has been given by CenturyLink, Qwest, Staff, and Intervenors engaged in this docket. But nothing that CUB has read or heard from the Company or other Intervenors and Staff dissuades CUB from the need to advocate for the imposition of all of the conditions appended to the Stipulation and, in addition, for the imposition of two additional, necessary conditions – a Trouble Report Complaint Reporting condition and a Most-Favored State condition. The conditions appended to the Stipulation are important and go a long way towards protection of the public, but those same conditions do not meet the "in the public interest, no harm" standard without the imposition of the final two requested conditions – Trouble Report Complain Reporting and Most-Favored State. CUB respectfully requests that the Commission adopt the Trouble Report Complaint Reporting and Most-Favored State conditions because then, and only then, will the merger fully meet the standard of "in the public interest, no harm".

DATED this 25th day of January, 2011.

Respectfully submitted,

³⁴ UM 1431 Order No. 10-067 at 23.

G.C.M

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UM 1484 – CERTIFICATE OF SERVICE

I hereby certify that, on this 25th day of January, 2011, I served the foregoing **OPENING BRIEF OF THE CITIZENS' UTILITY BOARD OF OREGON** in docket UM 1484 upon each party listed in the UM 1484 PUC Service List by email and, where paper service is not waived, by U.S. mail, postage prepaid, and upon the Commission by email and by sending 1 original by U.S. mail, postage prepaid, to the Commission's Salem offices.

(W denotes waiver of paper service) (HC denotes highly confidential material authorized)

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