

QWEST/CENTURYLINK

DOCKET NO. T-01051B-10-0194 ET AL.

TESTIMONY

OF

WILLIAM A. RIGSBY

**IN SUPPORT OF
PROPOSED SETTLEMENT AGREEMENT**

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

DECEMBER 1, 2010

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1 **INTRODUCTION**

2 **Q. Please state your name, occupation and business address for the**
3 **record.**

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

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

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

23

1 **Q. What is the purpose of your testimony?**

2 A. The purpose of my testimony is to explain RUCO's support of the
3 proposed settlement agreement ("Proposed Settlement Agreement") on
4 the proposed merger ("Proposed Merger") of Qwest Communications
5 International Inc. ("Qwest") and CenturyLink, Inc. ("CenturyLink") which
6 was entered into by ACC Staff, RUCO, Qwest and CenturyLink on Friday,
7 November 19, 2010. Qwest and CenturyLink ("Joint Applicants" or
8 "Merged Company") originally filed their Proposed Merger request
9 ("Application") with the ACC on May 13, 2010.

10

11 **THE SETTLEMENT PROCESS**

12 **Q. Was the negotiation process that resulted in the Proposed**
13 **Settlement Agreement a proper and fair process?**

14 A. Yes. The Proposed Settlement Agreement is the result of five days of
15 concentrated negotiation and a willingness among the parties to
16 compromise. On Monday, November 15, 2010, the Administrative Law
17 Judge assigned to hear the case granted the parties' request to conduct
18 settlement discussions, and recessed the scheduled evidentiary hearing
19 until Friday, November 19, 2010. All intervenors had notice of the
20 settlement discussions and an opportunity to participate in every step of
21 the negotiation. The negotiations were conducted over the five days in a
22 fair and reasonable way that allowed each party the opportunity to
23 participate. Notice for each scheduled meeting was communicated to all

1 parties during those dates on which the evidentiary hearing on the
2 proposed merger of Qwest and CenturyLink were originally scheduled,
3 and on additional dates and times that that the parties agreed to meet.
4 Persons were able to participate via teleconference if necessary. In total,
5 the parties met five times from November 15 through November 19, 2010
6 before finalizing the Proposed Settlement Agreement. Each participant
7 was able to engage in meaningful negotiations over this period of time and
8 to express their positions fully during the settlement meetings.

9
10 The Proposed Settlement Agreement was signed by representatives from
11 Qwest, CenturyLink, ACC Staff and RUCO (“Settling Parties”).

12
13 **Q. Is a negotiated settlement process an appropriate way to resolve this**
14 **matter?**

15 A. Yes. The Proposed Settlement Agreement results in clarity and regulatory
16 certainty, without the risk of protracted litigation and appeals. The
17 Proposed Settlement Agreement guarantees that RUCO will get what it
18 believes is most important – a merger of two telecommunication
19 companies which results in a financially stronger entity that meets the
20 public interest standard. In addition to meeting the public interest
21 standard, the Proposed Settlement Agreement also includes a
22 commitment from the Joint Applicants that the merged entity will invest no
23 less than \$70 million in broadband infrastructure in Arizona over a five

1 year period beginning January 1, 2011. Settlement negotiations began
2 only after each party had the opportunity to analyze the Application, file
3 direct and surrebuttal testimony and read the direct and surrebuttal
4 testimony of other Intervenors. Of course, the Proposed Settlement
5 Agreement in no way eliminates the Commission's constitutional right and
6 duty to review this matter and to make its own determination as to whether
7 or not the Proposed Settlement Agreement is in the public interest.

8

9 **Q. Please summarize RUCO's reasons for supporting the Proposed**
10 **Settlement Agreement.**

11 A. The Proposed Settlement Agreement reflects an outcome that is fair to
12 Arizona consumers and the Joint Applicants. Furthermore, this is a "best
13 in class" settlement agreement that provides benefits at least as good, if
14 not better, than benefits included in settlement agreements reached in
15 other jurisdictions. The language in the Proposed Settlement Agreement
16 also strengthens and clarifies ACC Staff's original conditions for approval
17 that were of significant interest to both the CLECs and RUCO.

18

19 RUCO supports the Proposed Settlement Agreement in its entirety for four
20 reasons. First, the Proposed Settlement Agreement maintains the existing
21 competitive telecommunications environment in Arizona. Second, it
22 protects consumers who will be served by a financially stronger entity that
23 is poised to offer a number of advanced telecommunications products.

1 Third, it commits the Joint Applicants to making a minimum \$70 million
2 investment in broadband infrastructure. Fourth, it addresses RUCO's initial
3 concern that the costs of the merger not be passed on to ratepayers.

4

5 **SETTLEMENT PROVISIONS**

6 **Q. What are the main provisions of the Proposed Settlement**
7 **Agreement?**

8 A. The Proposed Settlement Agreement is a comprehensive document that
9 includes a commitment from the Joint Applicants that the merged entity
10 will invest no less than \$70 million in broadband infrastructure over a five
11 year period beginning January 1, 2011, and incorporates and strengthens
12 the conditions related to retail and wholesale issues originally
13 recommended by ACC Staff (Attachment 1 of the Proposed Settlement
14 Agreement displayed in Exhibit 1).

15

16 **Q: What are the benefits to residential consumers?**

17 A. The benefits to residential consumers are:

- 18 • A financially stronger merged entity.
- 19 • An investment of no less than \$70 million in broadband infrastructure
20 over a five year period
- 21 • New telecommunications products and services such as internet
22 protocol television ("IPTV").

- 1 • A commitment that the merged entity will not seek the recovery of
- 2 integration costs, related to the merger, from Arizona ratepayers in
- 3 future proceedings.
- 4 • A number of regulatory conditions that insure that the merged entity
- 5 will continue to operate under all existing decisions and be subject to
- 6 all existing performance obligations.
- 7 • A number of retail conditions that includes the continuance of the
- 8 existing Service Quality Tariff for a period of two years unless ACC
- 9 Staff or the Commission recommends changes.
- 10 • A number of retail conditions that insure competitive local exchange
- 11 carriers (“CLECs”) continued ability to compete fairly.

12

13 **Q. What are the benefits to the Joint Applicants?**

14 A. The benefits to the Joint Applicants are:

- 15 • A financially stronger merged entity that is better positioned to compete
- 16 with CLECs, as well as providers of voice over internet protocol
- 17 (“VoIP”), cable, internet, and satellite television services.
- 18 • The ability to curtail line losses by being able to offer innovative and
- 19 competitively priced telecommunications services.
- 20 • The ability to generate additional revenues by offering innovative and
- 21 competitively priced products such as IPTV.

22

1 **PUBLIC INTEREST**

2 **Q. Does RUCO believe that the Proposed Settlement Agreement is in**
3 **the public interest?**

4 A. Yes. For the same reasons stated in both my direct testimony and my
5 surrebuttal testimony, RUCO believes that the proposed Settlement
6 Agreement is in the public interest. However, as I pointed out in my
7 surrebuttal testimony, RUCO's recommendation, as presented in my direct
8 testimony, was only from a financial perspective pursuant to A.A.C. R14-2-
9 803(C) and A.R.S. § 40-285(A).

10

11 **Q. Why didn't RUCO perform a broad public interest analysis in its**
12 **direct and surrebuttal testimony?**

13 A. As I stated in my surrebuttal testimony, RUCO does not have the
14 necessary expertise to perform a broad analysis. For example, RUCO is
15 not a CLEC and is not aware of the particular problems and concerns that
16 CLECs have had with the Joint Applicants regarding access rates in this
17 state (i.e. with Qwest) and in other states (i.e. with Qwest and
18 CenturyLink). Nor is RUCO aware of the particular quality of service
19 issues that this merger presents or the integration concerns and their
20 significance that are associated with CenturyLink's previous acquisitions.
21 RUCO chose not to use its limited resources to hire outside consultants on
22 these issues.

1 Prior to the original hearing date on the Proposed Merger, RUCO took
2 notice of ACC Staff's direct and surrebuttal testimony which identified
3 numerous conditions it felt must be met in order for the merger to be in the
4 broad public interest. Many of those conditions addressed operations,
5 integration and competition. RUCO participated in settlement negotiations
6 where these conditions were discussed. The Proposed Settlement
7 Agreement reflects a consensus among ACC Staff, RUCO and the Joint
8 Applicants which resolves ACC Staff's concerns. By participating in these
9 negotiations, RUCO is now able to support the Proposed Merger not only
10 from a financial perspective, but on a much broader public interest
11 standard.

12

13 **Q. What was RUCO's position in your direct testimony?**

14 A. In my direct testimony I concluded that the Proposed Merger is in the
15 public interest and recommended that the Commission approve the
16 Proposed Merger on the condition that Qwest's Arizona ratepayers be
17 shielded from any integration/acquisition costs that the combined entity
18 may attempt to pass on to them.¹

19

20

21 ...

22

¹ Page 24 of the direct testimony of William A. Rigsby filed on September 27, 2010.

1 **Q. Does the Proposed Settlement Agreement satisfy RUCO's condition**
2 **regarding integration/acquisition costs?**

3 A. Yes. As can be seen in Attachment 1 of the Proposed Settlement
4 Agreement, Condition 1 states the following:

5 "The merged company agrees that Qwest Corporation or any successor
6 entity shall not recover, or seek to recover through wholesale service
7 rates or other fees paid by CLECs or through Arizona end-user retail
8 rates: a) one-time transition, branding, or any other transaction-related
9 costs; b) any acquisition premium paid by CenturyLink for QCI; and c)
10 any increases in overall management costs that result from the
11 transaction, including those incurred by the operating companies. For
12 purposes of this condition, "transaction-related costs" shall be construed
13 to include all Merged Company costs related to or resulting from the
14 transaction and any related transition, conversion, or migration costs
15 and, for example, shall not be limited in time to costs incurred only
16 through the Closing Date."
17

18 **Q. Should the Commission only consider the financial perspective**
19 **when it applies the public interest standard to the Proposed**
20 **Settlement Agreement?**

21 A. No. As I explained in my surrebuttal testimony, the Commission has
22 addressed the public interest standard in prior reorganization applications.
23 For example, in Decision No. 67454, The Matter of the Reorganization of
24 UniSource Energy Corporation, the Commission stated the following:

25 "The duty to act in the public interest requires this Commission to
26 consider all factors implicated in this transaction and not solely the
27 impairment of the financial status or services of the public service
28 corporation. A careful analysis of potential risks is particularly crucial
29 when the proposed transaction can impact the public health and safety."
30

31 The Commission further noted that the public interest inquiry is "broad"
32 and that the Commission should consider all of the available evidence in

1 any given case.² RUCO believes that this same standard and the same
2 broad level of scrutiny should be applied in the Commission's review of
3 the Proposed Settlement Agreement.

4

5 **Q. Are there terms in this agreement that benefit ratepayers and go**
6 **beyond what RUCO was asking for in its direct case?**

7 A. Yes. There are several terms that go beyond what RUCO sought in its
8 direct case and benefit ratepayers. Perhaps the most significant is the
9 Joint Applicants' \$70 million minimum commitment to broadband
10 deployment which I mentioned above. This is a huge benefit to the state
11 of Arizona. Since broadband is an unregulated service, a multi-million
12 dollar commitment to deploy it would not be jurisdictionally available to the
13 Commission absent consent of the Joint Applicants, which would be
14 unlikely through formal litigation.

15

16 Both Arizona residents and businesses would benefit from expanded
17 broadband service. For example, during public comment, on the first day
18 of the evidentiary hearing on the Proposed Merger, one member of the
19 public from Bisbee discussed the need for improved internet service. Of
20 course, Bisbee is not the only area where broadband expansion would
21 improve access to the internet. By giving the Joint Applicants discretion
22 on where to deploy thee \$70 million of broadband infrastructure, the

² Decision No. 67454, dated January 4, 2005, pages 28 thru 29.

1 Merged Company, with its intimate knowledge of its service territory, can
2 maximize its resources in ways that will result in the largest number of
3 customers receiving the best benefit.

4
5 The issue of post merger broadband deployment is very important to
6 RUCO. RUCO strenuously negotiated this issue and is pleased with the
7 result. Only one other state, Colorado, has a commitment of this
8 magnitude. Qwest considers Colorado a larger service territory than
9 Arizona based on the greater number of service lines Qwest maintains in
10 Colorado. Hence, a broadband deployment commitment from the Merged
11 Company over the next five years that is on par with Colorado is a
12 significant benefit for the ratepayers in Arizona.

13
14 Among other benefits of the Settlement are the numerous reporting
15 requirements that the Joint Applicants have agreed to. Reporting is a
16 paramount concern to RUCO and the Proposed Settlement Agreement
17 requires significant reporting to ACC Staff. Furthermore, Condition 18 of
18 the Proposed Settlement Agreement requires the Merged Company to
19 meet with ACC Staff and RUCO annually to review broadband
20 deployment. RUCO will be further notified of any major financial concerns
21 (Condition 32), synergy costs and savings (Condition 34), layoffs and
22 closings (Condition 35).

23

1 In sum, the Proposed Settlement Agreement is a good deal for Arizona
2 ratepayers. Arizona ratepayers will receive benefits that meet or exceed
3 benefits received by other ratepayers in other jurisdictions.

4

5 **Q. How is the public interest satisfied by the Proposed Settlement**
6 **Agreement?**

7 A. As outlined on page 3 of the Proposed Settlement Agreement, the public
8 interest is served through the following benefits:

- 9 a) The creation of a combined company that is stronger financially
10 than either company would be standing alone which will provide the
11 Merged Company with the ability to make necessary investments to
12 its network in order to provide advanced products and services.
13
14 (b) Substantial investment of not less than \$70 million in broadband
15 infrastructure in the state over a five year period.
16
17 (c) The maintenance of existing retail service quality measures for a
18 period of two (2) years.
19
20 (d) The implementation of a new local market model whereby
21 operating decisions are pushed closer to the customer, increasing
22 responsiveness to customers' needs, marketing flexibility, and
23 targeted investment.
24
25 (e) Neither Qwest nor any successor entity will recover through
26 wholesale service rates or other fees paid by CLECs or through
27 Arizona end-user retail rates the acquisition costs of the merger.
28
29 (f) The extension of interconnection agreements, wholesale
30 agreements, commercial agreements and tariffs for the benefit of
31 CLECs and their respective customers.
32
33 (g) The Joint Applicants will evaluate existing litigation involving the
34 Commission and make a good faith effort to resolve the issues
35 without further litigation.
36

1 (h) The Joint Applicants have agreed to significant reporting to the
2 Commission which will enable the Commission to better evaluate
3 improvements in service quality, customer complaints,
4 infrastructure, broadband coverage, and the financial status of the
5 Joint Applicants.
6

7 **Q. Does RUCO believe that the Proposed Settlement Agreement**
8 **satisfies the broad public interest standard that you addressed**
9 **above?**

10 A. Yes. RUCO believes that the Proposed Settlement Agreement,
11 negotiated by ACC Staff, RUCO and the Joint Applicants, satisfies the
12 broad public interest standard and that the Proposed Settlement
13 Agreement will withstand the scrutiny of the public interest standard that
14 the Commission applies to it.³
15

16 **Q. Does your silence on issues not addressed in your testimony imply**
17 **any disfavor or reluctance of RUCO's support of the Proposed**
18 **Settlement Agreement?**

19 A. No. RUCO supports the Proposed Settlement Agreement and urges the
20 Commission to adopt it in its entirety. RUCO understands that other
21 parties will address their issues in greater detail.
22

³ RUCO understands that certain CLECs have not settled with the Joint Applicants. RUCO is not commenting one way or another on the validity of the CLECs' disputes. Those disputes appear to be CLEC specific.

1 **Q. Does this conclude your testimony in support of the Proposed**
2 **Settlement Agreement?**

3 A. Yes.

Qualifications of William A. Rigsby, CRRA

EDUCATION:

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

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

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

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

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

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

EXPERIENCE:

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

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

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

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

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Arizona Water Company	W-01445A-02-0619	Rate Increase
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval
Arizona-American Water Company	W-01303A-05-0405	ACRM Filing
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
UNS Gas, Inc.	G-04204A-06-0463	Rate Increase
Arizona-American Water Company	WS-01303A-06-0491	Rate Increase
UNS Electric, Inc.	E-04204A-06-0783	Rate Increase
Arizona-American Water Company	W-01303A-07-0209	Rate Increase
Tucson Electric Power	E-01933A-07-0402	Rate Increase
Southwest Gas Corporation	G-01551A-07-0504	Rate Increase
Chaparral City Water Company	W-02113A-07-0551	Rate Increase
Arizona Public Service Company	E-01345A-08-0172	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Johnson Utilities, LLC	WS-02987A-08-0180	Rate Increase
Arizona-American Water Company	W-01303A-08-0227 et al.	Rate Increase
UNS Gas, Inc.	G-04204A-08-0571	Rate Increase
Arizona Water Company	W-01445A-08-0440	Rate Increase
Far West Water & Sewer Company	WS-03478A-08-0608	Interim Rate Increase
Black Mountain Sewer Corporation	SW-02361A-08-0609	Rate Increase
Global Utilities	SW-02445A-09-0077 et al.	Rate Increase
Litchfield Park Service Company	SW-01428A-09-0104 et al.	Rate Increase
UNS Electric, Inc.	E-04204A-09-0206	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-08-09-0257	Rate Increase
Arizona-American Water Company	W-01303A-09-0343	Rate Increase
Bella Vista Water Company	W-02465A-09-0411 et al.	Rate Increase
Qwest/CenturyLink	T-04190A-10-0194 et al.	Merger
Chaparral City Water Company	W-02113A-10-0309	Reorganization

EXHIBIT 1

Proposed Settlement Agreement

**PROPOSED SETTLEMENT AGREEMENT ON JOINT APPLICANTS'
APPLICATION**

(DOCKET NOS. T-01051B-10-0194, T-02811B-10-0194, T-04190A-10-0194, T-20443A-10-0194, T-03555A-10-0194 AND T-03902A-10-0194)

This Proposed Settlement Agreement, including Attachment 1 appended hereto which is hereby incorporated herein by reference, (the "Agreement") is entered into by and among Qwest Communications International, Inc., and its Arizona telephone operating subsidiaries Qwest Corporation, Qwest Communications Company LLC, and Qwest LD Corp., (collectively "Qwest") and CenturyLink, Inc., and its Arizona telephone operating subsidiaries including Embarq Communications, Inc., d/b/a CenturyLink Communications, Embarq Payphone Services, Inc., d/b/a CenturyLink, and CenturyTel Solutions LLC, (collectively "CenturyLink") (Qwest and CenturyLink are collectively referred to herein as the "Joint Applicants"), the Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission"), and the Residential Utility Consumer Office ("RUCO") (individually a "Party" or collectively, the "Settling Parties").

RECITALS

WHEREAS, On May 13, 2010, the Joint Applicants submitted for Commission approval a Joint Notice and Application for Expedited Approval of Proposed Merger (the "Joint Application");

AND WHEREAS, the Settling Parties desire to adopt this Agreement to settle all outstanding issues among themselves pertaining to the Joint Application in Docket Nos. T-01051B-10-0194, T-02811B-10-0194, T-04190A-10-0194, T-20443A-10-0194, T-03555A-10-0194 and T-03902A-10-0194 in a manner that will meet the requirements of A.A.C. R14-2-803 and promote the public interest;

AND WHEREAS, the Settling Parties agree that the negotiation process undertaken in this matter was open to all Intervenors and provided all Intervenors with an equal opportunity to participate, and that all Intervenors were notified of the settlement process and encouraged to participate;

AND WHEREAS, the Settling Parties agree that the terms of this Agreement will serve the public interest by providing a just and reasonable resolution of the issues presented by the Joint Applicants' application (the "Joint Application") in Docket Nos. T-01051B-10-0194, T-02811B-10-0194, T-04190A-10-0194, T-20443A-10-0194, T-03555A-10-0194 and T-03902A-10-0194. The adoption of this Agreement will further serve the public interest by allowing the Settling Parties to avoid the expense and delay associated with litigation;

AND WHEREAS, in consideration thereof, the Settling Parties agree as follows:

TERMS AND CONDITIONS

1. **Broadband Commitment.**

Joint Applicants shall invest no less than \$70 million in broadband infrastructure within the State of Arizona over a five year period beginning January 1, 2011. (Condition 17)

2. **Retail and Wholesale Conditions.**

The Settling Parties agree to the conditions addressing retail operations (Conditions 10-18) and wholesale operations (Conditions 19-31) set forth in Attachment 1 of this Agreement.

3. **Merger Cost, Regulatory, Financial, Reporting, and Conservation of Commission Resources Conditions.**

The Settling Parties agree to the conditions addressing merger costs (Conditions 1-3), regulatory (Conditions 4-9), financial (Conditions 32-33), reporting (Conditions 34-40), and conservation of Commission resources (Condition 41) set forth in Attachment 1 of this Agreement.

4. **Effective Date.**

This Agreement is effective upon execution, however, the conditions contained in Attachment 1 of the Agreement shall not become effective unless and until the transaction closes. If the transaction does not close, this Agreement is null and void.

5. **FCC Conditions.**

Any required terms and conditions applicable to Competitive Local Exchange Carriers ("CLECs") or Commercial Mobile Radio Service ("CMRS") providers or other matters that are contained in the FCC's order approving the merger shall be in addition to the terms and conditions of this Agreement. If any of the FCC terms and conditions are inconsistent with this Agreement, the Joint Applicants, Staff or RUCO may request that the Commission revisit the terms and conditions adopted herein to determine whether adoption of the FCC condition would be more appropriate, unless the FCC condition is state specific or such choice is not permitted by the FCC Order.

6. **No Impairment.**

The Settling Parties agree that, with this Agreement and the agreed upon conditions and commitments contained herein and in Attachment 1 of this Agreement, the Joint Application of Qwest and CenturyLink for approval of the proposed merger will not impair the financial status of the Joint Applicants, otherwise prevent the Joint Applicants from attracting capital at fair and reasonable terms, or impair the ability of the Joint Applicants to provide safe, reasonable and adequate service, and should be approved and authorized by the Commission pursuant to A.A.C. R14-2-803.

7. Public Interest.

The Settling Parties agree that, with this Agreement and the agreed upon conditions and commitments contained herein and in Attachment 1 of this Agreement, the Joint Application of Qwest and CenturyLink for approval of the proposed merger is in the public interest and should be approved by the Commission. As part of meeting the public interest standard, the merger will create numerous benefits to consumers in the State of Arizona. Those benefits include:

(a) creation of a combined company that is stronger financially than either company would be standing alone. This will provide the merged company the ability to make necessary investments to its network in order to provide advanced products and services.

(b) substantial investment in broadband in the state, as particularly describe in Section 1 above.

(c) maintenance of existing retail service quality measures for a period of two (2) years;

(d) implementation of a new local market model where by operation decisions are pushed closer to the customer, increasing responsive to customers' needs, marketing flexibility, and targeted investment.

(e) neither Qwest Corporation nor any successor entity will recover through wholesale service rates or other fees paid by CLECs or through Arizona end-user retail rates the acquisition costs of the merger.

(f) extension of interconnection agreements, wholesale agreements, commercial agreements and tariffs for the benefit of CLECs and their respective customers.

(g) the Joint Applicants will evaluate existing litigation involving the Commission and make a good faith effort to resolve the issues without further litigation.

(h) the Joint Applicants have agreed to significant reporting to the Commission which will enable the Commission to better evaluate improvements in service quality, customer complaints, infrastructure, broadband coverage, and the financial status of the Joint Applicants.

8. Resolution of All Issues.

This Agreement resolves all Settling Parties' issues related to the Commission's approval of the Joint Application.

9. Commission Evaluation of this Proposed Settlement.

(a) The Settling Parties agree that all currently filed testimony and exhibits shall be stipulated into the Commission's record as evidence. Each of the Settling Parties shall file testimony in support of the Agreement.

(b) The Settling Parties recognize that Staff does not have the power to bind the Commission. For purposes of proposing a settlement agreement, Staff acts in the same manner as any party to a Commission proceeding.

(c) This Agreement shall serve as a procedural device by which the Settling Parties will submit their proposed settlement of Docket Nos. T-01051B-10-0194, T-02811B-10-0194, T-04190A-10-0194, T-20443A-10-0194, T-03555A-10-0194 and T-03902A-10-0194 to the Commission. Except for Sections 13, 14 and 16, this Agreement will not have any binding force or effect until its provisions are adopted as an order of the Commission.

(d) The Settling Parties further recognize that the Commission will independently consider and evaluate the terms of this Agreement.

10. Approval by the Commission; Approval with Material Conditions.

(a) If the Commission issues an order adopting all material terms of this settlement, such action shall constitute Commission approval of this Agreement. Thereafter, the Settling Parties shall abide by the terms as approved by the Commission.

(b) If the Commission is willing to approve the Joint Application, but such approval is contingent upon conditions or requirements that materially alter the Agreement ("Material Conditions"), the Settling Parties shall meet and confer as soon as reasonably practical to determine in good faith whether each Party would be willing to accept such Material Conditions. If the Material Conditions are not acceptable to one or more of the Settling Parties, then the Settling Parties, prior to the Commission approving the Settlement, shall request that the Commission send the matter back to the Hearing Division for an expedited evidentiary hearing on the Joint Application based upon the pre-filed testimony in the Docket. If the Commission approves the Settlement with terms that materially alter the Agreement and one or more of the Settling Parties are not willing to accept the terms, then the Settling Parties (with the exception of Staff) shall request a rehearing pursuant to ARS § 40-253. For the purposes of this Agreement, whether a condition or requirement constitutes a Material Condition shall be left to the discretion of each Party.

11. Definitive Text.

The "Definitive Text" of this Agreement shall be the text adopted by the Commission in an order that approves all material terms of the Agreement, including all modifications made by the Commission in such an order.

12. Non-Severability Clause.

Each of the terms of the Definitive Text of the Agreement is in consideration and support of all other terms. Accordingly, the terms are not severable.

13. Privileged and Confidential Communications.

All negotiations relating to this Agreement are privileged and confidential, and no Party is bound by any position asserted in negotiations, except as expressly stated in this Agreement.

As such, evidence of conduct or statements made in the course of negotiating this Agreement are not admissible as evidence before the Commission, any other regulatory agency, or any court.

14. No Waiver or Admission.

(a) This Agreement represents the Settling Parties' mutual desire to compromise and settle disputed issues in a manner consistent with the public interest.

(b) Nothing in this Agreement shall be construed as an admission by any of the Settling Parties that any of the positions taken by any Party in this proceeding is unreasonable or unlawful. In addition, acceptance of this Agreement by any of the Settling Parties is without prejudice to any position taken by any Party in these proceedings.

(c) This case presents a unique set of circumstances and has attracted a number of participants with diverse interests. To achieve consensus for settlement, the Settling Parties are accepting positions that, in any other circumstances, they would be unwilling to accept. They are doing so because the Agreement, as a whole, with its various provisions for settling the unique issues presented by this case, is consistent with their long-term interests and with the broad public interest.

15. Entire Agreement.

The Settling Parties acknowledge that this Agreement is a product of negotiations and compromise. This Agreement constitutes the Settling Parties' entire agreement on all matters set forth herein, and it supersedes any and all prior oral and written understanding or agreements on such matters.

16. Duty to Defend and Support.

(a) The Settling Parties will support all aspects of this Agreement in any hearing, Open Meeting, or other Commission proceeding conducted to determine whether the Commission should approve this Agreement, and/or in any other Commission hearing, proceeding, or judicial review relating to this Agreement or the implementation of its terms and conditions. Each Settling Party also agrees that, except as expressly provided in this Agreement, it will take no action in any administrative or judicial proceeding, or otherwise, which would have the effect, directly or indirectly, of contravening the provisions or purposes of this Agreement.

(b) The Settling Parties agree to cooperate to ensure compliance with, or seek waiver of, applicable Commission orders or regulations to the extent necessary to permit all provisions of this Agreement to be performed and effective.

17. No Precedent Established.

This Agreement is made for settlement purposes only. Neither this Agreement nor any of the positions taken in this Agreement by any of the Signatories may be referred to, cited, or relied upon as precedent in any proceeding before the Commission, any other regulatory agency,

or any court for any purpose except in furtherance of securing the approval and enforcement of this Agreement.

18. No Waiver; Reservation of Rights.

(a) Nothing in this Agreement shall constitute a waiver by any Party with respect to any matter not specifically addressed in this Agreement. In the event this Agreement becomes null and void or in the event the Commission does not approve this Agreement, or in the event that the merger does not close, this Agreement, as well as the negotiations or discussions undertaken in conjunction with the Agreement, shall not be admissible into evidence in these or any other proceeding.

(b) The Settling Parties expressly reserve the right to advocate positions different from those stated in this Agreement in any proceeding other than one necessary to obtain approval of, or to implement, this Agreement or its terms and conditions, but this section shall not contravene or reduce any Settling Parties' obligations set forth herein.

19. Commission Jurisdiction.

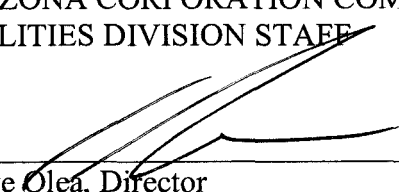
Nothing herein is intended in any way limit or restrict the Commission's jurisdiction or authority over Qwest or CenturyLink as provided for under the Arizona Constitution, the Arizona Revised Statutes and Commission rules. Further, unless expressly and specifically waived herein, Qwest and CenturyLink shall continue to comply with all Commission rules and orders.

20. Execution and Counterparts.


This Agreement may be signed in counterparts, each of which shall be deemed an original. This Agreement may be executed by facsimile or electronic signature and the Settling Parties agree that such execution shall have the same force and effect as delivery of an original document with original signatures, and that each Party may use such facsimile or electronic signatures as evidence of the execution and delivery of this Agreement by the Settling Parties to the same extent that an original signature could be used.

DATED this 24th day of November, 2010.

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION STAFF

By: 
Steve Olea, Director
Utilities Division
1200 West Washington
Phoenix, Arizona 85007

QWEST COMMUNICATIONS
INTERNATIONAL, INC., and its Arizona
telephone operating subsidiaries Qwest
Corporation, Qwest Communications Company
LLC, and Qwest LD Corp.

By: 
James P. Campbell, Arizona State President
20 E. Thomas Road
Phoenix, Arizona 85012

CENTURYLINK, INC., and its Arizona telephone
operating subsidiaries including Embarq
Communications, Inc., d/b/a CenturyLink
Communications, Embarq Payphone Services, Inc.,
d/b/a CenturyLink, and CenturyTel Solutions LLC

By: _____
Jeff Glover
Vice President - Regulatory Operations & Policy
100 CenturyLink Drive
Monroe, Louisiana 71203

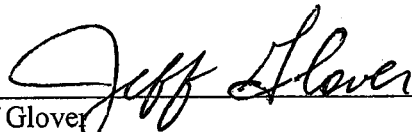
RESIDENTIAL UTILITY CONSUMER OFFICE

By: _____
Jodi Jerich, Director
1110 W. Washington, Suite 220
Phoenix, Arizona 85007

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LLC, and Qwest LD Corp.

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Vice President - Regulatory Operations & Policy
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By:  _____
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Phoenix, Arizona 85007

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Subject of Condition	Agreed Condition
MERGER COSTS	<p>1. The Merged Company agrees that Qwest Corporation or any successor entity shall not recover, or seek to recover through wholesale service rates or other fees paid by CLECs or through Arizona end-user retail rates: a) one-time transition, branding, or any other transaction-related costs; b) any acquisition premium paid by CenturyLink for QCI; and c) any increases in overall management costs that result from the transaction, including those incurred by the operating companies. For purposes of this condition, "transaction-related costs" shall be construed to include all Merged Company costs related to or resulting from the transaction and any related transition, conversion, or migration costs and, for example, shall not be limited in time to costs incurred only through the Closing Date.</p>
	<p>2. That the Merged Company shall provide the Arizona Corporation Commission ("Commission") with access to all books of account, all documents, data, and records that pertain to the proposed merger in accordance with relevant Commission decisions, statutes and rules, including the Affiliated Interest Rules.</p>
	<p>3. That the Commission reserves the right to review, for reasonableness, all financial aspects of this transaction in any relevant proceeding. Nothing in this condition is intended to limit the Commission's authority in any way.</p>
REGULATORY	<p>4. In the Qwest ILEC service territory, after the merger closing, Qwest Corporation shall continue to be classified as a Bell Operating Company ("BOC"), pursuant to Section 3(4)(A)-(B) of the Communications Act and shall be subject to all requirements applicable to BOCs, including Sections 271 and 272.</p>
	<p>5. The Merged Company agrees that Qwest Corporation or any successor entity shall continue to comply with all Section 271 obligations adopted by this Commission and the FCC, including all Qwest Performance Assurance Plan ("QPAP") and Performance Indicator Definition ("PID") obligations, until it is released of those obligations by the FCC and/or this Commission, as appropriate.</p>
	<p>6. That the Merged Company shall continue to comply with all relevant prior Commission orders and decisions, unless the Commission specifically finds in an order that they are no longer applicable.</p>
	<p>7. The Merged Company agrees that Qwest Corporation or any successor</p>

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	<p>entity shall maintain its books and records in accordance with the Uniform System of Accounts ("USOA") and to provide the Commission with financial data on a separated intrastate basis for as long as required by the Commission.</p>
	<p>8. That the Merged Company agrees to notify the Commission of any merger and/or reorganization that would affect the Qwest Corporation Arizona ILEC operating company and agrees to file an application pursuant to applicable statutes and A.A.C. R14-2-801 <i>et seq.</i> for Commission approval before any such merger and/or reorganization occurs.</p>
	<p>9. The Merged Company agrees that Qwest Corporation or any successor entity shall provide to the Commission access to its books and records and those of its subsidiaries and affiliates, in a form acceptable to the Commission, to the extent deemed necessary by the Commission to ensure the provision of service at just and reasonable rates in the future.</p>
RETAIL OPERATIONS	<p>10. That within 180 days following merger close, CenturyTel Solutions shall file for modification or cancellation of its CLEC Certificate of Convenience & Necessity granted by Commission Decision No. 63638.</p>
	<p>11. That the Merged Company for a period of two years following merger close shall not file to make changes to its Service Quality Tariff; unless recommended by the Staff or the Commission.</p>
	<p>12. The Merged Company will abide by Commission decisions, statutes and rules regarding any filing to obtain funds from the Arizona Universal Service Fund ("AUSF"). However, the Merged Company may not file to obtain funds from the AUSF until after a final order is issued by the Commission in Docket No. RT-00000H-97-0137, or three years from merger close, whichever comes first.</p>
	<p>13. That the Merged Company shall maintain or improve its pre-merger complaint status in the Qwest Arizona service areas.</p>
	<p>14. That the Merged Company shall ensure that retail support centers are sufficiently staffed with adequately trained personnel who will provide a level of service not less than and functionally equivalent to that provided in the Qwest service areas prior to the merger. Commencing within sixty days of the end of the first full quarter after the close of the merger, and then every six months thereafter for a period of three years after close of merger, the Merged Company shall provide to Staff a report showing integration plans describing the scheduling and scoping of major systems conversions that may impact Arizona customers including business</p>

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	<p>office and trouble reporting call centers, maintenance systems that monitor central office and transport equipment, engineering systems, outside plant record systems, billing systems, and wholesale OSS.</p> <p>The information regarding condition 14 shall be submitted confidentially to the Commissioners, the Director of the Utilities Division, and the Director of RUCO, at least 90 days before any of the above changes occur and with notice of such submittal filed in Docket Control.</p>
	<p>15. That no Commission-regulated intrastate retail service currently offered by Qwest Corporation will be discontinued for a period of at least one year following the Closing Date, except as approved by the Commission.</p>
	<p>16. That the Merged Company, for a period of three years from the close of the merger, shall give at least 90 days notice of any plans to integrate portions of Qwest’s retail support systems with portions of the CenturyLink and/or Embarq systems. If the integration is to be accomplished in phases, 90 days notice shall be given before each separate phase. The Merged Company shall make a filing detailing the proposed integration and the schedule in which it is to be accomplished. The Merged Company shall indicate what support system is being replaced and what support system will survive. It shall also discuss any problems that occurred with similar integrations in other jurisdictions and how such problems will be mitigated in Arizona. The Merged Company shall explain how the proposed integration, where it affects retail operations, will improve or at least maintain current Qwest retail support systems.</p> <p>The information regarding condition 16 shall be submitted confidentially to the Commissioners, the Director of the Utilities Division, and the Director of RUCO, at least 90 days before any of the above changes occur and with notice of such submittal filed in Docket Control.</p>
	<p>17. Qwest Corporation, or any successor entity, shall invest not less than \$70 million in broadband infrastructure in Arizona over a five year period beginning January 1, 2011.</p>
	<p>18. The Merged Company shall provide notice to the Director of the Utilities Division and the Commissioners of Internet Protocol Television (“IPTV”) deployment plans, on a confidential basis, no less than 30 days prior to the commercial launch of IPTV in the Qwest ILEC territory.</p> <p>For a period of three years, the Merged Company will meet with Commission Staff and RUCO annually, on a confidential basis, within 60 days of the anniversary date of the merger, to review 1) broadband deployment plans in the state including deployment in the previous year</p>

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	<p>and deployment plans for the upcoming year; 2) compliance with the Broadband commitment in condition 17 including the status of wireline broadband service in unserved and underserved areas; and 3) the status of the offering of Pure Broadband and extended DSL service in the Arizona Qwest ILEC service area.</p> <p>For purposes of this condition, “unserved” means an area that has no wireline broadband service, and “underserved” means an area with wireline broadband service but only at download speeds of 1.5 Mbps or less, and “area” means one or more living units.</p>
WHOLESALE OPERATIONS	<p>19. In Qwest ILEC service territory, after the Closing Date, the Merged Company will use and offer to wholesale customers the legacy Qwest Operational Support Systems ("OSS") for at least two years, or until July 1, 2013, whichever is later, and thereafter provide a level of wholesale service quality that is not less than that provided by Qwest prior to the Closing Date, with functionally equivalent support, data, functionality, performance, electronic flow through, and electronic bonding. After the period noted above, the Merged Company will not replace or integrate Qwest systems without first establishing a detailed transition plan and complying with the following procedures:</p> <ul style="list-style-type: none">a. <u>Detailed Plan</u>. The Merged Company will provide notice to the Wireline Competition Bureau of the FCC, the Commission and CLECs that are parties to this proceeding at least 270 days before replacing or integrating Qwest OSS system(s). Upon request, the Merged Company will describe the system to be replaced or integrated, the surviving system, and steps to be taken to ensure data integrity is maintained. The Merged Company’s plan will also identify planned contingency actions in the event that the Merged Company encounters any significant problems with the planned transition. The plan submitted by the Merged Company will be prepared by information technology professionals with substantial experience and knowledge regarding legacy CenturyLink and legacy Qwest systems processes and requirements. CLEC will have the opportunity to comment on the Merged Company’s plan in a forum in which it is filed, if the regulatory body allows comments, as well as in the Qwest Change Management Process.b. <u>CMP</u>. The Merged Company will follow the procedures in the Qwest Change Management Process (“CMP”) Document.¹c. <u>Replacement or Retirement of a Qwest OSS Interface</u>.<ul style="list-style-type: none">i. The replacement or retirement of a Qwest OSS Interface may not occur

¹ The Qwest CMP Document is available at <http://www.qwest.com/wholesale/cmp/>

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	<p>without sufficient acceptance of the replacement interface by CLECs to help assure that the replacement interface provides the level of wholesale service quality provided by Qwest prior to the Closing Date. Each party participating in testing will commit adequate resources to complete the acceptance testing within the applicable time period. The Parties will work together to develop acceptance criteria. Testing will continue until the acceptance criteria are met. Sufficient acceptance of a replacement for a Qwest OSS Interface will be determined by a majority vote, no vote to be unreasonably withheld, of the CMP participants (Qwest and CLECs) in testing, subject to any party invoking the CMP's Dispute Resolution process. The requirements of this paragraph will remain in place only until completion of merger-related OSS integration and migration activity. If a dispute arises as to whether such merger-related OSS integration and migration activity is complete, the Commission will determine the completion date.</p> <p>ii. The Merged Company will allow coordinated testing with CLECs, including a stable testing environment that mirrors production, jointly established test cases, and, when applicable, controlled production testing, unless otherwise agreed to by the Parties. Testing described in this paragraph associated with merger-related system replacement or integration will be allowed for the time periods in the CMP Document, or for 120 days, whichever is longer, unless otherwise mutually agreed to by the Parties.</p> <p>iii. The Merged Company will provide the wholesale carriers training and education on any wholesale OSS implemented by the Merged Company without charge to the wholesale carrier.</p> <p>d. <i>Billing Systems.</i> The Merged Company will not begin integration of Billing systems before the end of the minimum two year or July 1, 2013 period, whichever is longer, noted above, or without following the above procedures, unless the integration will not impact data, connectivity and system functions that support or affect CLECs and their customers.</p> <p>i. Any changes by the Merged Company to the legacy Qwest non-retail OSS will meet all applicable ICA provisions related to billing and, to the extent not included in an ICA, will be Ordering and Billing Forum (OBF) compliant.</p>
	<p>20. In the Qwest ILEC service territory, the Merged Company shall comply with all wholesale performance requirements and associated remedy or penalty regimes for all wholesale services, including those set forth in regulations, tariffs, interconnection agreements, and Commercial agreements applicable to legacy Qwest as of the Merger Closing Date. In the Qwest service territory, the Merged Company shall continue to</p>

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provide to CLECs at least the reports of wholesale performance metrics that legacy Qwest made available, or was required to make available, to CLECs as of the Merger Closing Date, or as subsequently modified or eliminated as permitted under this Agreement or pursuant to any changes in law. The Merged Company shall also provide these reports to Commission Staff, or the FCC when requested. The Commission and/or the FCC may determine that additional remedies are required; to the extent the Commission or FCC finds it is consistent with its jurisdiction. The Merged Company does not waive its right to oppose such a request.

- a. The Parties will not seek to reduce or modify the Qwest Performance Indicator Definition (PID) or Qwest Performance Assurance Plan (QPAP) that is offered, or provided via contract or Commission approved plan, as of the Merger Closing Date for at least eighteen months after the Closing Date. After the eighteen month period, the Parties may seek modifications under the terms and conditions outlined in the QPAP. The Merged Company will not seek to eliminate or withdraw the QPAP for at least three years after the Closing Date. The QPAP will continue to be available to all CLECs unless the Merged Company obtains approval from the Commission to eliminate or withdraw it.
 - i. For at least three years after the Closing Date, and consistent with the FCC's required conditions of the Embarq-CenturyTel merger, in the Qwest ILEC service territory, the Merged Company shall meet or exceed the average wholesale performance provided by Qwest to CLEC, measured as follows:
 - (a.) For the first three months after Closing Date, Qwest's performance will be compared to Qwest's performance for the twelve months prior to Closing Date.
 - (b.) Thereafter, each successive month of Qwest's performance will be added to the three month period in (a.) in determining Qwest's performance until twelve months after Closing Date.
 - (c.) Beginning one year after Closing Date, Qwest's performance will be measured by a rolling twelve month average performance.
- b. If the Merged Company fails to provide wholesale performance levels as measured by the methodology described in this condition, the Merged Company must conduct a root cause analysis for the discrepancies and develop proposals to remedy each deficiency within thirty days and provide this to CLEC for review and comment.
 - i. CLEC may invoke the root cause procedure for deterioration in wholesale performance for any PID, product, or disaggregation

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	<p>included within a PID measure if CLEC determines that the performance it received for that PID, product, or disaggregation is materially different and provides the basis for CLEC's determination.</p> <p>ii. If performance deficiencies are not resolved, CLEC may request a resolution or wholesale service quality proceeding before the Commission. The Merged Company does not waive its right to oppose such a request.</p>
	<p>21. The Merged Company shall incorporate XML in place of EDI in any relevant metrics as it has already done in Colorado, Utah and Montana. Any changes to the PIDs or QPAP must be approved by the Commission.</p>
	<p>22. In the Qwest ILEC service territory, the Merged Company will maintain the Qwest Corporation Change Management Process for 36 months after the transaction closing, utilizing the terms and conditions set forth in the CMP Document. CenturyLink and Qwest Corporation do not waive their rights to modify the CMP consistent with the provisions contained in the CMP Document. Pending CLEC Change Requests shall continue to be processed in a commercially reasonable time frame consistent with the provisions contained in the CMP Document. The Merged Company will not terminate the CMP without Commission approval.</p>
	<p>23. Notwithstanding any provision allowing one or both parties to Qwest interconnection agreements, Commercial agreements, Wholesale agreements, interstate tariffs, and intrastate tariffs, and other wholesale agreements between Qwest Corporation or its successors and assigns and CLEC ("Extended Agreements") to terminate the Extended Agreement upon or after expiration of the term of the agreement, the Merged Company shall not terminate or grandparent, change the terms or conditions, or increase the rates of any Extended Agreements during the unexpired term or for at least the Applicable Time Period identified below, whichever occurs later (the "Extended Time Period"), unless required by a change of law, or CLEC requests or agrees in writing to a change and any applicable procedure to effectuate that change is followed. In the event that the Extended Agreement expressly allows termination of the agreement in other circumstances, such as default due to non-payment, this condition does not preclude termination of an Extended Agreement in those circumstances provided that the Merged Company follows both (1) the Extended Agreement's express provisions, and (2) any applicable procedures pertaining to such termination. Upon approval of the Transaction with this Agreement in the public record, the Parties will consider these terms to be part of the order of approval and thus not trigger or require the filing of an ICA amendment, unless</p>

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ATTACHMENT 1

directed otherwise by the Commission or FCC. To the extent an amendment is requested, the Parties agree to execute and file an amendment to the ICA with the Commission within 30 days of the Closing Date, the terms of which will mirror the language in this Agreement, unless mutually agreed otherwise.

a. Interconnection Agreements. The Applicable Time Period for Qwest's interconnection agreements (ICAs) is at least thirty-six months after the Closing Date. The Extended Time Period applies whether or not the initial or current term has expired or is in evergreen status.

i. The Merged Company shall allow CLEC to use its or its affiliate's pre-existing interconnection agreement as the basis for negotiating an initial successor replacement interconnection agreement to the extended ICA. Where the parties agree it is reasonable to do so, the parties may incorporate the amendments to the existing agreement into the body of the agreement used as the basis for such negotiations of the initial successor replacement interconnection agreement. CLEC may also use any Commission-approved ICA to which Qwest Corporation is a party in Arizona that is in its initial term or extended term as the basis for negotiating a replacement ICA.

ii. CLEC may opt-in to an interconnection agreement in its initial term or the extended term.

iii. If Qwest and CLEC are in negotiations for a replacement interconnection agreement before the Closing Date, the Merged Company will allow CLEC to continue to use the negotiations draft upon which negotiations prior to the Closing Date have been conducted as the basis for negotiating a replacement interconnection agreement. In the latter situation (ongoing negotiations), after the Closing Date, the Merged Company will not substitute a negotiations template interconnection agreement proposal of any legacy CenturyLink operating company for the negotiations proposals made before the Closing Date by legacy Qwest.

b. Commercial Agreements. The Applicable Time Period for Commercial agreements is at least eighteen months after the Closing Date for Qwest's Commercial agreements (*i.e.*, offerings made available after a UNE(s) becomes unavailable via ICA): Broadband for Resale, Commercial Broadband Services (QCBS), Commercial Dark Fiber, High Speed Commercial Internet Service (HSIS), Local Services Platform (QLSP), Internetwork Calling Name (ICNAM), and Commercial Line Sharing, as well as any other Commercial agreement

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ATTACHMENT 1

to which Qwest and CLEC were parties as of the Closing Date. Notwithstanding any provision to the contrary in this Agreement:

- i. After the eighteen month period, Qwest reserves the right to modify rates.
 - ii. If a Commercial agreement later becomes unavailable on a going forward basis, the agreement will remain available to CLEC on a grandparented basis to serve CLEC's embedded base of customers already being served via services purchased under that Commercial agreement, subject to Qwest's right to modify rates, for at least eighteen months after Qwest has notified CLEC that the agreement is no longer available.
- c. Wholesale Agreements. The Applicable Time Period for Wholesale agreements is at least eighteen months after the Closing Date for Qwest's Wholesale agreements (*i.e.*, offerings made available after a tariffed offering becomes unavailable via tariff): Wholesale Data Services Agreement (ATM, Frame Relay, GeoMax, HDTV-Net, Metro Optical Ethernet, Self-Healing Network, Synchronous Service Transport), as well as any other Wholesale agreement to which Qwest and CLEC were parties as of the Closing Date. Notwithstanding any provisions to the contrary in this Agreement:
- i. After the eighteen month period, Qwest reserves the right to modify rates.
 - ii. If a Wholesale agreement later becomes unavailable on a going forward basis, the agreement will remain available to CLEC on a grandparented basis to serve CLEC's embedded base of customers already being served via services purchased under that Wholesale agreement for at least eighteen months after Qwest has notified CLEC that the agreement is no longer available, subject to Qwest's right to modify rates.
- d. Tariffs. The Applicable Time Period is at least twelve months after the Closing Date for Qwest wholesale tariff offerings that CLEC ordered from Qwest via tariff as of the Closing Date. Notwithstanding any provision to the contrary in this Agreement, Qwest may engage in Competitive Response pricing as set forth in its tariffs.
- i. Regarding term and volume discount plans, such plans offered by Qwest as of the Closing Date will be extended by twelve months beyond the expiration of the then existing term, unless CLEC indicates it opts out of this one-year extension.

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	<p>ii. The Merged Company will honor any existing contracts for services on an individualized term pricing plan arrangement for the duration of the contracted term.</p>
	<p>24. The Merged Company shall ensure that Wholesale and CLEC operations are sufficiently staffed and supported, relative to wholesale order volumes, by personnel, including IT personnel, adequately trained on the Qwest and CenturyLink systems and processes. With respect to the Wholesale and CLEC operations, such personnel shall be dedicated exclusively to wholesale operations so as to provide a level of service that is not less than and is functionally equivalent to that which was provided by Qwest prior to the Merger Closing Date and to ensure that CLEC protected information is not used by the Merged Company's retail operations or marketing purposes. The Merged Company will employ people who are dedicated to the task of meeting the needs of CLECs and other wholesale customers.</p>
	<p>25. The Merged Company shall provide to wholesale carriers, and maintain and make available to wholesale carriers on a going-forward basis, up-to-date escalation information, contact lists, and account manager information and will provide this information, when possible, thirty days prior to the Closing Date. If not possible, the Merged Company will provide the information within five business days, absent exigent circumstances. For changes to support center location, the Merged Company will provide at least thirty days advance written notice to wholesale carriers. For other changes, the Merged Company will provide reasonable notice, as circumstances permit, of the changes and will keep pertinent information timely updated. The information and notice provided shall be consistent with the terms of applicable interconnection agreements. In addition, the Merged Company will provide the information required by this paragraph to the Commission and/or Staff upon request.</p>
	<p>26. The Merged Company will make available to each wholesale carrier in the Qwest ILEC service territory the types and level of data, information, and assistance that Qwest made available as of the Closing Date concerning Qwest's wholesale Operational Support Systems functions and wholesale business practices and procedures, including information provided via the wholesale web site (which Qwest sometimes refers to as its Product Catalog or "PCAT"), notices, industry letters, the change management process, and databases/tools (loop qualification tools, loop make-up tool, raw loop data tool, ICONN database, <i>etc.</i>).</p>
	<p>27. <u>Rates Generally</u>. The Merged Company agrees not to increase the rates in Qwest interconnection agreements during the Extended Time Period.</p>

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	<p>If, during the Extended Time Period, the Merged Company offers a Section 251 product or service that is not offered under an interconnection agreement (a “new” product or service), the Merged Company may establish a rate using normal procedures. A product, service, or functionality is not “new” for purposes of this paragraph if Qwest was already providing that product, service, or functionality at existing rates as of the Closing Date in the Qwest ILEC serving territory.</p> <ul style="list-style-type: none">a. Regarding rates changed via a Commission cost docket, the Merged Company may initiate a cost docket (or seek rate increases in a cost docket initiated by another party) before the expiration of the thirty-six month period for extension of ICA terms only if (i) the rate elements, charges or functionalities are not already provided under rates as of the Closing Date; or (ii) the cost docket is not initiated until at least eighteen months after the Closing Date and any rates approved in the cost docket will not become effective until after expiration of the thirty-six month period for extension of ICA terms.b. After the Closing Date, in the Qwest ILEC serving territory, the Merged Company shall not assess any fees, charges, surcharges or other assessments upon CLECs for activities that arise during the subscriber acquisition and migration process other than any fees, charges, surcharges or other assessments that were approved by the Commission and charged by Qwest in the Qwest ILEC service territory before the Closing Date, unless Qwest first receives Commission approval. This condition prohibits the Merged Company from charging such fees, charges, surcharges or other assessments, including:<ul style="list-style-type: none">i. Service order charges assessed upon CLECs submitting local service requests (“LSRs”) for number porting;ii. Access or “use” fees or charges assessed upon CLECs that connect a competitor’s own self-provisioned loop, or last mile facility, to the customer side of the Merged Company’s network interface device (“NID”) enclosure or box; andiii. “Storage” or other related fees, rents or service order charges assessed upon a CLECs’ subscriber directory listings information submitted to the Merged Company for publication in a directory listing or inclusion in a directory assistance database.
	<p>28. In the Qwest ILEC service territory, to the extent that an interconnection agreement is silent as to an interval for the provision of a product, service or functionality or refers to Qwest’s website or Service Interval Guide (“SIG”), the applicable interval, after the Closing Date, shall be no longer</p>

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	<p>than the interval in Qwest's SIG as of the Closing Date, for a period of three years.</p>
	<p>29. In the Qwest Arizona ILEC service territory, the Merged Company will not seek to avoid any of its obligations on the grounds that Qwest Corporation is exempt from any of the obligations pursuant to Section 251(f)(1) or Section 251(f)(2) of the Communications Act.</p>
	<p>30. Qwest will not seek to reclassify as "non-impaired" any Qwest Arizona wire centers for purposes of Section 251 of the Communications Act, nor will the Merged Company file any new petition under Section 10 of the Communications Act seeking forbearance from any Section 251 or 271 obligation or dominant carrier regulation in any Qwest Arizona wire center before June 1, 2012.</p>
	<p>31. After the Closing Date, the Merged Company agrees that Qwest Corporation or any successor entity will engineer and maintain its Arizona network in compliance with federal and state law, as well as the terms of applicable interconnection agreements.</p> <ul style="list-style-type: none"> a. Qwest Corporation or any successor entity shall not engineer the transmission capabilities of its network in a manner, or engage in any policy, practice, or procedure, that disrupts or degrades access to the local loop, as provided by 47 C.F.R. § 51.319(a)(8). b. Qwest Corporation or any successor entity will retire copper in compliance with federal and state law, as well as the terms of applicable interconnection agreements and as required by a change of law.
<p>FINANCIAL</p>	<p>32. That the Merged Company be required to report to the Commission and RUCO any of the following events for a period of three years after the close of the merger: 1) default on any loan by CenturyLink, Inc. or any of its Arizona subsidiaries; 2) a delisting of CenturyLink from trading on a major trading exchange; 3) CenturyLink, Inc.'s equity-to-total capital ratio falls below 40% and 4) CenturyLink, Inc. or any of its Arizona ILEC subsidiaries is rated with a non-investment rate grading by any of the three rating agencies including Fitch Ratings, Standard and Poor's and Moody's Investor Services or their successors. CenturyLink shall make its filing with the Commission no later than 30 days subsequent to filing its quarterly report on Form 10-Q or its annual report on Form 10-K with the Securities and Exchange Commission following the event. For the above three-year period, the Merged Company will also provide to Staff its 10Q, 10K, and 8K SEC reports and all publicly available reports issued by any of the three ratings agencies. For the purposes of this condition CenturyLink's equity ratio will be calculated using the total</p>

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	<p>market value of the CenturyLink Inc.'s common stock divided by its total enterprise value.</p>
	<p>33. CenturyLink will not seek to recover any acquisition adjustment paid for Qwest.</p>
<p>REPORTING</p>	<p>34. Within 60 days of the nearest calendar quarter after the annual anniversary date marking the close of the merger, and for two subsequent 12-month reporting periods, CenturyLink shall provide a report describing:</p> <ul style="list-style-type: none"> a. Substantive activities undertaken relating to integrating Qwest operations with CenturyLink, as well as achieving synergies made available as a result of this transaction. CenturyLink synergies will be reported on a CenturyLink total company basis; b. Costs and projected savings of each such respective activity on a CenturyLink total company and Arizona-allocated basis; c. Organizational and staff force changes in Arizona operations; d. Detail any cost savings that have resulted from the merger and have been passed on to consumers. The company can file its Arizona CAPEX and operating expenses to satisfy this condition; e. Improvement in the Merged Company's complaint level in Arizona; f. New services, including bundles available to customers; g. Improvement in service quality measures; h. Infrastructure improvements; i. Expanded broadband coverage; and j. Any other impacts on Arizona operations and customers. <p>Information regarding condition 34 that is confidential in nature shall be submitted to the Commissioners, the Director of the Utilities Division, and the Director of RUCO with notice of such submittal filed with Docket Control. The information that is not confidential will be filed with Docket Control.</p>
	<p>35. That if following merger close the Merged Company chooses to conduct layoffs or facility closings in Arizona that are attributable to the merger, it shall submit a report at least 30 days prior to the effective date of the layoffs or closings stating why it is necessary to do so and what efforts the Company is making to re-deploy those individuals elsewhere in the Company. This report shall also state whether any savings associated with facility closings have been re-invested in the Company's Arizona operations, and if not, why. Consistent with condition 34, the company can file its Arizona CAPEX and operating expenses demonstrating that it</p>

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	<p>is re-investing in the state. This report shall be filed for one year following merger close or until CenturyLink informs the Commission by filing an affidavit with Docket Control that merger related activities are completed, whichever comes last.</p> <p>The information regarding condition 35 shall be submitted to the Commissioners, the Director of the Utilities Division, and the Director of RUCO, and may be done on a confidential basis.</p>
	<p>36. Qwest Corporation or any successor entity shall file complete annual reports, including all information required, in the form prescribed by the Commission.</p>
	<p>37. That the Merged Company shall notify the Commission within ten (10) business days of any substantive material changes to the transaction terms and conditions from those set forth in their Application that occur while the transaction is pending before the Commission.</p>
	<p>38. That the Merged Company shall provide notice of merger closure to the Commission within 45 days following the completion of the proposed merger in this transaction.</p>
	<p>39. That for three years following merger close an Executive Vice President, Chief Financial Officer of the Merged Company or appropriate Vice President or Officer shall certify to the Commission annually for three years that all Arizona CenturyLink entities are in compliance with all conditions contained in the Commission's decision in this matter.</p>
	<p>40. Qwest Corporation shall provide within 60 days of merger close the Operating Expense per 1,000 Working Access Lines, Annual Investment per 1,000 Working Access Lines, and Employees per 1,000 Working Access Lines by statewide average for the years 2008, 2009 and 2010.</p> <p>Information regarding condition 40 that is confidential in nature shall be submitted to the Director of the Utilities Division with notice of such submittal filed with Docket Control. The information that is not confidential will be filed with Docket Control.</p>
<p>CONSERVATION OF COMMISSION RESOURCES</p>	<p>41. That the Merged Company shall evaluate existing litigation involving the Commission and make a good faith effort to resolve the issues without further litigation. Following are cases which have entailed significant Commission resources which the Merged Company should include in its evaluation: (a) McLeodUSA v. ACC, Arizona District Case Court Case No. CV07-2145-PHX-HRH; (b) Qwest v. ACC, Arizona District Court Case No. CVO8-2374-PHX-JAT; (c) Pac-WestILevel 3 VNXX Remand</p>

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	Proceeding ACC (Docket Nos. T-0105 1B-05-0495, T-03693A-05-0495, T-0105 1B-05-0415, T-036564A-05-0415).
DEFINITIONS	<p>The following definitions shall apply in this Attachment 1:</p> <p>"Commission" refers to the Arizona Corporation Commission.</p> <p>"Closing Date" or "Merger Closing Date" refers to the closing date of the transaction for which the joint applicants have sought approval from the FCC and the state commissions.²</p> <p>"FCC" refers to the Federal Communications Commission.</p> <p>"Merged Company" refers to CenturyLink, Inc. d/b/a CenturyLink, and Qwest Corporation.</p> <p>"Operational Support Systems" or "OSS" are defined by 47 CFR 51.319(g) and as interpreted in the rules and orders of the FCC.</p> <p>"OSS Interfaces" are defined as existing or new gateways (including application-to-application interfaces and Graphical User Interfaces), connectivity and system functions that support or affect the pre-order, order, provisioning, maintenance and repair, and billing capabilities for local services (local exchange services) provided by CLECs to their end users.</p> <p>"Qwest Corporation" and "Qwest" refers to Qwest Corporation and its successors and assigns.</p>

² See Applications Filed by Qwest Communications International Inc. and CenturyTel, Inc. d/b/a CenturyLink for Consent to Transfer Control, Pleading Cycle Established, Public Notice, DA 10-993, WC Dkt. No. 10-110 (rel. May 28, 2010) ("Public Notice") and related applications filed in state proceedings.