STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

Joint Application of Qwest Communications International, Inc. and CenturyTel, Inc. for Approval of Indirect Transfer of Control of Qwest Corporation, Qwest Communications Company, LLC, and Qwest LD Corp.	DOCKET NO. SPU-2010-0006

ADDITIONAL SUPPLEMENTAL DIRECT TESTIMONY OF JEFF GLOVER

Q. Please state your name and business address.

A. My name is Jeff Glover and my business address is 100 CenturyLink Drive, Monroe, Louisiana 71203.

Q. Who is your employer and what is your position?

A. I am employed as Vice President - Regulatory Operations & Policy for CenturyLink, Inc. ("CenturyLink" or the "Company").

Q. Are you the same Jeff Glover that filed Direct Testimony in this Docket on May 25, 2010 and Supplemental Direst testimony on July 7, 2010?

A. Yes.

Q. What is the purpose of this Additional Supplemental Direct Testimony?

A. My Supplemental Direct Testimony will provide the Applicants' answers to the questions set forth by the Board in its Order issued September 20, 2010.

<u>Question 1</u>

Q. Applicants project that the merger will achieve annual synergies of $625 million. Please provide a detailed explanation of the assumptions used to estimate these synergies.

A. The total estimated annual run rate synergies of $625 million are composed of $575 million of operating cost and $50 million of capital cost synergies and are expected to be achieved within 3 – 5 years of the closing of the merger. Slide 13 of Exhibit JG-2 attached to my Supplemental Direct testimony of July 7, 2010 contains a summary of these synergies and their general sources.

These estimated synergies were developed based on detailed due diligence performed by the management teams of both companies and reflect a conservative approach. The due diligence information provided insight to organizational structures and operating costs at each company. This insight combined with CenturyLink's experience with past mergers and acquisitions including the recent Embarq transaction provided the basis for the synergy estimates.

As discussed below, the synergy estimates were derived by an examination of each major functional area on an enterprise-wide basis. Synergies were not estimated at a state level. It was assumed that the key drivers of the synergies identified would include the elimination of duplicate functions and systems and increased operational efficiencies**.** Specific examples include duplicate corporate overhead, network and operational efficiencies, IT support, increased purchasing power, advertising, and marketing.

Q. You mentioned above that the synergies estimate reflects a conservative approach. Please explain.

A. The estimated $575 million in operating expense savings is approximately 7% of Qwest's 2009 cash operating costs, while the $625 million of total estimated synergies (including capital expenditure synergies) is less than 8% of Qwest's cash operating costs. In comparison the estimated synergies as a percentage of cash operating costs are below the 11% expected cost savings announced when CenturyTel merged with Embarq. The estimated synergies are also below other merger-related synergies from other ILEC transactions that generally have been 20% or more of the target company's cash operating costs in recent years, as verified by independent financial analysts.[1]

Question 2

Q. Applicants project annual operating cost synergies of $575 million. Please identify each element used to estimate these expected expense savings and provide a detailed calculation of each element?

[1] Simon Flannery, *CenturyTel: 1Q10 Preview: Awaiting synergy/Integration Update and Additional Color on Qwest Deal*, Morgan Stanley Research, North America, April 29, 2010.

A. The attached Highly Confidential Exhibit Supplemental JG-5[2] contains the detailed calculations used to develop the operating cost synergy estimates. The first page entitled “Synergy Sizing Analysis” displays the synergy estimates by the following functional areas:

- corporate (executive, finance, legal, regulatory, human resources, corporate communications, investor relations and strategy),
- long distance cost,
- marketing
- engineering,
- information technology,
- centralized operations,
- customer service,
- wholesale,
- operating regions,
- and sales

The basis for the synergy estimates by functional area are identified and summarized separately for headcount and non-headcount related savings on the first page of the exhibit. The amounts and details of the calculations are highly confidential. The methodology and assumptions utilized to produce each estimate are described in the column labeled “Notes”. In addition, for six of the functional

[2] The complete Highly Confidential Exhibit JG-5 was supplied to the OCA in response to data request 13D on June 30, 2010. The first page was provided to PAETEC in response to data request 52a as Confidential on August 13, 2010. On this Exhibit, “Crystal” used to designate CenturyLink and “Quartz” designates Qwest.

areas detailed calculations for the estimated synergies are provided in the attached worksheets. The estimates are based on 2010 budgets.

Question 3

Q. Applicants project annual capital cost synergies of $50 million. Please identify each element use to estimate these expected capital expenditure savings and provide a detailed calculation of each element.

A. There are no detailed calculations associated with the projected annual capital cost synergies of $50 million. The estimate is based on CenturyLink's experience and the capital cost synergies associated with the Embarq transaction of $25 million. The adjacent nature of the Qwest and CenturyLink ILEC properties in several states will facilitate efficiencies in capital deployment.

Question 5

Q. Applicants project one-time integration operating costs of $650 - $800 million and one-time integration capital costs of $150 to $200 million.

a. Please provide a detailed explanation of the assumptions used to estimate these integration costs.

b. Please identify each element used to estimate these projected integration costs and provide a detailed calculation of each element.

A. CenturyLink established the estimated low and high range of integration costs based on its experience with the integration costs associated with the Embarq Transaction. The high and low ranges were calculated by multiplying the latest available integration cost estimates for the Embarq transaction by ratios that recognized factors such as the size difference between Embarq and Qwest and other factors that may impact integration. The detailed calculations are displayed on Exhibit Supplemental JG-6[3].

Question 5

Q. What are the projected annual revenues of the merger company?

A. The projected total revenues of the merged company can be found on Exhibit Supplemental JG-7. I have provided a projection of the pro forma merged company for 2011 - 2015. This is the same data that was used in the company's financial model[4].

Q. Please provide a detailed explanation of the assumptions used to project revenues for the merger company.

A. The projected revenues are based on a combination of the long range business plans developed by the leadership of the business units of the separate companies. The assumptions used in projecting revenues were based on the respective business units experience and analysis concerning factors impacting the business as well as incorporating market trends. The overarching trends assumed in projecting revenues were as follows: Voice revenues would continue to decline as a result of anticipated declines in access lines in both the business and residential markets due to wireless substitution, competition from facility based

[3] This Highly Confidential information was provided in response to OCA-26A on July 2nd.
[4] The Highly Confidential financial model was provided to the OCA in response to data request OCA 6D on July 7th.

competitors, and switched access rate reductions; it is assumed that broadband revenues will continue to grow as broadband speeds and coverage increase over time as well as increased consumer take rates; and Enterprise and Wholesale data service revenues are anticipated to increase as demand for fiber to the cell site, Ethernet transport and other high bandwidth driven services continue to increase.

Q. Please identify each element used to estimate these expected revenues and provide a detailed calculation of each element.

A. Revenue projections were based on detailed annual/quarterly business unit data provided by respective business unit management as part of their Long Range Plan. For purposes of modeling the merged company projected revenues, this information was not projected on a detailed revenue element basis but rather on a total business segment basis.

Q. When projecting these revenues, did CenturyLink account for continued reduction in the number of landline customers served? If so, at what assumed rate were losses calculated?

A. In projecting revenues, CenturyLink did incorporate continued reduction in the number of access lines served as mentioned in response to 5a above. The line loss assumption varies by year from a range of approximately 8% line loss decreasing to approximately 5.5% over the 2011- 2015 time period. On a combined company basis, the projected access line losses can be found on Exhibit Supplemental JG-3.

Q. Were projected sales of new products to be offered to customers part of the revenue analysis? What new products were considered in the analysis and to what extent do these types of sales affect projected revenues?

A. The combined company (CenturyLink/Qwest) is more likely to have the technical and financial capacity to offer new service offerings to its customers going forward than if the companies were standalone. Current service offerings that are being provided and any expansions of existing services were built into each company's respective revenue projections. New product revenues that are not currently offered by the respective companies were not included in the respective company revenue projections for purposes of conservatism.

Q. Does this complete your Additional Supplemental Direct Testimony?

A. Yes.