

RECEIPT

Exhibit:
Issues: •Purchase of Verizon
Assets
•Certificate of Service
Authority
•Eligible
Telecommunication
Carrier Status
•Determination of Price
Cap Status
•Interconnection
Agreements
Witness: Kenneth M. Matzdorff
Type of Exhibit: Direct Testimony
Sponsoring Party: CenturyTel of Missouri,
LLC
Case No.: TM-02-232
Date: February 21, 2002

FILED³

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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. TM-2002-232

Missouri Public
Service Commission

DIRECT TESTIMONY

OF

KENNETH M. MATZDORFF

ON BEHALF OF
CENTURYTEL OF MISSOURI, LLC

Exhibit No. 2
Date 4/25/02 Case No. TM-2002-232
Reporter KM

FEBRUARY 21, 2001

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OFFICE OF THE PUBLIC COUNSEL

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the Joint Application of GTE)
Midwest Incorporated d/b/a Verizon Midwest)
and CenturyTel of Missouri, LLC for 1))
authority to transfer and acquire part of Verizon)
Midwest's franchise, facilities or system located)
in the State of Missouri; 2) for issuance of)
certificates of service authority to CenturyTel)
of Missouri, LLC; 3) to designate CenturyTel)
of Missouri, LLC as subject to regulation as a)
price cap company; and 4) to designate)
CenturyTel of Missouri, LLC as a)
telecommunications carrier eligible to receive)
federal universal service support.)

Case No. TM-2002-232

County of Kalbar)
State of Missouri) ss

AFFIDAVIT OF KENNETH MATZDORFF

Kenneth Matzdorff, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Kenneth Matzdorff;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of his knowledge, information and belief.

Kenneth Matzdorff
Kenneth Matzdorff

Subscribed and sworn to before me this 21st day of February, 2002.

Lori Rackers
Notary Public

My Commission expires:

7/14/05

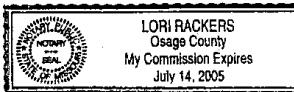


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1 Q. Please state your name, title and business address.

2 A. My name is Kenneth M. Matzdorff, I am the Region President of
3 CenturyTel of Missouri, LLC ("CenturyTel") and an officer of the company.
4 My business address is 9200 Ward Parkway, Kansas City, Missouri
5 64138.

6 Q. What is the purpose of your testimony in this case?

7 A. The purpose of my testimony is to represent CenturyTel in its proposed
8 purchase of assets, which provide telecommunication services to 96
9 exchanges currently owned and operated by GTE Midwest Incorporated
10 d/b/a Verizon Midwest ("Verizon"). In that regard, I will demonstrate that
11 the transfer of these properties from Verizon to CenturyTel is not
12 detrimental to the public interest, but rather will be beneficial to the
13 customers being transferred. In order to effectuate this transfer,
14 CenturyTel will require a certificate of service authority to provide local and
15 interexchange telecommunications services in the state of Missouri, and
16 my testimony will demonstrate that CenturyTel meets all of the necessary
17 requirements for certification in Missouri. CenturyTel is also requesting
18 designation as an eligible telecommunications carrier, so that it may
19 continue to receive the monies allocated to these properties by the
20 Federal Universal Service Fund programs. My testimony will show that
21 CenturyTel meets all of the criteria necessary for this designation. I am
22 also presenting information demonstrating that CenturyTel will face the
23 same level of competition that allowed the Public Service Commission

1 ("Commission") to designate Verizon as a company subject to Price Cap
2 Regulation, and that CenturyTel should also be designated as a Price Cap
3 company.

4 Q. Please state your educational background.

5 A. In 1979, I received a Bachelor of Science degree from Iowa State
6 University with a major in Accounting and a minor in Economics. I
7 continued my education by completing a Masters in Business
8 Administration from St. Louis University in 1985, with an emphasis in
9 Finance. I have also completed course work in the Masters of
10 Telecommunications program at George Washington University in
11 Washington, D.C.

12 Q. Please provide a summary of your industry experience in
13 telecommunications.

14 A. I first became involved in the telecommunications industry as a crewman
15 for a telephone construction crew during summer breaks while in high
16 school. I served as foreman of a buried plow crew and later as a
17 splicer/installation repair person to pay, in part, for my education. Upon
18 completing my degree at Iowa State University in 1979, I accepted a
19 position with Continental Telephone Company of Iowa as a management
20 trainee. I served in many capacities including Cable Acceptance
21 Supervisor, Dispatch & Repair Supervisor and Field Accountant. I was
22 promoted to the position of Separations Analyst in 1982, where I
23 developed cost studies utilizing Part 36 and Part 69 rules. In 1983, I was

1 promoted to the position of Coordinator of Revenues. In this position, I
2 was responsible for developing rate case filings for the twelve states of
3 Contel Corporation's (Contel) Central Region. In July of 1983 I was
4 assigned to a task force to prepare Contel for the divestiture of AT&T. In
5 this position, I was responsible for the development of access tariffs for
6 the state and federal jurisdictions. I was also responsible for purchasing
7 and installing carrier access billing systems (CABS) for Contel. Upon
8 completion of this task I was promoted to Manager of Regulatory, where I
9 was responsible for negotiating compensation and service arrangements
10 with various carriers, new service pricing, cost study development, access
11 billing to interexchange carriers, expert testimony on compensation and
12 cost of capital development. I also testified before various regulatory
13 bodies on access charge implementation and compensation.
14 In 1985, I was promoted to Director of Finance of the South Central
15 Division of Contel, which included the states of Missouri, Arkansas and
16 Kansas. In this position, I was responsible for all special circuit
17 provisioning, budgeting, industry negotiations and network support
18 systems for the Division. In this position, I participated in the industry
19 development of the Primary Toll Carrier (PTC) plan in Missouri and the
20 development by Contel of expanded calling scopes for St. Charles County.
21 In 1986, I was promoted to the position of Vice President-Regulatory of
22 Contel's properties in the southeastern part of the United States. In this
23 position, I was responsible for all revenue and regulatory matters in ten

1 states. During my tenure in this position, GTE (now Verizon) and Contel
2 merged. During this timeframe, I was assigned to the transition task force
3 in Irving, Texas, where I was responsible for integrating Contel's financial,
4 operating and regulatory personnel into the GTE system. At the same time
5 I gained valuable insight into the Verizon operational philosophy, which
6 has assisted me in developing the CenturyTel of Missouri business model.
7 In 1992, I accepted a position with Fidelity Telephone Company
8 ("Fidelity"). In this capacity, I was responsible for many different
9 operational elements of the company including, data processing,
10 regulatory, customer service and revenue accounting. During my tenure
11 with Fidelity, I participated in the industry task force that developed the
12 COS, MCA and OCA plans that were ultimately adopted by the Missouri
13 Commission.
14 In 1995, I left Fidelity to form Cass County Telephone (Cass County) and
15 Local Exchange Carriers, L.L.C. I currently hold the position of Chief
16 Executive Officer in these companies. These companies were formed to
17 purchase properties from GTE located in western Missouri and eastern
18 Kansas. The Commission granted Cass County approval to purchase
19 these properties in April of 1996. After the purchase of these properties,
20 the exchanges were converted to 100% digital and 100% one party
21 service without an increase in rates to the end user. Trouble indexes for
22 these selected exchanges were reduced from 7.8 troubles per 100 to 1.7

1 troubles per 100. New customer contact centers were introduced to the
2 customers and local management was integrated into the communities.
3 In 1999, I was involved, along with CenturyTel and a minority interest, in
4 the evaluation and purchase of 107 exchanges from Verizon that became
5 Spectra Communications Group, LLC ("Spectra"). Spectra was formed
6 and began operations in August of 2000. Since that time Spectra has
7 introduced a large number of new service offerings to its customers as
8 demonstrated in Schedule KM-1 attached to my testimony. In addition,
9 Spectra introduced new customer contact centers and integrated
10 management into the communities that it serves. Further, Spectra in its
11 first year of operations, reduced trouble reports from 3.8 troubles per 100
12 to 2.98 troubles per 100. Spectra also upgraded central office facilities in
13 68 of the 107 exchanges it acquired. Spectra introduced preventative
14 maintenance programs into its business plans that have further improved
15 plant conditions. I have served as Spectra's Chief Operating Officer and
16 serve on its board of directors.

17 In 2001, I was involved in the evaluation and consummation of an Asset
18 Purchase Agreement for the sale of 96 exchanges from Verizon, which is
19 the subject of this case. I have been designated by CenturyTel as its
20 Region President and serve as an officer of the company. Also in 2001,
21 my peers elected me to the Board of Directors of the Missouri
22 Telecommunications Industry Association.

1 In summary, I have spent the majority of my twenty-six year career
2 involved in owning and/or operating telephone properties in the state of
3 Missouri. Moreover, I have a unique understanding of the telephone
4 exchanges being sold in this transaction. With over fourteen years of
5 experience with Contel, I was involved in many of the regulatory and
6 operational decisions affecting those exchanges for that time period.

7 Q. Have you previously filed testimony before the Commission?

8 A. Yes, as noted in my earlier responses, I have prepared testimony on a
9 number of telecommunications issues that have come before the
10 Commission. Most recently, I have testified in cases involving the
11 acquisition of telecommunication properties in the state of Missouri.

12 Q. Who is CenturyTel of Missouri?

13 A. CenturyTel of Missouri, LLC, ("CenturyTel") is a Louisiana limited liability
14 company that is a wholly-owned subsidiary of CenturyTel, Inc. ("CTI")
15 which is located in Monroe, Louisiana. CenturyTel is authorized to conduct
16 business in the State of Missouri as evidenced by its certificate of authority
17 from the Missouri Secretary of State and attached to the Joint Application
18 filed in this case as Exhibit 1. CTI is the 7th largest incumbent local
19 exchange company in the United States. It trades under the symbol of
20 CTL on the New York Stock Exchange (NYSE), and it operates telephone
21 properties in 21 states including Missouri. CTI is the majority partner of
22 Spectra that purchased properties from Verizon in 2000. After the
23 successful completion of this transaction and another in Alabama, CTI will

1 have over two million, six hundred thousand (2,600,000) access lines. CTI
2 is also the tenth largest cellular carrier in the United States (based on
3 population equivalents owned). The current Missouri acquisition involves
4 96 exchanges serving approximately 369,000 access lines.

5 **Purchase of Exchanges and Issuance of Requisite Certificates**

6 Q. Does CenturyTel have the operational and financial capacities to purchase
7 and operate the exchanges being considered for the sale?

8 A. Yes, CenturyTel has the necessary managerial, engineering and financial
9 expertise necessary to continue to provide the quality of service that
10 Verizon currently provides to its customers. CenturyTel has a broad range
11 of operational expertise from which to draw. In addition, CenturyTel
12 contemplates adding personnel in Missouri and other reporting locations
13 that will supplement the core strength of the employees that will be
14 transferred to CenturyTel by Verizon at the time of the sale. CenturyTel
15 contemplates that more than 500 employees who are currently running the
16 Missouri properties will be transferred at the time of the sale. The
17 operating headquarters of CenturyTel will be located in Missouri. We
18 intend to place engineering functions in the field where they can be closely
19 monitored with field engineering support. We also intend to provide for a
20 more localized presence, which I believe will enhance the existing service
21 offerings to the customers and allow for greater customer care. CenturyTel
22 has also been aggressive in past transactions in introducing new services
23 and technologies as the market develops.

1 CenturyTel will also possess the necessary financial capabilities to
2 purchase and operate the telephone properties. CenturyTel's parent CTI
3 has secured the necessary capital to purchase the properties. This has
4 been accomplished by CTI without a change in the rating of its corporate
5 debt. CenturyTel gains the financial strength of a company listed on the
6 New York Stock Exchange through its affiliation with CTI. CTI currently
7 has a BBB+ bond rating, which reflects its operating expertise and
8 financial strength.

9 Q. Are the properties to be acquired currently in compliance with the Missouri
10 Modernization Rule (4 CSR 240-32.100)?

11 A. Yes, Verizon has, in recent years, upgraded many of the exchanges being
12 considered for the sale. The properties are in compliance with the
13 Commission's modernization rule and continue to be in good shape.
14 Further, the growth has been above national averages for many of the
15 exchanges, and Verizon has maintained solid plant conditions for which it
16 should be commended.

17 Q. Please identify the exchanges that are affected by the transaction.

18 A. Schedule KM-2 attached to this testimony lists the affected exchanges.
19 The telephone properties to be transferred represent tandem switching
20 locations in many cases along with the associated remote offices that are
21 served by the tandem offices. The properties are clustered in four districts
22 of the state. Schedule KM-3 to this testimony provides the Commission
23 with a visual representation of the property being transferred.

1 Q. How does CenturyTel intend to operate the telephone properties?

2 A. CenturyTel intends to run the properties in a manner similar to how it
3 conducts its current operations. It is the philosophy of CenturyTel to push
4 management responsibility as close to the customer as practical in order
5 for management to become familiar with local customs and the needs of
6 its customers. CenturyTel will have its operating headquarters in the state
7 of Missouri. CTI currently has five regional operating headquarters
8 overseeing its twenty-one state operations. Missouri currently is one of
9 those locations. It will be my responsibility as Regional President to
10 integrate the existing support groups to be acquired from Verizon into our
11 Regional headquarters in the state.

12 CTI will utilize its current billing and customer service software that will
13 allow for the transition of the customer accounts from Verizon to
14 CenturyTel. CTI will have completed four prior acquisitions with Verizon in
15 the last two years prior to the transfer of these properties. CTI has learned
16 a great deal from past transactions that will allow for the smooth transition
17 and operation of the properties. CenturyTel will be adopting Verizon's
18 tariffs that are in place today, as it did in the Spectra transaction, and will
19 have the advantage of existing conversion programs that have been
20 effective in past transactions.

21 CTI will also provide systems support for facility records management and
22 trouble dispatch systems. CenturyTel possesses twenty-four hour
23 technical support for large accounts and electronic equipment

1 surveillance. CTI will provide the necessary purchasing power that should
2 allow CenturyTel to be competitive with capital equipment purchases and
3 maintenance suppliers. CTI also provides CenturyTel with marketing
4 support and sales support as new products and services are deployed.
5 Customer inquiry support will be provided from CTI's Regional customer
6 contact center in Wisconsin. CTI plans to overstaff the center so as to
7 compensate for anticipated increases in traffic due to the transfer. CTI has
8 also improved systems to allow for overloads from one location to be
9 picked up through other centers. This update, in addition to the increased
10 staff, will assist in a smooth transition. Trouble reporting, line assignment
11 and dispatch functions will reside within the state operations and be
12 provided by existing personnel who are familiar with the personnel and
13 issues involving these properties. We anticipate adding staff to meet
14 customer needs as new products and services are introduced.
15 Human resources, administrative services, engineering support and state
16 personnel that are currently part of CTI will complete construction
17 oversight. In addition, Verizon will be transferring some 500 employees
18 that will support the daily activities in the field operations. Key personnel
19 will be supplemented with employees of CenturyTel as well as new hires.
20 CenturyTel intends to create four areas which will serve as the local
21 presence for the company. They are identified as Branson, Columbia,
22 West Plains and Wentzville. These locations will support field-engineering

1 personnel and also will support supply drop-off points for materials and
2 supplies.

3 Q. Will the customers see any differences in the services they currently
4 receive?

5 A. No. We intend to provide quality telecommunications service at or above
6 their current level of service. As noted in earlier testimony, we hope to get
7 closer to the communities and customers we serve by supplementing
8 more management decision making at the local level. We also intend to
9 roll out new services that are not currently available to customers today.
10 Our intent is to make the change in ownership as seamless as possible to
11 the customers. With the operational headquarters located in the state of
12 Missouri and the establishment of more local operational control, we
13 believe that we will be able to react to customers' needs in a more timely
14 manner and customize our response to that need. After the acquisition of
15 these properties, CTI will have more access lines in Missouri than any
16 other state in the CTI system. The ownership group is focused on rural
17 telecommunications and Missouri.

18 Q. Will any calling plans currently in place be changed as the result of the
19 sale of the properties?

20 A. No. As noted in our application, CenturyTel intends to adopt the tariff
21 rates, terms and conditions of all of the product offerings currently offered
22 by Verizon. This will include toll services, private line, data and local
23 service offerings. We also intend to offer the same non-regulated services

1 that Verizon offers such as CPE sales and CPE and wire care
2 maintenance.

3 Q. Does the adoption of existing rates apply to access charges as well?

4 A. Yes, it is CenturyTel's intent to adopt Verizon's access rates currently on
5 file with and approved by the Missouri Public Service Commission.

6 Q. Is CenturyTel requesting a certificate of authority to provide
7 telecommunications service in the transferred exchanges?

8 A. Yes, CenturyTel is requesting that the Commission issue a Certificate of
9 Service Authority to provide local exchange telecommunications service,
10 including basic local telecommunications service and interexchange
11 telecommunications services, within the exchanges to be transferred from
12 Verizon. The granting of the certificate is required by public convenience
13 and necessity in order for the customers in the transferred exchanges to
14 continue receiving the telecommunications services they are currently
15 receiving from Verizon. In paragraphs 10-15 of the verified Joint
16 Application, CenturyTel has demonstrated that it meets all of the
17 necessary requirements for issuance of the certificate, except that it
18 requests that the Commission grant a waiver of Commission rule 4 CSR
19 240-2.060(6)(C) requiring that a proposed tariff be filed with the
20 application. CenturyTel intends to adopt, in all material respects, the
21 Verizon tariff and, after approval of this transaction, will file a tariff with the
22 Commission with an effective date to coincide with the date of closing.

1 **Eligible Telecommunications Carrier Status**

2 Q. Will the transfer of the assets affect the Federal High Cost Assistance that
3 Verizon receives for its Missouri properties today or the amount that
4 CenturyTel would receive in the future if these exchanges were
5 transferred?

6 A. No. The transfer of the properties will not change the amount of Federal
7 High Cost Assistance that is attributable to the customers served by
8 Verizon in Missouri. A provision in the Telecom Act of 1996 stated that all
9 acquisitions or transfers of assets would allow the purchasing entity to be
10 treated in the same manner as the selling entity was treated prior to the
11 sale. Therefore, there should not be any change in the amount paid by
12 contributors to the fund as the result of the sale. However, CenturyTel
13 must be designated by the Commission as an eligible telecommunications
14 carrier for Universal Service Fund purposes in order to continue to receive
15 the compensation attributable to these properties. In the Joint Application
16 filed by Verizon and CenturyTel, CenturyTel certifies to the Commission
17 that it meets the requirements of § 54.201(d) and that it will offer the
18 services supported by federal universal service support under § 254(c) of
19 the Act. (See paragraphs 20-23 of the Joint Application which is hereby
20 incorporated by reference.) These monies are critical for CenturyTel to
21 continue to update and maintain telephone plant and equipment. The
22 underlying cost of providing the services necessary for the customers
23 does not change as a result of the transfer.

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Determination of Price Cap Regulation

Q. Verizon is currently under Price Cap Regulation. Will CenturyTel be under the same form of regulation?

A. It is the intent of CenturyTel to adopt the same regulatory scheme as exists today for Verizon. It is my understanding that after the transfer CenturyTel will possess the same qualifications for Price Cap status as Verizon, and therefore will qualify for Price Cap Regulation. CenturyTel will be the successor in interest to Verizon, and will thus be a large incumbent local exchange company with more than 100,000 access lines. I am assured by Verizon that there are approximately nineteen (19) alternative local exchange telecommunications companies ("ALECs" or "CLECs") who have been certified to provide basic local telecommunications service in Verizon exchanges and who are providing such service. I understand that a list of these CLECs has been provided by Verizon to Staff in response to a data request. However, the Commission need look no further than the interventions in this case to establish the requisite facts necessary to support a designation of price cap status for CenturyTel. Fidelity Communications Services II ("Fidelity") is a certificated CLEC providing basic local exchange service in one or more of the Verizon exchanges. It is Fidelity's announced intention (and the primary reason for its intervention) to continue its operations uninterrupted after the transfer of the properties from Verizon to CenturyTel.

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Interconnection Agreements

Q. Currently Verizon has established Interconnection Agreements with other companies. How will these contracts be handled?

A. CenturyTel will have to renegotiate roughly sixty-two interconnection/resale agreements.

Q. In connection with such renegotiations, will the sale and transfer affect existing arrangements either for the interconnection of other telecommunications providers to the network represented by the purchased assets or for resale of services by other telecommunications providers in the exchanges to be transferred?

A. No. There will be no adverse impact on these arrangements. CenturyTel will enter into agreements with the other telecommunications providers appropriate for maintaining existing interconnections to the purchased properties and resale of services in the purchased properties.

To the extent possible these new agreements will contain rates, terms and conditions identical to those that were provided by Verizon. Deviations will occur only in those instances where they are necessitated by differences between the underlying Verizon and CenturyTel support systems. All agreements are currently being reviewed to identify any such instances. To date, the only deviation identified pertains to the electronic interface support system. To the extent that Verizon offers electronic interface to operations support system functions, CenturyTel will have to accomplish this interface via a call-in or paper transmission by the CLEC to a

1 customer service representative. CenturyTel is working toward a web-
2 based solution that should allow for automation to the interconnecting
3 companies. We anticipate this functionality to be available within nine
4 months of the expected close date of the transaction.

5 In any event, it is not expected that this, or any other such deviation, will
6 have a material impact on the interconnection/resale arrangements. As
7 with the above-detected issue, a suitable procedure will be adopted in any
8 other instance where a technical issue arises to ensure a performance
9 level comparable to that offered by Verizon.

10 Q. Would you please summarize your testimony?

11 A. Yes, not only will the sale of the assets not be detrimental to the public, it
12 will be in the public interest. CenturyTel has the financial and operational
13 expertise to own and operate the properties. In fact, the transfer will be a
14 positive step because it matches a company that understands the rural
15 nature of these exchanges with the customers to be served. CenturyTel
16 has demonstrated its ability to operate newly-acquired properties through
17 its acquisition of similar properties in Missouri in 2000. The transfer of
18 these properties will accelerate the introduction of new products and
19 services. The transfer will effectuate the creation of jobs in Missouri and
20 will place a management team closer to the customer. CenturyTel has
21 committed to adopt Verizon's existing tariffs in all material ways so as to
22 make the transfer seamless to the customer. These benefits demonstrate
23 that the transaction is in the public interest and therefore should be

1 approved. CenturyTel should also be granted certificates of service
2 authority to provide the telecommunications services requested,
3 designated as a Price Cap company, and designated as an eligible
4 telecommunications carrier for purposes of receiving federal universal
5 service fund support.

6 Q. Does this conclude your testimony?

7 A. Yes it does.