Level(3)[SM]
COMMUNICATIONS

Lisa Akins, CFA
Sr. Director, Tax
Level 3 Communications, LLC
1025 Eldorado Boulevard
Broomfield, CO 80021

TEL: (720) 888-7765
lisa.akins@level3.com

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Mike Isbell
Administrator
Oklahoma Tax Commission
Ad Valorem Division
3700 North Classen Blvd, Suite 200
Oklahoma City OK 73118-2860

Dear Mike:

I have reviewed the preliminary Capitalization Rate Study prepared by the Oklahoma Tax Commission and have several comments concerning the results of the study as they relate to the 2015 valuation of Level 3 Communications LLC.

The attached page summarizes my comments. I have also provided a WACC analysis for the Broadband industry prepared by AUS Consultants as well as a Wichita Conference paper authored by Roger Grabowski, Duff & Phelps, LLC.

If you would like to discuss my comments in greater detail please let me know. I appreciate the opportunity to provide input concerning the Tax Commission's Cost of Capital Study.

Sincerely,

Lisa Akins

Lisa Akins

Enclosures

Level 3 Communications
Response to Tax Commission's 2015 Cost of Capital

The cost of debt in the Commission's study is understated for Level 3 Communications. Level 3 is currently rated B+ by Standard and Poor's. The attached AUS WACC analysis for the Broadband industry used Merchant Bond Record and Yahoo Finance's Bond Screener to determine the yield on B+ rated debt at 7.17%. The rate should also include flotation costs with increases the rate to 7.24%. This is detailed on page of 1 the AUS analysis.

The cost of equity is also understated because it does not include flotation costs. AUS determined the cost of equity for the Broadband industry using various models at 13.45%. When adjusted for flotation costs, the rate increases 52 basis points to 13.97% This calculation is detailed on pages 4 and 5. Many experts in finance and valuation agree this is a necessary and appropriate adjustment. The attached paper presented by Roger Grabowski, Duff & Phelps, at the Wichita conference supports this adjustment for both the cost of debt and cost of equity.

The cost of equity should also include a liquidity adjustment. When costs are determined from freely traded securities in the capital markets for debt and equity, the rate determined should include a liquidity adjustment when used to value telecommunication assets. Investors required a higher return for illiquid investments, such as property, as compared to securities which are highly liquid. The AUS analysis includes a 1.66% adjustment to the cost of equity as detailed on page 5.

Finally, the WACC used in an income capitalization model for Level 3 should be after-tax if Level 3's historical financial statements are the basis of the net operating income to capitalize in the model. Level 3 has accumulated a significant amount of Net Operating Loss Carryforwards, therefore it has not and will not pay income tax for some time. Net operating income should be adjusted for federal and state income taxes calculated by taking operating income by the marginal tax rate for both federal and state income tax. This is representative of a typical buyer and not Level 3's unique NOL carryforward circumstance. Net operating income adjusted for taxes calculated at the marginal rate should be capitalized with an after-tax WACC to account for the deduction on interest assumed by the stated capital structure. This calculation is shown on page 6 in the AUS analysis.