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January 17, 2003

EX PARTE – Via Electronic Filing

Ms. Marlene Dortch
Secretary
Federal Communications Commission
The Portals
445 12th Street, S.W.
Washington, DC 20554

Re: CC Docket Nos. 01-338, 96-98, 98-147

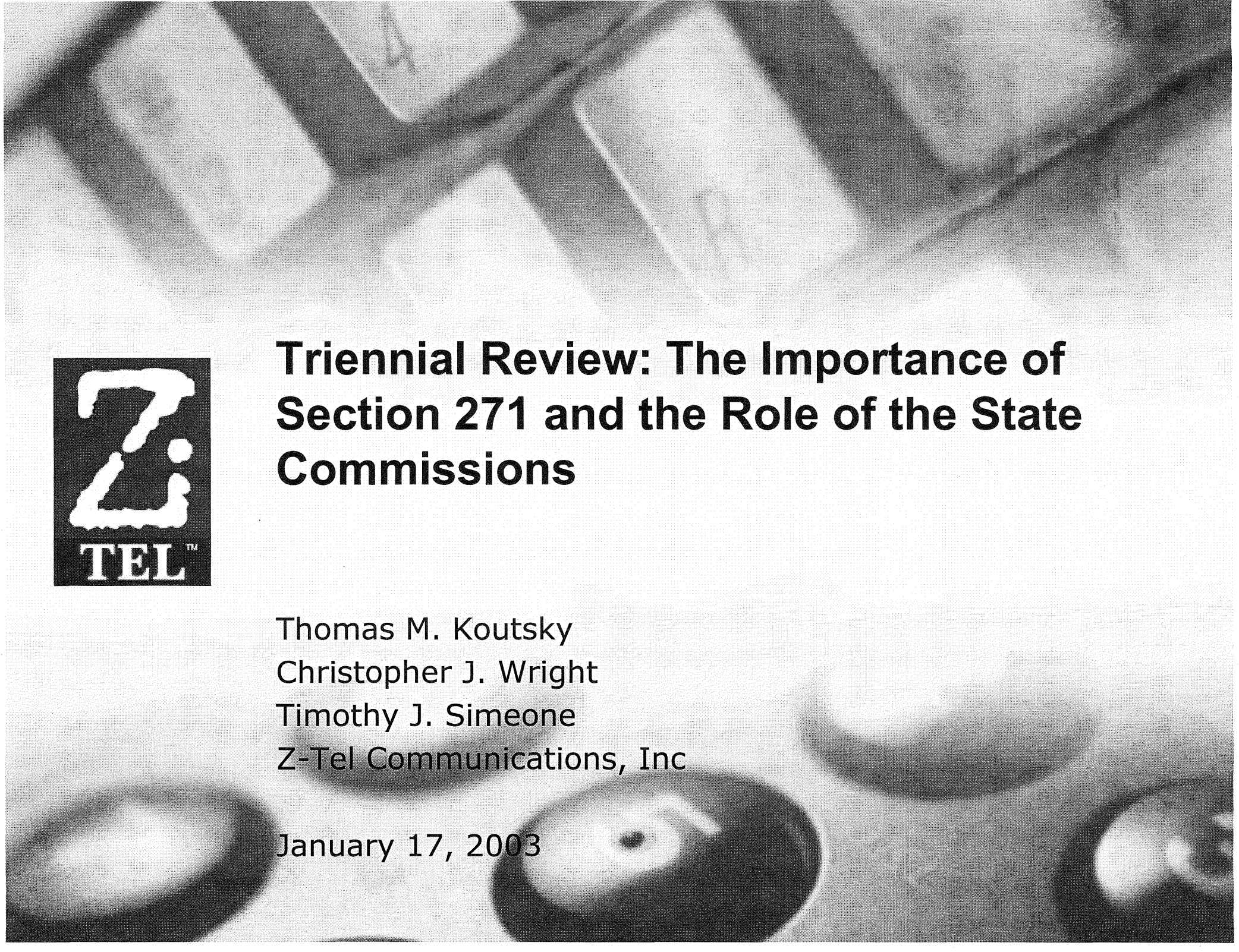
Dear Ms. Dortch:

On January 17, 2003, Tom Koutsky of Z-Tel and Tim Simeone and I met with Lisa Zaina. We distributed and discussed the attached documents at the meeting. Our discussion focused on the importance of section 271 in establishing unbundling obligations and on section 251(d)(3)'s protection of state authority to establish additional unbundling obligations.

In accordance with FCC rules, a copy of this letter is being filed in the above-captioned dockets.

Sincerely,

/s/
Christopher J. Wright
Counsel to Z-Tel Communications, Inc.



Triennial Review: The Importance of Section 271 and the Role of the State Commissions

Thomas M. Koutsky
Christopher J. Wright
Timothy J. Simeone
Z-Tel Communications, Inc

January 17, 2003

Agenda

- Section 271 requires the BOCs to unbundle the network elements comprising the platform at cost-based rates.
- The States have an important role to play in making unbundling and pricing decisions.
- Carriers seeking to serve mass-market customers are impaired without switching.
- The Commission's goal should be to foster the development of wholesale markets.
  - Z-Tel has presented a five-step plan.

Section 271 Requires the Bells to Provide UNE-P

- Regardless of the results of the impairment analysis, the BOCs must provide access to the network elements comprising the platform.
  - The section 271 checklist specifically requires BOCs to unbundle loops, switching, transport, and signaling.
  - The legislative history says the checklist sets forth what a BOC must provide "at a minimum … in any interconnection agreement approved under section 251."
  - The FCC previously concluded that BOCs must provide access to unbundled switching even in circumstances where it need not be offered under section 251.
- Verizon recognized that section 271 means what it says by filing a forbearance petition.
  - But the record in that separate proceeding shows that sections 251(c)(3) and 271 have not been "fully implemented" and won't be until wholesale markets exist.

The FCC Cannot Mandate "Market-Based" Rates for Elements Provided by BOCs

- FCC erroneously concluded that BOCs need not provide network elements at cost-based rates.
  - Congress intended the cost-based pricing rule it established in 1996 for network elements to be applied to network elements.
  - Checklist item 2 says network elements must be provided at cost-based rates.

- Congress did not intend that the Commission instead to use a 1934 provision governing interstate rates.
  - Under *Louisiana Public Service Commission,* the Commission lacks authority under those provisions to set intrastate rates.

As A Practical Matter, State Commissions Must Play a Role

Section 251(d)(2)

- The ***USTA*** and ***CompTel*** decisions: Section 251(d)(2) requires granular analyses beyond the capabilities of the FCC.
  - ***USTA*:** FCC erred by adopting rules of "unvarying scope" that were "detached from any specific markets or market categories."
  - ***CompTel***: Section 251(d)(2) "invite[s] an inquiry that is specific to particular carriers and services."
  - Under those decisions, the question will be whether, with respect to network element X (from NIDs to OSS), carrier A (from AT&T to Z-Tel), seeking to provide service B (from POTS to broadband) is impaired in geographic market C (from Alaska to Manhattan) to serve different types of end-users (from mass-market consumers to large, data-intensive businesses).
- States can **help** FCC write rules that pass legal muster by doing fact-finding to determine whether impairments continue to exist – with particular focus upon whether reduction in output would occur in their states

As A Legal Matter, State Commissions Must Play A Role

Section 252

- The State Commissions arbitrate interconnection agreements, which set forth a list of network elements and the price for leasing those elements.
- No "delegation" issue: Congress told the state commissions to play a role.

Section 251(d)(3)

- Regardless of the section 251(d)(2) analysis, Congress preserved the states' right to establish additional unbundling obligations.
- *Iowa Utilities Board*: In a portion of its opinion that was not overturned, the Eighth Circuit held that the FCC could not preempt state unbundling rules merely because they differ from FCC rules

Section 252(e)(3)

- Provides that state commissions may "establish[] or enforc[e] other requirements of state law" when arbitrating interconnection agreements.

Z-Tel Is Impaired Without Access To Unbundled Switching.

- Z-Tel showed in comments that it is impaired in providing mass-market services without ULS *even if switches are free*
  - Operational and economic bottlenecks caused Z-Tel to scrap NYC UNEP-to-UNE loop switch deployment plan (Rubino Affidavit)
  - Incumbents have not rebutted this analysis
- Cost of hot cuts is relevant under *USTA:* these are manual provisioning costs incurred by entrants that ILECs do not incur (mechanized provisioning)
- Economic and Operational "impairment" are intrinsically tied (as *USTA* notes)
  - Does perfect hot-cut performance matter if hot-cuts are priced at $185 each?
  - FCC cannot blind itself to economic cost disparities
- In considering access, FCC cannot treat all entrants the same
  - Small Business Act restricts FCC's ability to place regulatory requirements (like switch deployment) upon small businesses (and Z-Tel is a "small business")
  - Supreme Court in *Verizon*: cannot treat fledgling entrants (like Z-Tel) same as AT&T
- 271 legislative history relied on by the Supreme Court shows that Congress intended to require parity in entry to local and interexchange markets.

Tying It Together: Michigan 271 Recommendation Emphasizes That Competitors Are Impaired Without UNE-P.

January 13 letter from the Michigan Commission to the FCC:

"We do issue one caveat, the Michigan competitive market is significantly dependent on availability of the Unbundled Network Element-Platform (UNE-P). We believe that the elimination or severe curtailment of UNE-P would adversely impact our competitive market. Our recommendation is predicated on the FCC's continuation of policies and rules that allow competitors access to UNE-P for the foreseeable future and throughout an orderly transition to facilities-based competition. In fact, we support UNE-P as consistent with the methods of competition specified in the 1996 Federal Act, including resale, facilities-based and unbundled network elements. that the PSC's 271 support is 'predicated on the continuation of Federal Communications Commission policies and rules issued pursuant to federal law, that allow competitors access to the Unbundled Network Element Platform (UNE-P).'"

A Five Step Plan to Wholesale Alternatives

Step 1. **Resolve loop access impairment**
Step 2. **Competitive transport markets**
Step 3. **Migration by Switch-Based CLECs**
Step 4. **Wholesale competitive analysis**
Step 5. **Transition by all carriers**

- Steps must be taken "in order"
- Focus on mass-market DS0 switching/shared transport
- State commission fact-finds and adjudicates each step
- Avoid pitfalls of 271 process (notice filings, social promotion)
- Establish path to ultimate deregulation

Step 1: Resolve Loop Impairment

- State commission must determine that ILEC can provide DS0 loops in a --
  - Cost-effective
  - Reliable
  - Timely, and
  - Scalable manner
- Wholesale market for mass-market local switching/transport cannot develop unless efficient and effective access to DS0 loops
- Manual process amounts to classic barrier to entry
  - AT&T conservatively estimated $7/mth per line difference
  - Result: 31% diminution of CLEC market share
- Scale matters
  - Volume of hot-cuts not tested in 271 proceedings
  - SBC's "offer" of 1 million hot-cuts per year in Ameritech region would limit CLECs to <8% market share

Step 2: Competitive Transport Markets

- Wholesale providers must not be dependent upon ILEC-provided interoffice transport
- CompTel/ALTS test for competitive alternatives to interoffice transport should be completed by State commission *before* ILEC permitted to proceed to Step 3
- Analysis must be undertaken separately for dedicated and shared transport

Step 3: Switch-Based CLEC Migration

- ILEC makes *prima facie* showing to state commission of satisfaction with Steps 1 and 2 with regard to particular central office
- State commission examines and, after opportunity for discovery and hearings, makes preliminary determination of ILEC compliance – then…
- Entrant that has **already** collocated and deployed in that central office the necessary equipment, software and facilities to switch DS0 circuits should be required, where cost-effective and non-customer effecting, to begin to migrate DS0 UNE-P lines to that switch
- State commission supervises migration – if ILEC fails in provisioning, reversion back to Step 1
- Benefits
  - Ramp up and test ILEC loop provisioning systems in real-world setting
  - Encourage development of non-ILEC sources of supply

Step 4: Wholesale Market Analysis

- Once all Step 3 migrations completed, ILEC may for that central office petition State commission for determination that a vibrant, effective and efficient wholesale alternatives for DS0 switching and transport exists in that office

- State commission competitive analysis:
  - At least ***five*** non-ILEC providers that provide substitutable wholesale service for DS0 switching and transport interconnected with ILEC loops are present
  - The five wholesale providers have sufficient personnel and resources to provide wholesale service and each have done so for at least 100 DS0s in that office
  - Wholesale providers have sufficient capacity to serve retail CLEC demand
  - Transfer to wholesale providers can be accomplished seamlessly and cost-effectively

- Five provider requirements based on game theory, Cournot models of competition, and presence of lack of complete information *ex ante*

Step 5: UNE-P Transition Process

- CLECs file transition plans with State commission within six months of completion of Step 4 in a CO
- State commissions accept plans or grant exceptions
- ILEC obligated to provide UNE-P while transitions in progress
- If during transition ILEC fail to provide seamless, cost-effective cutovers, State commission shall suspend all transition for at least six months
- Three Strikes: third time an ILEC fails in its obligations in any CO for a third time, ILEC immediately reverts back to Step 1 and must provide UNE-P

UNE-P Residential Entry

State	Urban Res/UNE-P Lines	Suburban Res/UNE-P Lines	Rural Res/UNE-P Lines
Michigan	123,036	253,530	319,249
Illinois	4,893	144,243	269,753
Texas	328,552	476,833	210,445
Ohio	55,700	62,433	108,754
Indiana	17,553	17,657	16,479
Wisconsin	10,778	31,447	11,538
Missouri	27,536	14,222	8,944
Oklahoma	17,656	3,742	1,205
Kansas	53,056	29,080	2,757
California	75,384	93,721	2,792
Arkansas	8,581	34,807	1,454
Nevada	18	20	1
Total SBC 2,840,184	**722,743**	**732,585**	**953,371**

Source: SBC, 10/30/02 FCC filing

UNE-P as Rural Entry Method

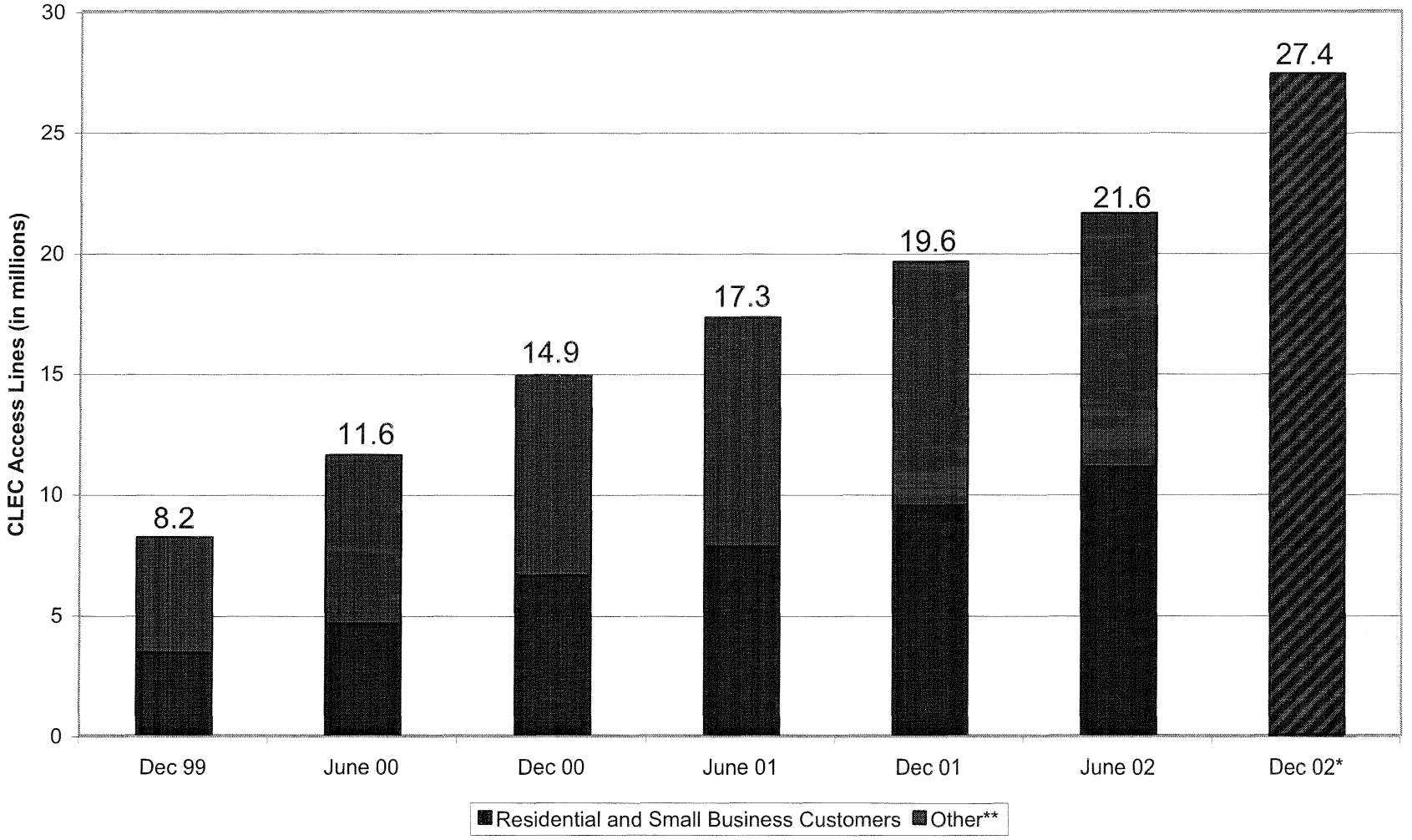
State	Urban UNE-P Lines	Suburban UNE-P Lines	Rural UNE-P Lines
Michigan	140,675	309,067	374,818
Illinois	12,562	181,991	331,813
Texas	447,076	678,015	284,506
Ohio	69,433	79,846	129,387
Indiana	18,794	22,510	19,772
Wisconsin	12,436	37,361	14,995
Missouri	92,130	32,195	13,770
Oklahoma	51,154	7,383	5,396
Kansas	91,698	47,899	5,391
California	132,200	146,083	5,371
Arkansas	10,314	38,370	1,549
Nevada	31	20	1
Total SBC 3,851,022	**1,078,503**	**1,580,740**	**1,186,719**

Source: SBC, 10/30/02 FCC filing

AMERICAN CONSUMERS BENEFIT AS COMPETITION GROWS

Local competition means lower prices and better service for consumers

CLEC Access Lines by Year



Source: FCC Local Telephone Competition Report (Dec. 2002), Table 1

*Figure derived from CLEC Report 2003 (New Paradigm Resources Group, Inc.); customer breakdown not available

**Medium and Large Business, Institutional, and Government Customers

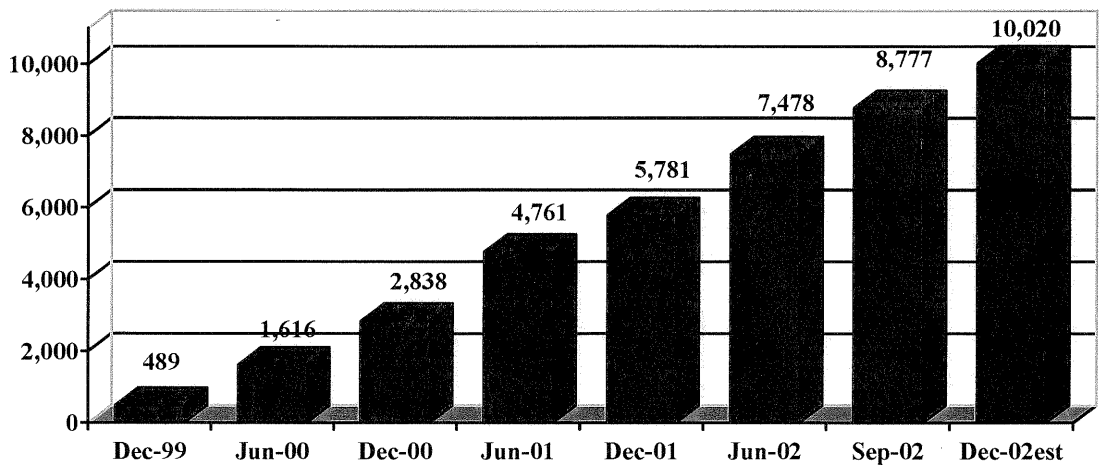
The UNE-P Fact Report: January 2003[1]

This is the second in a series of UNE-P Fact Reports tracking the development of the unbundled network element platform (UNE-P) and its important role in transforming local markets from monopoly to competition. The UNE-P Fact Report is based on hard data filed by the incumbent exchange carriers in federal and state regulatory proceedings, as well as statements released to investors, and is intended to provide an objective summary of the status of UNE-P based competition.

UNE-P Remains the Fastest Growing Form of Local Competition

Market data confirms that UNE-P remains the fastest growing form of local competition, serving an estimated 10 million residential and small business lines by the end of 2002. UNE-P has grown from only 6% of CLEC lines at the end of 1999 to nearly 35% by June of 2002.

Growth of UNE-P
(Thousands of lines)[2]

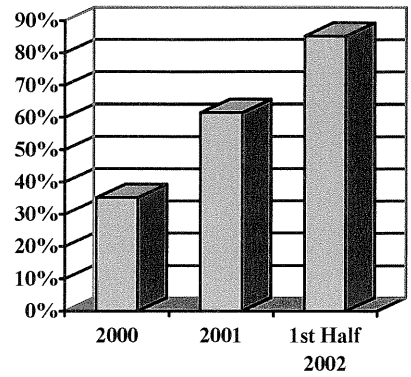


1 The UNE-P Fact Report is published twice annually by the PACE (Promoting Active Competition Everywhere) Coalition. The previous version of the UNE-P Fact Report may be downloaded at www.pacecoalition.org. The PACE Coalition consists of smaller entrants that use UNE-P to provide some or all of their local services. The members of the PACE Coalition are: Access Integrated Networks, ATX Communications, Birch Telecom, BiznessOnline.com, BridgeCom, DataNet Systems, Ernest Communications, IDS Telcom, InfoHighway Communications, ITC^DeltaCom, MCG Capital Corp., MetTel, Momentum Business Solutions, nii communications, and Z-Tel Communications.

2 Source: FCC Local Competition Report (data through June 2002), released December 9, 2002. UNE-P volumes for the third quarter of 2002 are based on RBOC quarterly earnings information, while the estimate for the fourth quarter 2002 was developed by the PACE Coalition.

UNE-P is unmistakably the principal driver of competitive growth in the local market today. During the first half of 2002, UNE-P accounted for more than 85% of the net growth in competitive access lines. Said differently, if UNE-P were eliminated, competitive activity – and, importantly, competitive benefit – would decline by roughly 85%. Not only would competition slow overall, the decline would reduce benefits most dramatically for the typical residential and small business customers that depend on analog services for their basic communications needs. As explained below, it is this customer segment that is most frequently served by UNE-P.

Percentage of CLEC Growth Attributable to UNE-P



UNE-P is Critical to Competition in the Small Business and Residential Markets

It is generally understood that UNE-P is vital to local competition for residential customers. Less well understood, however, is the importance of UNE-P to competition in the small business market (defined here as businesses that are served using conventional analog-loop based services). This "mass market" of residential and smaller business customers rely on UNE-P to obtain competitive choice.

Relative Importance of UNE-P to Residential and Small Business Competition

Holding Company	UNE-P Lines[3]		Penetration Rate[4]	
	Business	Residential	Business	Residential
BellSouth	569,929	769,590	12.2%	4.6%
Qwest	285,034	229,145	7.4%	2.1%
Verizon (Bell Atlantic)	595,775	1,978,432	7.6%	7.7%
SBC	1,010,825	2,840,145	6.2%	8.5%
Total	2,461,563	5,817,312	7.6%	6.7%

As the table above shows, small business competition is sometimes *more* dependent upon UNE-P than residential competition. In the BellSouth and Qwest regions, small business (i.e., analog) UNE-P penetration is roughly *3 times* residential UNE-P penetration, while in the areas served by SBC and Verizon the penetration rates are approximately the same. Significantly, other than New York, the remaining Verizon's states report business/residential penetration rates comparable to Qwest and BellSouth.[5]

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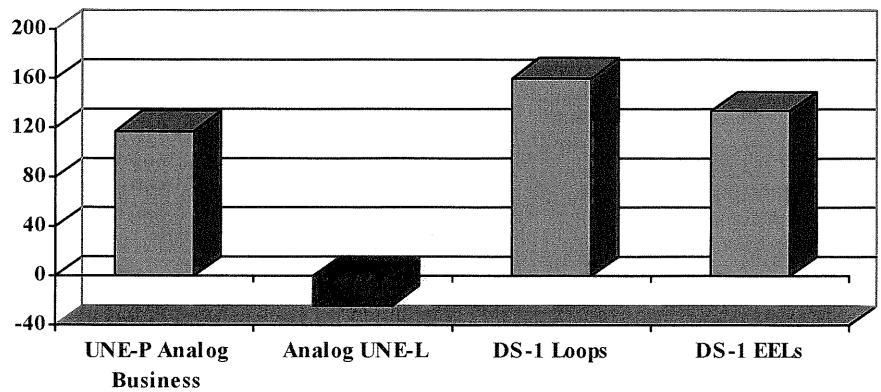
[3] Source: RBOC *Ex Parte* Filings in CC Docket 01-338 or as reported by Commerce Capital Markets, December 20, 2002. Vintage of data varies, but is generally from August or September, 2002.

[4] Relative penetration rate calculated as UNE-P lines (business or residential) as a percentage of residential and business analog lines. Source: ARMIS 43-08. For Qwest, analysis assumes all UNE-P lines reported as "POTS" are used to serve residential customers. This assumption is likely to understate business UNE-P penetration in the Qwest region, while overstating residential UNE-P penetration.

[5] The relative penetration of UNE-P in the analog business market for Verizon (Bell Atlantic) states other than New York is 5.8%, while the residential penetration is 1.8%.

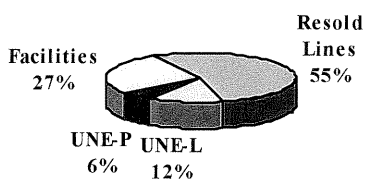
As indicated, there are very significant differences between business customers seeking analog-based competitive services and those larger businesses desiring high-speed (i.e., DS-1 and above) connections, in terms of the products offered, the competitive alternatives available, *and* the entry strategies used to serve them. These differences produce a clear division in the marketplace -- UNE-P is used to compete for analog business customers, while UNE-L is used to serve high-speed digital (DS-1) customers. This division can be seen clearly when reviewing the *types* of UNEs purchased to serve business customers during 2002. As the graph below illustrates, UNE-P was responsible for *all* of the growth in competitive analog services, while UNE-L arrangements were limited to digital DS-1 based services. Competition for analog small business customers – the mainstay of the American economy – depends upon access to UNE-P.

UNE-Based Competition – BellSouth[6]
UNEs added in 2002 (through June) – Voice Grade Equivalents (000s)

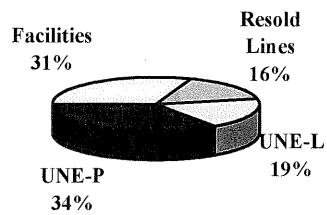


Because UNE-P and UNE-L are used by entrants to compete for fundamentally different customer segments, both have seen their share of the competitive pie increase. Although UNE-P is now the dominant local entry strategy (at nearly 35%), its gain has *not* occurred at the expense of either UNE-L or purely facilities-based strategies. Rather, the approaches address different customer segments, and therefore grow independently of one another.

Entry Mix: December 1999



Entry Mix: June 2002



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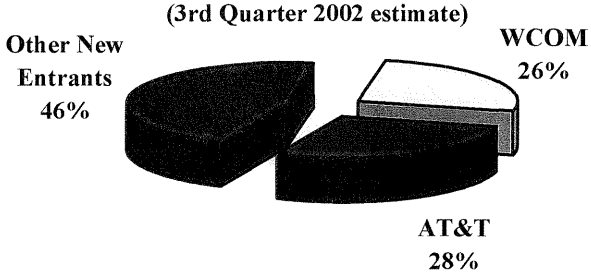
[6] Source: BellSouth Response to Interrogatory No. 2, AT&T/WorldCom's First Set, North Carolina Public Utilities Commission Docket No. P-100, Sub 133d.

UNE-P Provides the Foundation for a New Wave of Competitive Entry

One of the principal benefits of UNE-P is that it fosters geographically broad competition, bringing competitive benefit to urban, suburban and rural areas.[7] In addition, because it is provisioned electronically, it enables carriers to compete for smaller mass market customers. Because of these features, UNE-P has been an important local entry strategy for carriers with preexisting long distance operations, particularly AT&T and WorldCom. Importantly, however, UNE-P has also fostered a new wave of competitive entry, including the carriers that together form the PACE Coalition (sponsor of the UNE-P Fact Report). Although less well known than AT&T and WorldCom, this "second tier" of competitive entrant represents the largest (collective) purchaser of UNE-P, serving approximately 46% of the lines. It is within this tier that new competitive ideas are first tested and innovation is most likely to develop.

The Distribution of UNE-P
(3rd Quarter 2002 estimate)



The Benefits of UNE-P Are Becoming More Widespread

One significant competitive trend is that the benefits of UNE-P based competition are becoming more widespread around the nation. In December 2001, approximately 77% of the UNE-P lines were concentrated in the top 6 states; by June 2002, these same states represented only 68% of the nation's UNE-P lines. This is partially due to competition slowing in New York and Texas – UNE-P growth in these two states during the first half of 2002 was only 3.2%, compared to an average growth of 61.5% in the remaining states that reported UNE-P activity.[8]

The Distribution of UNE-P Competition Shows Benefits Becoming More Dispersed

	Dec 2001	June 2002
Top 2 States	54%	43%
Next 3 States	18%	22%
States 6 to 10	11%	16%
States 11 to 15	6%	6%
States 16 to 25	6%	8%
Remaining States	4%	5%
Total	100%	100%

As shown in the table to the right, the competitive benefits from UNE-P are becoming more diffused, with the distribution of UNE-P lines becoming more widespread throughout the nation. The importance of UNE-P extends from the nation's most populous states (such as New York and Texas) to the country's more rural states. Indeed, UNE-P penetration is well above the national average in the three least populous states in the country.

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[7] See *UNE-P Fact Report – August 2002* for additional data demonstrating the geographic ubiquity achieved by UNE-P based competition.

[8] Calculation does not include states where the RBOC withheld data claiming confidentiality concerns. In June 2002, Verizon (Bell Atlantic) withheld information for six states: Delaware, the District of Columbia, Maine, New Hampshire and Vermont. In December 2001, Verizon (Bell Atlantic) withheld information only for Vermont and the District of Columbia.

UNE-P Competition in the Nation's Most Rural States[9]

State	Rank[10]	Lines in State	UNE-P	Market Share
Wyoming	47	263,831	26,846	10.2%
South Dakota	48	256,709	17,343	6.8%
North Dakota	49	217,218	20,191	9.3%
			National Average	5.4%

Of course, UNE-P is only capable of *extending* urban competition to rural markets if it can also be used in more urban markets. There are substantial costs to design, market and support local services that could never be justified solely by rural entry. But the good news is that once given the opportunity to compete in urban states, UNE-P based competition does not end there – it extends to even the most rural markets.

Fundamentally, the practical availability and economic attractiveness of UNE-P is determined on a state-by-state basis, through the effort of each state's public service commission. A listing of each states' progress in making UNE-P commercially useful is provided in the "National UNE-P Report Card" attached to this report (based on ILEC June 2002 Form 477 data), as well as a state-by-state ranking of UNE-P penetration in the analog residential and business markets based on additional (and slightly more current) information filed by the RBOCs.

The Silent Scandal – Local Competition in Faux-BOC Markets

The above report has focused on the local market conditions in areas served by the Regional Bell Operating Companies. Although (as noted above) UNE-P is bringing competitive benefits broadly to the residential and small business marketplace, there are noticeable and meaningful gaps in competitive activity. As the ILECs consolidated over the last few years, both SBC (with its acquisition of SNET) and Verizon (through its merger with GTE) acquired markets that had not been served by a Bell Operating Company. These "faux-BOC" exchanges are nominally part of the SBC and Verizon organizations, but are clearly not part of the same competitive environment.

The table at right compares the relative size and competitive share earned by UNE-P in the exchanges served by the legacy RBOC operations (i.e., for SBC, Southwestern Bell, Ameritech and Pacific Telesis and for Verizon, NYNEX and Bell Atlantic), to the faux-BOC exchanges that they acquired (i.e., SNET and GTE respectively). As the table clearly shows, there is virtually no UNE-P based competition in the exchanges of the "faux-BOCs," despite the

	Legacy RBOC	Faux-BOC
SBC (SNET)		
ILEC Lines	50,518,572	2,256,557
UNE-P	3,325,617	12
Share	6.2%	0.0%
Verizon (GTE)		
ILEC Lines	30,931,677	17,761,502
UNE-P[11]	2,351,423	24,190
Share	7.1%	0.1%

9 Source: FCC Local Competition Report (data through June 2002), released December 9, 2002.

10 Data does not include Alaska and Hawaii, but does include the District of Columbia.

11 UNE-P lines for GTE properties of Verizon were estimated by comparing the number of UNE-P lines reported by Verizon in the 2nd Quarter 2002 to investors to the total number of UNE-P lines by state reported to the FCC in its June 30 2002 Form 477 report. Verizon withholds data for all of its GTE

relatively large number of access lines being served by these entities. To the extent that there are questions as to the level of competition that can be expected in a "UNE-P free market," the territories served by the former GTE operating companies and SNET provide a discouraging insight to that issue.

For questions concerning the PACE Coalition or the UNE-P Fact Report, please contact:

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Gillan Associates
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or

Genny Morelli
Kelley Drye and Warren
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operations and a number of smaller states served by its predecessors, Bell Atlantic and NYNEX. For several of these states (D.C., Delaware, New Hampshire and West Virginia), however, Verizon provided UNE-P volumes to the FCC through an ex parte filing in CC Docket 01-338. All UNE-P lines reported by Verizon to investors in its 2nd Quarter 2002 earnings release that could not be attributed to a non-GTE operation were assumed to be UNE-P lines provided by GTE. This methodology potentially overstates the number of UNE-P lines served by GTE because there are two remaining Verizon states (Maine and Vermont) for which Verizon withholds data.

The National UNE-P Report Card

State	Holding Company	UNE-P as of June 2002			National Rank		
		Gain*	Total Lines	Share	Gain	Lines	Share
Alabama	BellSouth	18,003	68,692	3.5%	21	17	19
Arizona	Qwest	15,385	35,719	1.3%	24	28	34
Arkansas	SBC Communications	14,639	35,062	3.5%	25	30	18
California	SBC Communications	100,064	180,098	1.0%	5	9	36
Colorado	Qwest	3,405	81,527	2.9%	31	14	21
Connecticut	SBC Communications	0	12	0.0%	37	43	43
Delaware	Verizon (Bell Atlantic)	WH	WH	WH			
DC	Verizon (Bell Atlantic)	WH	WH	WH			
Florida	BellSouth	292,607	428,326	6.4%	2	4	10
Georgia	BellSouth	94,881	327,147	7.7%	6	6	8
Idaho	Qwest	595	11,091	2.0%	34	37	30
Illinois	SBC Communications	121,966	423,890	6.0%	4	5	11
Indiana	SBC Communications	40,330	47,131	2.0%	11	25	29
Iowa	Qwest	-13,386	103,018	9.1%	43	12	7
Kansas	SBC Communications	41,520	125,802	9.4%	10	10	5
Kentucky	BellSouth	11,652	35,614	2.9%	28	29	22
Louisiana	BellSouth	21,377	52,648	2.2%	18	21	26
Maine	Verizon (Bell Atlantic)	WH	WH	WH			
Maryland	Verizon (Bell Atlantic)	17,148	31,306	0.8%	22	31	38
Massachusetts	Verizon (Bell Atlantic)	6,528	62,915	1.5%	29	18	32
Michigan	SBC Communications	328,614	750,895	13.6%	1	3	3
Minnesota	Qwest	5,024	85,681	3.7%	30	13	16
Mississippi	BellSouth	28,316	52,498	3.9%	14	22	15
Missouri	SBC Communications	47,507	115,406	4.4%	8	11	14
Montana	Qwest	2,308	5,000	1.3%	32	39	33
Nebraska	Qwest	558	4,087	0.9%	35	41	37
Nevada	SBC Communications	33	51	0.0%	36	42	42
New Hampshire	Verizon (Bell Atlantic)	WH	WH	WH			
New Jersey	Verizon (Bell Atlantic)	42,359	75,573	1.2%	9	16	35
New Mexico	Qwest	905	5,452	0.6%	33	38	41
New York	Verizon (Bell Atlantic)	61,544	1,837,735	16.5%	7	1	1
North Carolina	BellSouth	14,589	56,971	2.2%	26	20	25
North Dakota	Qwest	-2,770	20,191	9.3%	42	34	6
Ohio	SBC Communications	149,865	198,913	4.7%	3	8	13
Oklahoma	SBC Communications	22,311	58,510	3.6%	17	19	17
Oregon	Qwest	26,447	46,525	3.2%	15	26	20
Pennsylvania	Verizon (Bell Atlantic)	20,814	312,149	5.2%	19	7	12
Rhode Island	Verizon (Bell Atlantic)	-429	4,107	0.7%	39	40	40
South Carolina	BellSouth	11,753	39,805	2.6%	27	27	24
South Dakota	Qwest	-579	17,343	6.8%	40	36	9
Tennessee	BellSouth	25,101	75,656	2.8%	16	15	23
Texas	SBC Communications	37,045	1,342,462	13.6%	12	2	2
Utah	Qwest	-2,357	18,157	1.7%	41	35	31
Vermont	Verizon (Bell Atlantic)	WH	WH	WH			
Virginia	Verizon (Bell Atlantic)	19,353	27,638	0.8%	20	32	39
Washington	Qwest	15,728	51,637	2.1%	23	23	28
West Virginia	Verizon (Bell Atlantic)	WH	WH	WH			
Wisconsin	SBC Communications	36,348	47,397	2.1%	13	24	27
Wyoming	Qwest	-69	26,846	10.2%	38	33	4

* Gain in UNE-P lines in 2002, through June 30, 2002.
WH: Withheld due to confidentiality claim by the RBOC.
Source: RBOC Form 477 (Local Competition) Filings with the Federal Communications Commission.

Relative Penetration of Residential and Business UNE-P by State

State	Holding Company	UNE-P Lines		Penetration Rate*	
		Business	Residential	Business	Residential
Alabama	BellSouth	63,650	27,620	17.9%	2.0%
Arizona	Qwest	6,660	30,557	1.0%	1.5%
Arkansas	SBC Communications	5,391	44,842	2.0%	6.8%
California	SBC Communications	112,591	171,965	1.9%	1.5%
Colorado	Qwest	51,886	32,894	8.0%	1.8%
DC	Verizon (Bell Atlantic)	3,780	329	2.1%	0.1%
Delaware	Verizon (Bell Atlantic)	5,591	52	4.4%	0.0%
Florida	BellSouth	145,809	330,354	10.7%	7.1%
Georgia	BellSouth	105,597	245,710	14.2%	9.4%
Idaho	Qwest	34	10,481	0.0%	2.7%
Illinois	SBC Communications	107,477	418,889	4.7%	11.0%
Indiana	SBC Communications	9,337	51,689	1.4%	3.5%
Iowa	Qwest	96,792	2,086	38.7%	0.3%
Kansas	SBC Communications	60,612	85,686	19.3%	9.9%
Kentucky	BellSouth	25,195	18,651	10.7%	2.1%
Louisiana	BellSouth	37,083	43,834	7.2%	2.6%
Maine	Verizon (Bell Atlantic)	WH	WH	WH	WH
Maryland	Verizon (Bell Atlantic)	26,867	7,166	4.5%	0.3%
Massachusetts	Verizon (Bell Atlantic)	74,215	7,865	8.2%	0.3%
Michigan	SBC Communications	128,745	695,815	7.7%	23.0%
Minnesota	Qwest	40,776	45,359	8.5%	3.2%
Mississippi	BellSouth	31,608	33,256	12.1%	3.6%
Missouri	SBC Communications	87,737	50,990	15.9%	2.9%
Montana	Qwest	13	5,072	0.0%	1.9%
Nebraska	Qwest	5	4,050	0.0%	1.4%
New Hampshire	Verizon (Bell Atlantic)	10,678	444	7.0%	0.1%
New Jersey	Verizon (Bell Atlantic)	94,242	55,821	5.8%	1.3%
New Mexico	Qwest	22	5,352	0.0%	0.9%
New York	Verizon (Bell Atlantic)	266,880	1,645,678	12.3%	21.5%
North Carolina	BellSouth	52,580	30,062	11.4%	1.8%
North Dakota	Qwest	16,942	3,136	39.4%	2.4%
Ohio	SBC Communications	51,779	226,887	4.8%	8.3%
Oklahoma	SBC Communications	41,433	22,755	10.2%	2.1%
Oregon	Qwest	21,304	26,739	7.1%	2.8%
Pennsylvania	Verizon (Bell Atlantic)	85,885	247,401	6.5%	6.0%
Rhode Island	Verizon (Bell Atlantic)	7,149	521	6.8%	0.1%
South Carolina	BellSouth	37,836	9,693	14.4%	0.9%
South Dakota	Qwest	13,131	4,262	19.5%	2.7%
Tennessee	BellSouth	70,571	30,410	15.1%	1.6%
Texas	SBC Communications	394,694	1,016,864	16.3%	18.6%
Utah	Qwest	60	17,607	0.0%	2.6%
Vermont	Verizon (Bell Atlantic)	WH	WH	WH	WH
Virginia	Verizon (Bell Atlantic)	19,109	13,021	3.6%	0.6%
Washington	Qwest	12,573	39,773	2.2%	2.4%
West Virginia	Verizon (Bell Atlantic)	1,379	134	1.4%	0.0%
Wisconsin	SBC Communications	11,029	53,763	1.8%	4.0%
Wyoming	Qwest	24,836	1,777	30.8%	1.2%

Source: RBOC Ex Parte Filings, CC Docket 01-338, or reported by Commerce Capital Markets, December 20, 2002. Vintage of data varies by RBOC, but is generally from August or September, 2002.

* Relative Penetration estimated as UNE-P lines as a percentage of ILEC analog residential or business lines (Source: ARMIS 43:08).