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May 19, 2004

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ex Parte

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements, WC Docket No. 02-112 - REDACTED PUBLIC VERSION

Dear Ms. Dortch.

Attached is Verizon's response to the Commission staff's request for market share data for long distance services provided to the mass market. These data demonstrate that the market is highly competitive and that the Verizon companies cannot dominate this market once the section 272 separate affiliate rules sunset.

This material is being produced under the terms of the protective order issued by the Commission in this docket on Dec. 22, 2003, and contains redacted confidential information that is been filed with the Commission under separate cover.

Sincerely,

Dee May

Attachment

cc: Michelle Carey
Michael Carowitz
William Cox
Bill Dever
William Kehoe
Brad Koerner
Pamela Megna
Brent Olson
Julie Veech

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REDACTED PUBLIC VERSION

Verizon Has No Ability To Dominate The Long Distance Market

This is in response to the Commission staff's request for additional information about competition in the long distance market Attached are data on the number of long distance lines presubscribed to the Verizon section 272 affiliates in the Verizon East region, which includes the Verizon jurisdictions subject to sections 271 and 272 of the Act, as well as the number of access lines served by incumbent local exchange carriers ("ILECs") and competitive local exchange carriers ("CLECs") in these states These data, which show that lines served by traditional CLECs are growing rapidly while Verizon's local exchange lines and the total minutes of use on those lines are declining, provide, however, only a partial picture of the relevant markets for long distance and local services. In addition to wireline facilities-based interexchange carriers, six nationwide wireless carriers offer long distance and local service that is fully competitive with wireline service and wireless already is widely used for long distance calls in particular; cable companies already offer circuit-switched long distance and local service to 15 percent of U.S. households and are now deploying voice over Internet protocol ("VoIP") service to expand that number several-fold in the next twelve months, a new class of VoIP providers such as Vonage offer long distance and local service to any customer with a broadband connection, and e-mail and instant messaging already replace as much as one-third or more of all voice communications.

Because customers increasingly view these platforms as interchangeable, they each must be included in the relevant markets for long distance and local services The robust competition among all of these platforms, together with regulatory safeguards such as price cap regulation, and the BOCs' status as new entrants into the long distance market, make it inconceivable that the BOCs could somehow gain market power in the provision of long distance services.

The incumbent interexchange carriers, which continue to dominate the most lucrative portion of the long distance market – the enterprise/large business segment – have tried to exaggerate the RBOCs' shares of long distance services by concentrating just on the mass market However, even if the mass market for long distance services were viewed in isolation, it would be clear that the RBOCs have no ability to dominate the market. Table 1 provides an estimate of the percent of long distance customers presubscribed to Verizon's wireline long distance service in the mass market (residential and small business) by state. For all states but one (Vermont), wireless subscribers have been included in the analysis. The analysis nonetheless overstates Verizon's share, because it does not include all CLEC small business lines, and it does not contain cable telephony, VoIP telephony, or other means of long distance communications, for which data are not available.[1] Even when only this limited subset of competitive alternatives is considered, however, Verizon's wireline share of presubscribed long distance customers does not exceed 21 percent in any state for which wireless data are available.[2]

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[1] For example, these data do not include CLEC business E911 listings, which Verizon has excluded because the E911 listings for CLECs do not distinguish between large and small business. As is shown in Table 2, business lines are the largest part of the CLEC customer base, and undoubtedly many of the CLEC business E911 listings belong in the mass market category

[2] For example, in New York, Verizon has **[BEGIN PROPRIETARY]**

. **[END PROPRIETARY]**

This is far below the 60 percent share of the long distance market that AT&T had when the Commission found AT&T to be nondominant.[3] Although, as the Commission has observed, market share alone is not determinant of a carrier's market power, the fact that Verizon's share even in the states where it has had section 271 authority for the longest periods is less than one-third of AT&T's when it was found nondominant shows that Verizon cannot be considered dominant based on market share alone.

The following contains a summary of competition in the provision of the long distance and local services to mass market customers – both residential and small business. It analyzes both traditional wireline competition, as well as competition from intermodal wireless, cable, and VoIP providers.

A. Wireline Telephony

Table 2 provides the number of residential and small business lines Verizon serves on a retail basis in each Verizon East state, by quarter, for 2003. This table also estimates the number of residential and small business lines served by CLECs in each state, based on the number of resale lines, UNE-P lines, and E911 listings assigned to the CLECs.[4] These data show that, from the end of the first quarter of 2003 until the end of the fourth quarter of 2003, Verizon's residential retail lines declined by 8.4 percent while its business lines declined by 8.0 percent During that same period, CLEC residential and business lines increased by 27 1 percent and 17 3 percent, respectively As of year-end 2003, CLECs were serving 19 7 percent of total residential wireline lines in the Verizon East region.

Table 3 provides Verizon's total switched access minutes of use, by quarter, for 2003. These data likewise show a steady decline in demand – switched access minutes declined approximately 7.7 percent between the first and fourth quarters of 2003, and by approximately 12 percent compared to the levels for the same quarters in 2002.

Table 4 provides the number of long distance lines that have been presubscribed to Verizon's long distance service, by quarter, for 2003. As discussed below, however, customers are increasingly relying on carriers and platforms other than their wireline local carrier to make long distance calls. In particular, as discussed more fully below, even customers that presubscribe to Verizon make some or all of their long distance calls using other providers, including wireless carriers As a result of all these competitive factors, Verizon's wireline long distance affiliates have only a small part of the total long distance market.

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[3] *See Motion of AT&T Corp. to be Reclassified as a Non-Dominant Carrier*, 11 FCC Rcd 3271, ¶ 68 (1995)

[4] These data do not include PRI ISDN, DS1, Centrex, or PBX lines Since there is no way of identifying the CLEC E911 numbers that are assigned solely to small business, the E911 business lines on this chart for the CLECs include all CLEC business lines, both small and large business

B. Wireless.

Wireless carriers compete with wireline carriers both for local access lines and, even more extensively, for local and long distance calls. Customers will use whichever service provides the lowest rate for any given long distance call. For example, IDC observes that a "key element[] of wireless service packaging" is "[f]ree long distance calling, which has directly contributed to wireline traffic substitution and historically increasing average minutes of use (MOUs) among the wireless carriers "[5] J D Power notes that "Wireless phones with long distance packages [] continue to displace traditional long distance calling, which is an ongoing challenge for long distance providers."[6] As J P Morgan reports;

> One of the more stunning findings in the most recent [TNS Telecoms survey cited by the FCC] was that consumers have significantly reduced their reliance on the traditional landline network for long-distance voice In total, consumers have reduced the number of long-distance minutes of use per landline by 40% over the past five years. We think the source of the decline is that consumers are increasingly using fixed priced wireless plans to make 'free' long-distance voice calls. . We expect this trend to continue in the residential market. . . We believe three primary threats will impact the long-distance voice market· volume pressure from wireless migration (MOUs); pricing pressure from new entrants (ILECs, CLECs, MSOs); and downward pressure on access lines from wireless substitution.[7]

The Yankee Group estimates that U.S. households currently make 43 percent of their long-distance calls on wireless phones.[8]

The shift of long distance traffic from wireline to wireless also is evident from the diametrically opposite trends in the number of minutes carried on wireline and wireless networks. As shown in Table 3, Verizon's total wireline switched access minutes of use have declined steadily through 2003. The FCC's own data show that toll minutes are likewise declining rapidly for the industry as a whole – from a peak of 149 per month in 1997, down to only 90 in 2002 [9]

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[5] S. Ellison, IDC, *U.S. Wireless Displacement of Wireline Access Lines, Forecast and Analysis, 2003-2007* at 7 (Aug 2003) ("*IDC Wireless Displacement Analysis*").

[6] J D Power and Associates Press Release, *J D. Power and Associates Reports: Customer Satisfaction Increases as Stiff Rate Competition and Bundling Causes Steep Drops in Long Distance Spending* (July 1, 2003) (*quoting* Steve Kirkeby, senior director of telecommunication research, J D Power and Associates), *at* http.//www jdpa com/pdf/2003047.pdf

[7] J Bazinet, *et al.*, JP Morgan, *U S Telecommunications The Art of War* at 13 (Nov. 7, 2003).

[8] Yankee Group News Release, *U.S. Consumer Long Distance Calling Is Increasingly Wireless, Says Yankee Group* (Mar 23, 2004), *at* http://www.yankeegroup com/public/news-releases/news_release_detail jsp?ID=PressReleases/news_03232004_cts 2.htm

[9] Industry Analysis & Technology Division, Wireline Competition Bureau, *Statistics of the Long Distance Telecommunications Industry* at 35-36 & Table 20 (May 2003)

Average Residential Monthly Toll Minutes (excluding wireless)							
1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
143	143	149	144	131	116	105	90

Source Industry Analysis & Technology Division, Wireline Competition Bureau, *Statistics of the Long Distance Telecommunications Industry* at Table 20 (May 2003)

The chart below shows just the opposite trend for wireless carriers, which have seen their total minutes of use, as well as their average minutes per subscriber, increase several fold since 2000

Wireless Use						
	Analyst	**2000**	**2001**	**2002**	**2003**	**2004E**
Wireless MOUs (in billions)	Thos. Weisel Partners (Apr 2004)	259	457	620	803	1,052
	Merrill Lynch (Mar. 2004)	259	456	620	837	1054
Monthly MOUs per Average Subscriber	Thos. Weisel Partners (Apr 2004)	221	320	384	444	525

Sources N Zachar, *et al*, Thomas Weisel Partners, *Wireless Carrier Consolidation Setting the Record Straight for the Tower Industry* at 3, Fig 1 & at 4, Fig 2 (Apr 6, 2004)

Similarly, as shown in Table 5, the demand for wireless lines has grown substantially over the years, in contrast to the steady decline in wireline access lines.

While some interexchange carriers have argued in this proceeding that wireless services do not compete with wireline services for voice long distance traffic, they have said just the opposite in their financial reports AT&T admits that; "Consumer long distance voice usage is declining as a result of substitution to wireless services, internet access and e-mail/instant messaging services, particularly in the 'dial one' long distance, card and operator services segments."[10] Similarly, MCI explains that "Our competitors include...wireless telephone companies, such as Verizon Wireless, Cingular, Sprint PCS, AT&T Wireless, Nextel and T-Mobile, which have increased their network coverage, improved service quality, lowered prices and gained market share from providers of wireline voice communications . "[11]

In addition to the substantial growth in the use of wireless for long distance calls, a large and increasing number of customers also are shifting entirely to wireless for both local and long distance service. A survey of 600 American cell phone users found that "nearly one in five Americans (18%) say that they are likely to switch their current landline phone number to a

[10] AT&T Corp., Form 10-K (SEC filed Mar 15, 2004)

[11] MCI Inc , Form 10-K (SEC filed Apr 29, 2004).

wireless plan, making their cell their primary communications device."[12] The chart below is based on the assessments of a respected independent analyst who estimates that over 19 million wireline access lines have already been displaced by wireless, and that this number will reach almost 34 million by 2007.

U.S. Household Primary and Secondary Wireline Access Lines Displaced by Wireless, Cumulative from 1995-1997 (in millions)						
	2002	2003	2004	2005	2006	2007
Secondary Access Lines Displaced	11.1	13.4	16.1	18.5	20.7	22.9
Primary Access Lines Displaced	4.6	5 7	7 2	8.5	9.8	10.9
Total Access Lines Displaced	15 7	19 1	23.2	27 0	30.5	33.9

Source S Ellison, IDC, *U S Wireless Displacement of Wireline Access Lines, Forecast and Analysis, 2003-2007* at 16, Table 9 (Aug 2003)

C. Cable Telephony and VoIP

Cable companies and VoIP providers also offer competing services that are relevant here. First, cable companies offer circuit-switched telephony to 15 percent of American homes, with heavy concentrations in Verizon's service areas, and in those markets provide an alternative for local and long distance telephone services. Second, cable companies themselves are now rolling out VoIP service provided over their own cable facilities, already offer VoIP service to more than 5 million homes in Verizon's service territory alone, and have announced that they will offer VoIP on a much wider basis by the end of this year Third, a number of additional VoIP providers now offer service to any customer who has a broadband connection, including any customer with cable modem service or DSL We address each of these categories in turn

1. Cable Circuit Switched Telephony

Cable companies offering traditional circuit-switched telephony provide additional competition for long distance and local services. Table 6 provides a description of the telephony services offered by cable companies in the Verizon East region

[12] Insight Press Release, *Americans Are Ready To Cut the Cord on Their Wireless Carriers* (Nov 19, 2003), *at* http://www insightexpress.com/pressroom/release_111903.asp. Wireless also has been displacing second lines for some time. ***See*** *IDC Wireless Displacement Analysis* at 12 ("IDC forecasts continued steady 'normal' secondary line displacement by wireless, a trend that has been occurring since the mid to late 1990s")

Cable operators offer circuit-switched telephony services to more than 15 percent of U.S. households.[13] These circuit-switched cable telephony services include major concentrations in Verizon's local service areas

- For example, Comcast has 1 3 million circuit-switched subscribers nationwide and is offering circuit-switched telephony services to approximately 3 million homes that we can identify from publicly available materials in the Verizon east service areas, including throughout eastern Massachusetts, in Pittsburgh, and in Richmond and Alexandria in Virginia.[14]
- Cox offers circuit-switched voice service to more than half of the 10 million homes it passes, covering 13 of its major markets. In Verizon's service areas, Cox offers its circuit switched voice service to at least 700,000 households, including the entire state of Rhode Island and the Tidewater area of Virginia, and it recently rolled out service in its northern Virginia service area.[15] Cox claims that its Digital Telephone service has achieved profitability, and that its penetration rate averages 19 percent and is as high as 55 percent in some markets [16]
- Starpower, which services the D C metropolitan area including parts of Maryland and Northern Virginia, provides cable telephony service to 28,000 subscribers RCN, which in Verizon's region provides cable telephony service in Boston (including 18 surrounding communities), Philadelphia, and Lehigh Valley, PA, has nearly 250,000 cable telephony subscribers, including those served in markets outside of Verizon's region [17]

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13 *See, e g.*, J. Halpern, *et al.*, Bernstein Research Weekly Notes, *US Telecom and Cable. Faster Rollout of Cable Telephony Means More Risk for RBOCs, Faster Growth for Cable,* at Exh 1 (Jan. 9, 2004) (estimating 15 percent of U.S. households as of year-end 2003) ("*Bernstein Cable Telephony Report*")

14 *Bernstein Cable Telephony Report*, at 5; Table 7 *infra*.

15 Table 7, Cox News Release, *Cox Communications Brings Digital Telephone Service to Northern Virginia; Northern Virginia Marks Cox's 13th Telephone Market* (Apr. 30, 2004) *at* http://www.coxenterprises.com/corp/viewPressRelease asp?articleid=524 ("*Cox Digital Service News Release*"); *March 2004 Broadband Update* at 13 & Table 5 (attachment to Letter from Dee May, Verizon to Marlene Dortch, FCC, CC Docket Nos 01-337, 01-338 and WC Docket Nos 02-33 and 02-52 (filed March 26, 2004))

16 Jim Robbins, President & CEO and Chris Bowick, SBP Engineering & CTO, Cox Communications, *COX Communications; Distribution at its Best*, Presentation at Bear Sterns 17th Annual Media, Entertainment & Information Conference, at 13 (Mar. 10, 2003) *at* http://media corporate-ir net/media-files/irol/76/76341/presentations/BearStearns031004.pdf. ***See also*** K. Duffy-Deno and R. Sewell, Ernst & Young / PriMetrica, *Mobile Wireless as a Substitute for Primary Fixed Line Service: What is the Potential Impact?*, at 2 (May 22, 2003)

17 RCN Corp., Form 10-K (SEC filed Mar 30, 2004).

A recent customer survey by Sanford Bernstein found that "26 percent of households . . report a *preference* for their cable operator over their RBOC for voice telephony even at no discount to their current rate 51% of respondents report a preference for cable telephony over an equivalent RBOC offering if a 30% discount is offered by the cable operator . . [C]able's high 'share of preference' mirrors actual results in Cox's most mature circuit-switched markets – where share is now approaching 35% of homes passed – and in Time Warner's Portland, ME market, where TWC has taken almost 10% market share in only six months."[18] The cable companies' experience with circuit-switched telephony shows that they are a growing source of line loss to wireline carriers.

2. Cable VoIP.

The current wave of telephony competition from the cable companies is primarily in the form of VoIP services, which the cable operators are quickly rolling out throughout their service territories

In the first quarter of 2004, each of the six major cable operators – whose networks reach 85 percent of U.S. households – has either begun commercial deployment of VoIP telephony service, or has announced aggressive plans to do so imminently.[19] Each of these major cable operators also has concentrations of customers in the Verizon east local service areas.

- For example, Cablevision already offers voice telephone service using VoIP to 100 percent of its 4 million cable homes passed in metropolitan New York and New Jersey.[20]

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[18] *See* C Moffett, *et al*, Bernstein Research Call, *Cable and Telecom: Bernstein Study Finds Consumers Ready and Willing to Switch to Cable Telephony*, at 1 (Dec. 9, 2003) ("*Bernstein Cable and Telecom*")

[19] *See* Table 5, *Bernstein Cable Telephony Report* at 3 ("Nearly every major cable MSO has indicated over the past month that it will offer cable telephony service to every, or nearly every, household in its footprint by 2005, with Time Warner Cable and Cablevision targeting year-end 2004"); G Campbell, *et al*, Merrill Lynch, *3Q03 Broadband Update· The Latest on Broadband Data and VoIP Services in the U.S and Canada,* at 9 (Nov 3, 2003) ("In the third quarter, all of the major cable operators continued to push ahead with their VoIP plans and deployments") ("*Merrill Lynch 3Q03 Broadband Update*"), G. Campbell, *et al.*, Merrill Lynch, *Everything over IP VoIP and Beyond*, at 17 (Mar 12, 2004) (Charter will deploy VoIP to 1 million homes by year-end 2004) ("*Merrill Lynch Everything Over IP*").

[20] *March 2004 Broadband Update* at 13 & Table 5

- Time Warner has already deployed VoIP in seven of its markets, and is "on track" to deploy service to "essentially all" of its cable systems – which pass a total of 18 million homes – "by the end of 2004."[21] Time Warner's initial deployment of VoIP service took place in the Verizon east service area in Portland, Maine, and it currently offers VoIP to approximately 145,000 homes there.[22] Although Time Warner has not announced publicly the precise order in which it will roll out VoIP service over the rest of its systems, its systems pass another nearly 4 million homes in the Verizon east service areas including nearly 3.5 million homes in New York, 238,000 homes in Pennsylvania, 77,000 homes in New Jersey, 34,000 homes each in Massachusetts and West Virginia and 22,000 homes in New Hampshire.
- Comcast has told analysts it will have half of its 39 million homes passed "VoIP ready" by year-end 2004 and 95-percent VoIP ready by year-end 2005 [23] Comcast also has not announced publicly the order in which it will roll out VoIP service over its systems, but it too has major concentrations in the Verizon east service areas For example, Comcast passes 2.5 million homes in Pennsylvania (including 739,000 in Pittsburgh where it already offers circuit-switched service), 1.8 million homes in Maryland, 1.6 million homes in New Jersey, 2 2 million homes in Massachusetts (including 1.6 million in the Boston MSA where it already offers circuit-switched service), 289,000 homes in the District of Columbia, 206,000 homes in Delaware, 551,000 homes in Virginia (where it already offers circuit-switched service), and 73,000 homes in West Virginia.
- Cox has begun rolling out VoIP service in Roanoke, Virginia and reports penetration rates similar to its previous circuit-switched services.[24] Cox's network passes approximately 77,000 homes in the Roanoke MSA.[25]

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[21] Time Warner News Release, *Time Warner Reports First Quarter 2004 Results* (Apr 28, 2004) *at* http://www timewarner com/investors/quarterly_earnings/2004_1q/pdf/release.pdf

[21] John R Alchin, Executive Vice President and Co-CFO, Comcast, Presentation to Bear Stearns 17th Annual Media, Entertainment and Information Conference at 16 (Mar. 9, 2004), *at* http //media corporate-ir.net/media_files/irol/11/118591/presentations/cmcsa_030904/ sld001.htm

[22] Table 7.

[23] John R Alchin, Executive Vice President and Co-CFO, Comcast, Presentation to Bear Stearns 17th Annual Media, Entertainment and Information Conference at 16 (Mar. 9, 2004), *at* http //media corporate-ir net/media_files/irol/11/118591/presentations/ cmcsa_030904/sld001 htm

[24] *Cox Digital Service News Release*; *March 2004 Broadband Update* at 13 & Table 5.

[25] Media Business Corp., *Top 10 MSOs by County* (Mar 2004)

- Charter plans to offer VoIP services to at least one million of the 12 million homes it passes in 2004 [26] Charter plans to begin providing VoIP service in Massachusetts, where its network passes 284,000 homes, in the fourth quarter of 2004 [27]

Analysts now predict that all major cable operators will offer cable telephony "to nearly 100% of cable homes passed over the next two to three years "[28] The smaller cable operators are expected to offer cable telephony to about two-thirds of their subscribers within that same time frame [29] Sanford Bernstein estimates that, within two years, "roughly 82% of total US households" will therefore be able to obtain IP telephony services from their cable operator.[30]

VoIP can be offered over a cable system at very low cost, particularly compared to circuit-switched telephony Banc of America Securities states that "we have indicated that we believe the marginal operating cost for VoIP could be less than $10 per month in scale. . . Cablevision has indicated that incremental capital costs are only about $125, and . . payback is only 10 months "[31]

The majority of IP cable telephony subscribers are purchasing service as a primary line replacement. For example, some 86 percent of Time Warner's Digital Phone subscribers reportedly bring their old phone number with them when they sign up [32] Cablevision markets its

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26 *Merrill Lynch Everything Over IP*, at 17, 52

27 Charter Communications, *1Q04 Results* at 11 (May 10, 2004) (presentation of Charter president & CEO Carl Vogel) *at* http.//media.corporate-ir net/media_files/nsd/chtr/presentations/chtr_051004 pdf)

28 *Bernstein Cable Telephony Report* at 3; *see also* J Hodulik, *et al.*, UBS, *High-Speed Data Update for 3Q03* at 12 (Dec. 1, 2003) ("By the end of 2005/2006" the four major "cable operators will have rolled out a cable telephony service across substantially all of their respective footprints, representing total homes of approximately 70 million").

29 *Bernstein Cable Telephony Report* at 4-5.

30 *Bernstein Cable Telephony Report* at 4. *See also* Kagan, *Cable VoIP Outlook. Q1 '04 Sector Update* at 17 (Jan. 2004) (estimating that cable VoIP will be marketed to 55 percent of U S households by the end of 2005, but that cable VoIP will actually pass 65 percent of U S. households at that time).

31 D. Barden and D Shapiro, Banc of America Securities Equity Research, *Straight Talk on VoIP*, at 5 (Apr 15, 2004). Other cable companies have provided slightly higher but still low cost estimates

32 Glenn Britt, Chairman and CEO, Time Warner Cable, presentation before the UBS Media Week Conference (Dec 11, 2003); *see also Bernstein Cable and Telecom*, at 4 ("80 to 90% of Time Warner's Portland customers opting to keep their existing phone number").

service only as a second-line replacement, but at least 37 percent of Cablevision's subscribers have disconnected all other landline service [33]

Analysts project that cable operators will capture as much as 7 percent of current residential lines by the end of 2005,[34] and more than 15 percent of primary residential lines within 4 years [35] Morgan Stanley "believe[s] the shift towards VoIP will continue to eat away at Bell MOUs "[36] According to UBS, cable IP telephony is "the largest risk to Bell fundamentals over the next 5 years."[37]

3. Independent VoIP providers.

VoIP vastly expands the number of competitors that can offer telephony service in competition with traditional wireline carriers, because a VoIP does not need its own facilities, but can offer service over any type of broadband facility. This means that customers can obtain VoIP telephony service regardless of whether it is offered by the customer's cable company, and can choose from numerous VoIP providers rather than being limited to a single offering from the cable company This allows customers to bypass the incumbent local exchange carrier's telephone services wherever cable modem service is deployed Between 85 and 90 percent of U.S. households are now able to obtain a broadband connection from a provider other than their incumbent local telephone company [38] Table 7 shows that cable companies in the Verizon East

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[33] *Merrill Lynch 3Q03 Broadband Update,* at 15 (Nov. 3, 2003). Cablevision is currently marketing its service as a second line for regulatory reasons *See Bernstein Cable and Telecom,* at 4

[34] F Governali, *et al* , Goldman Sachs, *Telecom Services· Qualifying the VoIP Threat, an Eye-Opening Exercise* at 1 (Dec. 23, 2003) ("*Goldman Sachs VoIP Report*")

[35] J. Halpern, *et al.*, Bernstein Research Call, *US Telecom & Cable: Faster Roll-Out of Cable Telephony Means More Risk to RBOCs, Faster Growth for Cable* at 1 (Dec. 17, 2003) ("[W]e are raising our estimate of cable telephony subscribers from 10.4M by 2008 (off a 2003 base of 2.3 M) to 17 4 M Our new outlook suggests that the cable MSOs will control 15 5% of the consumer primary access lines in the US by 2008, up from our previous estimate of 9.3%), *Goldman Sachs VoIP Report* at 1 ("We've been expecting the Bells to lose 20% to 30% consumer market voice share, as a result of the aggressive introduction of voice services by the cable industry over the next 5 to 7 years."). *See also* A Bourkoff, *et al.*, UBS, *High-Speed Data Update for 4Q03*, at Table 5 (Mar 11, 2004) ("most incremental telephony subscribers are expected to be VoIP")

[36] S Flannery, *et al.*, Morgan Stanley, *Trend Tracker: Spring Break! Some Temporary Telecom Relief* at 30 (Mar. 18, 2004)

[37] J. Hodulik, UBS Investment Research, *Cable Telephony Competition· Who Gets It?* at 1 (Aug. 7, 2003).

[38] *See* NCTA, *Broadband Services, at* http://www ncta com/Docs/ PageContent cfm?pageID=37; *see also* J Halpern, *et al* , Bernstein Research Call, *Broadband Update· DSL Share Reaches 40% of Net Adds in 4Q . . Overall Growth Remains Robust,* at 7.

states offer cable modem service to between 90 and 100 percent of the customers in their service areas Table 8 provides data on the growth in cable modem subscribers. Although these data, which are drawn from the Commission's public reports, do not include confidential data for some states, they show that there were more than 4 million cable modem subscribers in nine Verizon states in 2003 – a 50 percent increase in the last year alone.

VoIP permits carriers to enter the local exchange market at low cost over wide areas. "Costs for Vonage's service appear to be remarkably low – both the up-front development costs and incremental per-subscriber costs "[39] Vonage recently announced that it is reducing the price for its unlimited local and long distance calling plan for both new and existing residential customers from $35 to $30 [40] Vonage also announced that it had 155,000 customers and that it is adding 20,000 customers per month. AT&T has already begun providing its "CallVantage" VoIP service – which it is marketing as a primary line service – "in 35 metropolitan markets" and plans to expand "to 100 major markets by year's end "[41] Table 9 shows that there are numerous VoIP providers throughout the Verizon region that offer unlimited local and long distance services at low fixed prices

D. Demand is Price-Elastic Across Service Platforms.

Bundled packages for wireline service, cable telephony (including VoIP), and wireless are all closely comparable [42] Verizon demonstrates in Table 10, which presents examples of bundled service offerings for 20 metropolitan areas, that there are multiple competitors using different platforms in each jurisdiction with bundled offerings in the same price range. This strongly suggests that suppliers believe that demand is price-elastic across all of these service platforms

For example, the attached declaration of Margaret Gardner attests that when Verizon began to develop its "Veriations" bundle of local and long distance calling, it tailored the plan

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Exhibits 1 & 6 (Mar. 10, 2004) (cable broadband available to 92.3 percent of total cable homes passed).

[39] *Merrill Lynch Everything Over IP*, at 60

[40] *See Internet Phone Service Vonage Hits 155,000 Customers, at* http //biz.yahoo.com/rc/040517/telecoms_vonage_1.html; Communications Daily, May 18, 2004

[41] AT&T News Release, *AT&T's CallVantage Service Expands to Serve the Western United States* (May 17, 2004) *at* http://www att.com/news/item/0,1847,13064,00.html; AT&T News Release, *AT&T's CallVantage Service Expands to Boston Area* (Apr. 26, 2004) *at* http //www.att.com/news/item/0,1847,13037,00 html.

[42] Although AT&T has claimed in this proceeding that it cannot compete against the BOCs' bundled service offerings, its CEO just stated that local/long distance bundles "have proven to be a terrific growth business for AT&T " *See* AT&T News Release, *AT&T Chairman Outlines Aggressive Competitive Strategy at CSFB Conference* (Dec 11, 2003) at http://www.att com/news/item/0m1847m12629,00 html.

along the lines of wireless bundles because it had market research showing that many customers were shifting their demand to wireless carriers to take advantage of "free" calls on wireless night and weekend plans. This is further evidence that the relevant market for long distance services includes such services offered over all platforms

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Total All States [BEGIN PROPRIETARY]

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Table 2
Washington, DC

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Table 2
New
Hampshire

[BEGIN PROPRIETARY]

[END PROPRIETARY]

Table 2
New York

[BEGIN PROPRIETARY]

[END PROPRIETARY]

Table 2
New
Jersey

[BEGIN PROPRIETARY]

[END PROPRIETARY]

Table 2
Pennsylvania

[BEGIN PROPRIETARY]

[END PROPRIETARY]

Table 2
Rhode Island

[BEGIN PROPRIETARY]

[END PROPRIETARY]

Table 2
Virginia

[BEGIN PROPRIETARY]

[END PROPRIETARY]

Table 2
Vermont

[BEGIN PROPRIETARY]

[END PROPRIETARY]

Table 2
West Virginia

[BEGIN PROPRIETARY]

[END PROPRIETARY]

[BEGIN PROPRIETARY]

[END PROPRIETARY]