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**Ex Parte**

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, SW – Portals  
Washington, DC 20554

**Re: Unbundled Access to Network Elements, WC Docket No. 04-313;  
Section 251 Unbundling Obligations for Incumbent Local Exchange Carriers,  
CC Docket No. 01-338**

Dear Ms. Dortch:

Verizon is providing the attached document, which contains data and information previously filed by Verizon, to become a part of the record in these proceedings. This document provides a high-level summary of Verizon's position and supporting facts on why the Commission should not require unbundling of switching facilities.

Please place this notice in the record of the above proceedings.

Sincerely,

A handwritten signature in black ink, appearing to read "Edwin J. Shimizu".

Attachment

# Fact Sheet

## Unbundled Switching and UNE-P

Since the *Triennial Review* proceeding, the facts concerning the deployment of competitive switching equipment and the emergence of intermodal alternatives have changed. The deployment of competing voice telephone services by cable companies and Voice over Internet Protocol (“VoIP”) providers, as well as increasing competition from wireless and other intermodal providers, has progressed significantly. These developments conclusively show that competitors are not impaired without access to unbundled mass market switching. This is true as a general matter and in the specific areas served by Verizon.

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### ▼ Cable companies are aggressively deploying voice telephone services across the country

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- By the end of this year, about 21% of homes will have access to voice telephone service provided by a cable company, and within two years, more than 80% of homes will have access.
- Using circuit switches, cable companies currently offer voice telephone service to approximately 15% of homes nationwide.
- Using VoIP technology, cable companies also now offer and plan to offer voice telephone service to millions of additional homes:
  - 24 million homes by the end of 2004
  - More than 40 million homes by the end of 2005
  - More than 90 million by the end of 2006

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### ▼ Cable company deployment of voice telephone services is particularly aggressive in Verizon’s service areas

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- Cable companies already offer voice telephone service to more than 18 million homes in Verizon’s service areas, either circuit-switched or VoIP.
- Each of the major cable companies has major concentrations of customers in Verizon’s service areas, and either already is offering or is in the process of rolling out voice telephone service to large numbers of customers.

- *Cablevision* offers VoIP to 4 million homes in the New York metropolitan area and in New Jersey, and added more than 74,000 customers during the third quarter of this year.
- *Time Warner*, by the end of this year, will offer VoIP service to all of the approximately 8 million homes it passes in Verizon’s local service areas. As of mid-August 2004, Time Warner was signing up 1,200 customers a day (or about 36,000 customers per month) for VoIP service in its various markets.
- *Comcast* plans to make VoIP available to half of the 40 million homes it passes nationwide by the end of 2004, and to 95% of those homes by the end of 2005. If Comcast’s rollout of VoIP service in Verizon’s service area reflects the national average, Comcast also will be ready to offer VoIP to 8 million homes in Verizon’s service areas by the end of 2004 and to more than 15 million homes by the end of 2005.
- *Cox* offers circuit-switched voice service to 1.7 million homes in Verizon’s service areas and VoIP services in Roanoke, VA.
- *Charter* plans to offer VoIP services to the homes it passes in Massachusetts by the end of this year.
- *Starpower/RCN* offers circuit-switched voice telephone service in eastern Massachusetts and in the metropolitan Washington, DC area.

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## ▼ Cable companies are also aggressively targeting small business customers

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- Cable companies have web pages devoted to voice services specifically for small business customers.  
*Cablevision*  
<http://www.lightpath.net/Interior6.html>  
*Time Warner*  
<http://www.twtelecom.com/Default.aspx?navId=221&configArgs=src=dctm;doc=0900bb3f801414a6>  
*Comcast*  
<http://www.comcastcommercial.com/index.php?option=content&task=view&id=24&Itemid=56>  
*Cox*  
<http://www.coxbusiness.com/>  
*RCN*  
<http://www.rcn.com/business/prodserv/voice.php>
- “[Cablevision] Lightpath has delivered voice, data, Internet, and video solutions for businesses of every size and complexity in New York, New Jersey, and Connecticut.” “[Cablevision] Lightpath has become the preferred provider of voice, data, and Internet services for more than 4,000 businesses.”
- Time Warner “views the SMB market as a high-growth opportunity” and has “an infrastructure there that is just ripe for commercial services. . . . We pass 1.2 million businesses . . . .”
- Comcast offers business services such as Digital Local Trunk, ISDN Primary Rate Interface, direct inward dialing and direct outward dialing.
- Cox Business Services provides data, voice, and transport services to more than 100,000 business customers and more than 320,000 businesses lie within 100 feet of Cox’s network, providing Cox a “significant opportunity.”
- RCN offers businesses voice lines, analog PBX trunks, and ISDN Primary Rate Interface service. RCN has “signed several agreements to expand its business” to provide “voice, video, data, business cable, Internet access, transport” to “customers including universities, hospitals, and the financial and legal industries.”

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## ▼ VoIP is available to any customer that has broadband access

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- Regardless of whether the cable companies themselves offer voice telephone service in a particular area, any customer who has access to cable modem or other broadband services also has access to VoIP from multiple providers.
- VoIP expands the number of competitors that can offer mass market telephone service because they can offer VoIP over any type of broadband facility provided by any other company.
- Approximately 90% of all U.S. homes and 92% of the population throughout Verizon’s 50 largest MSAs now have access to broadband service from a provider *other than* the incumbent local telephone company, principally cable modem service.
- For long distance carriers, VoIP appears to be the chosen method for serving the mass market.
  - AT&T already is offering VoIP to consumers in at least “121 major markets,” covering 62% of U.S. households and projects that it will have at least one million mass market customers by 2005.
  - Sprint has partnered with several cable companies (Time Warner, Charter, Mediacom) to provide telephony infrastructure to enable these cable companies quickly to deploy VoIP services with “ILEC . . . quality.”
  - Level 3 has signed agreements with Net2Phone, Skype, and 8x8 and at least one cable operator for Level 3’s wholesale service that provides carriers with all the building blocks needed to provide residential VoIP service. Level 3’s wholesale service is currently available in 50 U.S. markets, and will reach over 300 markets by the end of this year.

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## ▼ VoIP competes directly with traditional telephone service

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- VoIP service is typically priced 30-40% or more below comparable circuit-switched offerings:
  - In New York, for example, AT&T offers VoIP service for \$29.99 per month (for unlimited local and long distance calls), compared to

- \$54.95 per month for its comparable UNE-P-based offering.
  - Time Warner offers a bundled package of local and long-distance service for \$39.95.
  - Cablevision offers a bundled package of three services – unlimited local and long distance, high-speed Internet access, and digital cable – for \$29.95 each.
  - Vonage offers an unlimited local and long-distance package for only \$24.99 per month.
- Even for customers who have not yet subscribed to broadband service, the combination of cable modem service and VoIP is comparable in price to traditional voice service and dial-up Internet, but provides more features. Cable modem service and VoIP typically now sells for between \$77 and \$87 per month, which is about the same as the price (between \$65 and \$95 per month) for dial-up Internet access plus a bundled local and long distance plan.
- VoIP providers are reporting generous profit margins:
  - Cablevision estimates that its margins are 40-45%, with a capital payback of 10 months.
  - Vonage has reported its margins at 70%, headed to 80%.
  - Wall Street analysts and other observers estimate that a cable company VoIP provider will have cash flow margins of approximately 40%.
- As of year-end 2004, wireless will have displaced 11 million wireline access lines, a number projected to reach 22 million by 2008.
- Since the *Triennial Review* proceeding, analysts indicate that the percentage of wireless users that have given up wireline service has grown from 3-5% to 7-8%.
  - Approximately 2.7 million additional wireless subscribers are now giving up their wireline phones each year.
  - In addition, at least 14% of U.S. consumers now use their wireless phone as their primary phone.
- In addition to competing for access lines, wireless carriers are competing even more extensively to displace telephone calls that previously used the switched wireline network. This means that wireless service competes with the incumbent carrier's circuit switch even where the entire line is not displaced, and is therefore particularly relevant to the issue of whether switching must be unbundled.
  - One Wall Street analyst estimates that “approximately 23% of voice minutes in 2003 were wireless,” and that for 2004 “wireless could make up approximately 29% of voice minutes in the US.”
  - Another analyst estimates that 43% of long-distance calls are now made on wireless phones.
  - By contrast, average residential wireline toll minutes have declined rapidly – from an average of 149 minutes per month in 1997, down to only 90 minutes per month in 2002.

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### ▼ **Wireless service competes directly with landline telephone service and traffic**

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- Wireless carriers compete with incumbent wireline carriers in two ways. First, they compete for local access lines. Second, they compete even more extensively for local and long-distance calls.
- Since the *Triennial Review* proceeding, the number of wireless subscribers has grown from 129 million to 161 million, and the number is continuing to grow at 20 million subscribers per year. By contrast, the number of wireline access lines has declined from a peak of 192 million in December 2000 to only 181 million in June 2003.
- Wireless carriers were the first to offer rate packages that included local and long-distance calls, and wireline and cable companies then introduced their own bundled rate packages to respond to those wireless rate packages.
  - For example, in the Washington, DC, Baltimore, Philadelphia, New York and Boston areas, there are at least 4 wireless carriers offering bundles of local and long distance calling for \$39.99 - \$49.99. Circuit-switched landline bundles of local and long distance calling in these same areas are \$48.95 - \$59.95.
  - One Wall Street analyst notes that “[w]ireless pricing dropped below wireline pricing in 2003 for the first time.”

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## ▼ **Wireless service is competitive with the quality of wireline service**

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- The vast majority of wireless consumers are satisfied with the quality of service.
  - According to MCI, “[t]he latest [cellphone] devices integrate telephone, camera, web and e-mail access, text messaging, and PDA function in the same device . . . [a]s a result of these developments, consumers have found wireless service not only to be comparable to traditional wireline service, but in some regards, even superior.”
  - A 2003 General Accounting Office (“GAO”) survey found that 83% of wireless users were satisfied with the call quality of their cell phones, while only 9% were dissatisfied.
  - Analysts similarly report that “[c]ultural awareness and acceptance of wireless as an acceptable/preferred communication medium is growing.”

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## ▼ **Competing carriers also can use their own switches to provide competitive voice telephone service to the mass market**

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- CLECs had deployed approximately 1,200 circuit switches and about 8,800 packet switches.
  - Carriers were serving approximately 3 million mass-market lines nationwide using their own circuit-switches together with unbundled loops.
  - Cable operators using circuit switches serve about 3.2 million mass market lines without unbundled loops.
- In the top 150 MSAs nationwide, competing carriers’ switches are being used to serve customers in wire centers that contain approximately 83% of the former Bell companies’ access lines in those MSAs.
- Competing carriers’ switches are capable of serving, and are being used to serve, customers located throughout Verizon’s top-50 MSAs.
  - In the New York MSA, for example, CLECs are serving lines in Verizon’s wire centers that contain 93.2% of all access lines in the MSA.

- In the Providence MSA, CLECs are serving lines in Verizon’s wire centers that contain 99.7% of all access lines in the MSA.

- Competitive switches are widely deployed in Verizon’s service areas and have been used extensively to serve mass-market lines.
  - Competitors in Verizon’s top-50 MSAs are serving at least 2.2 million mass-market lines using at least 180 of their own switches.
  - In the New York MSA, for example, competitors are serving approximately 415,000 mass-market lines using at least 28 of their own switches within the MSA.

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## ▼ **Mass-market competition will continue to thrive in the absence of UNE-based competition**

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- Although competing carriers have significantly curtailed their purchases of UNE-P lines, Verizon has continued to lose retail residential lines at roughly the same rate as before this trend began.
- Fulcrum Global Partners has observed that “[e]ven without UNE-P, we expect continued competitive line losses for [the BOCs], as wireless competition continues to proliferate with attractive offerings that provide consumers incentive to substitute wireless for wireline services. Similarly, with an announced and an effective acceleration of cable telephony, we expect line losses to continue.”

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## ▼ **Verizon’s hot cut processes can handle any anticipated demand**

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- It is unlikely that Verizon will see any material increase in the demand for hot cuts because competing carriers plan to compete for mass-market customers using new modes of entry such as VoIP.
  - AT&T announced that it would “no longer be competing for residential local” customers through UNE-P, and that instead it “will be promoting the VoIP product.”
  - Sprint has “essentially stopped our marketing efforts around the UNE-P,” and has announced deals to assist cable operators in deploying VoIP services.

- Z-Tel has stated that in light of the “elimination of UNEP as a working economic business model” it has begun the “rollout of our VoIP related services,” which it claims “are off to very strong starts in Tampa and Atlanta.”
- Verizon’s hot cut processes can handle any anticipated demand increases.
  - The NY PSC approved Verizon’s new batch process and concluded that Verizon will be able to handle the volumes that could be anticipated in an environment in which competing carriers no longer can obtain access to unbundled mass-market switching.
  - The New York PSC specifically concluded that Verizon “could scale up its hot cut activities,” even assuming that “Verizon will be required to increase its hot cut activity dramatically.”
  - Because New York is Verizon’s largest state in terms of both retail access lines and UNE-P lines, Verizon will have the same ability to meet any future demand for hot cuts in all of the other states throughout its region.
- Verizon’s hot cut performance has been and continues to be exemplary. Verizon has completed virtually all hot cuts on time and without installation troubles for many years, even when volumes were increasing at a rapid pace. Verizon has never incurred a performance penalty for hot cuts.
- Verizon’s hot cut processes use the most efficient technology currently available.
- Verizon’s hot cut processes cover hot cuts of loops between competing carriers, hot cuts of loops that carry both voice traffic and data traffic through either line sharing or line splitting arrangements, and hot cuts of loops to EEL arrangements.
- Verizon can cutover lines served by IDLC technology on a bulk basis through its basic hot cut process within the same intervals used for basic hot cuts (five business days).

