

December 2005, competitors were serving approximately [Begin Proprietary] [End Proprietary] voice-grade equivalent lines using DS3s and approximately [Begin Proprietary] [End Proprietary] voice-grade equivalent lines using DS1s, with special access service obtained from Verizon. *See id.*

III. THE FINAL PART OF THE FORBEARANCE TEST IS SATISFIED BECAUSE THE REQUESTED RELIEF IS IN THE PUBLIC INTEREST

As the Commission found in the *Omaha Forbearance Order*, evidence of competition satisfies not only the first two prongs of the forbearance test, but also supports a finding that the third prong of the forbearance test (47 U.S.C. § 160(a)(3)) is met – that eliminating the regulations in question is in the public interest. *See Omaha Forbearance Order* ¶¶ 47, 75. As demonstrated above, competition in the Pittsburgh MSA is even more advanced than in Omaha. Cable voice services in the Pittsburgh MSA are just as widely available as they were in Omaha, and other types of competition are even more widespread. In the *Omaha Forbearance Order* the Commission also identified two additional reasons why forbearance of the regulations at issue was in the public interest, both of which apply with equal force here.

First, as the Commission found in Omaha, the costs of the unbundling obligations that Verizon faces in the Pittsburgh MSA outweigh the benefits. *See id.* ¶ 76. Both the Commission and the D.C. Circuit have recognized the harm to the public interest and to competition from excessive unbundling. As the Commission has explained, “excessive network unbundling requirements tend to undermine the incentives of both incumbent

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LECs and new entrants to invest in new facilities and deploy new technology.”³⁵

Similarly, the D.C. Circuit has recognized that mandated unbundling “imposes costs of its own, spreading the disincentive to invest in innovation and creating complex issues of managing shared facilities.”³⁶ Given the extensive facilities-based competition that already exists in the Pittsburgh MSA, and the potential for even greater facilities-based competition to emerge, any potential benefits from unbundling regulation are slim, while the costs of such regulatory intervention are significant. *See Omaha Forbearance Order* ¶ 77. Forbearance will give both Verizon and other facilities-based competitors greater incentives to continue to invest in facilities, which will ensure the continued growth of long-lasting facilities-based competition.

Eliminating unbundling regulation also will “further the public interest by increasing regulatory parity” between telecommunications providers in the Pittsburgh MSA. *Id.* ¶ 78; *see id.* ¶ 49. As explained above, these regulations were imposed at a time when Verizon’s narrowband circuit-switched network was a dominant technology, but this is far from the case today. Verizon is now losing mass-market and enterprise lines and customers to wireless and broadband wireline competitors. As the Commission noted, it is “in the public interest to place intermodal competitors on an equal regulatory footing by ending unequal regulation of services provided over different technological platforms.” *Id.* ¶ 78. In the face of such competition, asymmetrical regulation imposes

³⁵ *Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, Report and Order and Order on Remand and Further Notice of Proposed Rulemaking, 18 FCC Rcd 16978, ¶ 3 (2003) (subsequent history omitted).

³⁶ *United States Telecom Ass’n v. FCC*, 290 F.3d 415, 427 (D.C. Cir. 2002).

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artificial price constraints that delay and impede full fair competition among providers and harms consumers.³⁷

Second, as the Commission also found in Omaha, eliminating dominant carrier regulations that apply to interstate switched access services is consistent with the public interest where vigorous local competition has emerged. *See Omaha Forbearance Order* ¶ 47. As demonstrated above, competition is more advanced in the Pittsburgh MSA as it was in Omaha. Cable voice services in the Pittsburgh MSA are just as widely available as they were in Omaha, and other types of competition are even more widespread. Moreover, with respect to interstate switched access services, competitive wireless services – which are ubiquitous throughout the Pittsburgh MSA – are particularly significant because customers can use their wireless phones for long-distance calls even where they do not abandon their wireline phone entirely. In fact, large fractions of long-distance calls and minutes have already migrated to wireless. *See Lew/Verses/Garzillo Decl.* ¶¶ 25, 26.

As the Commission found in Omaha, eliminating dominant carrier regulation for interstate switched access services also will promote the public interest by eliminating the unnecessary costs such regulations impose. In particular, “[i]n these environments that are competitive for end users, applying these dominant carrier regulations to [Verizon] limits its ability to respond to competitive forces and, therefore, its ability quickly to offer consumers new pricing plans or service packages.” *Omaha Forbearance Order* ¶ 47.

³⁷ *See, e.g., Appropriate Framework for Broadband Access to the Internet over Wireline Facilities, Report and Order and Notice of Proposed Rulemaking*, 20 FCC Rcd 14853, ¶¶ 45, 71, 79 & n.241 (2005).

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The Commission has similarly recognized in other contexts that certain “regulations associated with dominant carrier classification can also have undesirable effects on competition.”³⁸ For example, the Commission has recognized that tariffing requirements “impose significant administrative burdens on the Commission and the [BOCs],” and “adversely affect competition.” *LEC Classification Order* ¶ 89. Such regulations reduce the incentive and ability to discount prices in response to competition and to make efficient price changes in response to changes in demand and cost. Similarly, the Commission’s price cap regulations limit Verizon’s ability to respond to market conditions and competition. Unlike other providers in the Pittsburgh MSA, to whom price cap regulation does not apply, Verizon is restricted from responding to competition with deaveraged rates and cannot respond to competitors’ bundled service offerings. Competitors also can use these regulations to their advantage, both to undercut each others’ pricing or to maintain artificially high prices.

For these reasons, dominant carrier regulation of the switched-access market is not only unnecessary to ensure just, reasonable, and nondiscriminatory rates and to protect consumers, but it would be affirmatively detrimental to competition and harmful to the public interest.

³⁸ *Regulatory Treatment of LEC Provision of Interexchange Services Originating in the LEC’s Local Exchange Area and Policy and Rules Concerning the Interstate, Interexchange Marketplace*, Second Report and Order in CC Docket No. 96-149 and Third Report and Order in CC Docket No. 96-61, 12 FCC Rcd 15756, ¶ 90 (1997) (“*LEC Classification Order*”).

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CONCLUSION

For the foregoing reasons, Verizon requests that the Commission grant relief that is parallel to the relief granted in the *Omaha Forbearance Order* and forbear from loop and transport unbundling regulation pursuant to 47 U.S.C. § 251(c) and dominant carrier regulations for switched access services in the Pittsburgh MSA.

Respectfully submitted,



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September 6, 2006



A

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Petition of the Verizon Telephone)	WC Docket No. _____
Companies for Forbearance Pursuant to)	
47 U.S.C. § 160(c) in the)	
Pittsburgh Metropolitan Statistical Area)	

**DECLARATION OF QUINTIN LEW, JUDY VERSES, AND PATRICK GARZILLO
REGARDING COMPETITION IN THE
PITTSBURGH METROPOLITAN STATISTICAL AREA**

I. INTRODUCTION AND SUMMARY

1. My name is Quintin Lew. My business address is One Verizon Way, Basking Ridge, NJ 07920. I am Vice President – Marketing and Sales in the Verizon Partner Solutions Group (formerly known as Wholesale Markets) and have worked in this organization for 3 years. In this capacity, I am responsible for competitive and market analysis as well as the product management and marketing of our Special Access Products. I have over 20 years with Verizon or its predecessors in most areas of marketing, strategic planning, and business development. In this capacity, I have information and knowledge relating to the sources of data described specifically in paragraphs 4-5, 10-13, 21-28, 33-37, and 39-57 of this Declaration.

2. My name is Judy Verses. My business address is One Verizon Center, MC: VC11W403, Basking Ridge, NJ 07920. I am Sr. Vice President – Marketing Operations and have worked for Verizon for twenty-three years, including positions in Sales and Product Line Management. For the past 4 years I have had marketing responsibility for Consumer and Small Business Customers. My current responsibilities include alternate channel development, multi-cultural sales and marketing, market research and marketing analytics, as well as competitive intelligence. In this capacity, I have information and knowledge relating to the third party

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sources of data Verizon has used to identify competitive local exchange carrier (“CLEC”) fiber transport and loop facilities and to determine the correlation between customer telecommunication spending and CLEC deployment of fiber facilities as described specifically in paragraphs 4-7, 9, 14-27, and 29-32 of this declaration.

3. My name is Patrick Garzillo. My business address is One Verizon Way, Basking Ridge, New Jersey 07920-1097. I am Vice President – Finance, Service Costs and Analysis for Verizon, and I have more than 35 years of experience with Verizon and its predecessor companies. My current responsibilities include managing and supervising the development, preparation and analysis of economic cost information, embedded costs of regulated and non-regulated services, separated costs, supporting data, cost analysis, and Universal Service Fund related issues. I also support the development of key marketing strategies, regulatory policies, and legislative positions for Verizon through financial analysis associated with a broad array of state and federal regulatory issues. In this capacity, I have information and knowledge relating to the sources of data described specifically in paragraphs 4-9, 12-13, 19, 28, 36-39, and 43-52 of this declaration.

4. The purpose of this declaration is to demonstrate that there is extensive facilities-based competition in the Pittsburgh, PA metropolitan statistical area (“Pittsburgh MSA”), using the framework the Commission applied in the *Omaha Forbearance Order*.¹ Consistent with that framework, we provide a competitive showing for mass-market switched access and enterprise services.

¹ *Petition of Qwest Corporation for Forbearance Pursuant to 47 U.S.C. § 160(c) in the Omaha Metropolitan Statistical Area*, Memorandum Opinion and Order, 20 FCC Rcd 19415 (2005) (“*Omaha Forbearance Order*”).

5. Our declaration and accompanying exhibits contain information collected from publicly available sources and internal Verizon databases. We have identified the sources of all publicly available information on which we rely. We also supervised the collection of all data from Verizon's internal databases. Our declaration and exhibits accurately reflect the data contained in those databases. For purposes of this declaration, all competitive data that were previously attributed to MCI (such as line counts) have been attributed to Verizon.² A summary of the data is set forth below.

6. There are approximately 1.1 million households and 2.4 million people in the Pittsburgh MSA.³ As of the end of December 2005, Verizon was providing service to approximately **** access lines in the Pittsburgh MSA⁴ – approximately **** residential lines and approximately **** business lines.⁵

² Calculations involving declines in access lines over time and the percentage of Verizon lines in wire centers served by competitors do not attribute MCI data to Verizon.

³ U.S. Census Bureau, *County-Level Housing Unit Dataset*, http://www.census.gov/popest/housing/files/HU-EST2005_US.CSV (2005 estimates); U.S. Census Bureau, *Annual Estimates of the Population of Metropolitan and Micropolitan Statistical Areas*, <http://www.census.gov/population/www/estimates/metropop/2005/cbsa-01-fmt.xls> (2005 estimates).

⁴ Verizon is not the only incumbent LEC in the Pittsburgh MSA: ALLTEL serves a portion of Allegheny, Armstrong, Beaver, Washington, and Westmoreland Counties in Pennsylvania; Armstrong Telephone Company serves a portion of Allegheny, Beaver and Washington Counties in Pennsylvania; Bentleyville Telephone Company serves a portion of Washington County, Pa.; Citizens Telephone Company serves a portion of Westmoreland County, Pa.; Hickory Telephone Company serves a portion of Washington County, Pa.; Laurel Highland Telephone Company serves a portion of Fayette and Westmoreland Counties in Pennsylvania; Marianna – Scenery Hill Telephone Company serves a portion of Washington County, Pa.; North Pittsburgh Telephone Company serves a portion of Allegheny, Armstrong, Beaver, Butler and Westmoreland Counties in Pennsylvania; Embarq (Sprint) serves a portion of Armstrong, Beaver and Butler Counties in Pennsylvania; and Yukon – Waltz Telephone Company serves a portion of Westmoreland County, Pa.

⁵ Data include lines served by MCI as of the end of December 2005. Verizon access line data cited throughout this declaration are based on voice-grade equivalent lines.

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7. Comcast's network passes approximately 739,000 homes in the MSA, and the company offers mass-market switched access services and mass-market broadband services to the vast majority of the homes served by its network. Comcast recently acquired certain assets of Adelphia, whose Pittsburgh network passes approximately 187,000 additional homes in the MSA. According to Verizon's residential E911 listings data – based on the most recent data available for Allegheny County and as of December 2005 for other parts of the MSA – Comcast is providing mass-market voice service to wire centers that account for ****[BEGIN HIGHLY CONFIDENTIAL] [END HIGHLY CONFIDENTIAL]**** percent of Verizon's residential access lines in the MSA.⁶ Competitive wireless services and over-the-top voice services also are available throughout the MSA, and there are also traditional CLECs that serve mass-market customers.

8. Due to a change in the process by which data are entered into the E911 database in Allegheny County, Verizon no longer has access to complete E911 listings data disaggregated by CLEC for the entire MSA. This declaration therefore relies on E911 listings data as of September 2005 for Comcast in Allegheny County (the most recent quarter for which Comcast data are available to Verizon in the County), and as of December 2005 for other competitors in Allegheny County. E911 listings data for all other parts of the Pittsburgh MSA are as of December 2005. Between September and December 2005, Comcast added subscribers in other

⁶ This figure is presented as a range because Verizon's data do not in all cases allow an E911 listing to be associated with a specific wire center. The low end of the range is based on the E911 listings that can be directly attributed to a specific wire center (because there is only one wire center associated with the NPA-NXX code for the E911 listing), and therefore represents the minimum number of wire centers (and associated access lines) in which competing carriers are providing service. The high end of the range is derived by applying an allocation methodology to those E911 listings that cannot be directly attributed to a specific wire center (because there is more than one possible wire center associated with the NPA-NXX code for the E911 listing). This methodology proportionally assigns E911 listings to each of the possible wire centers with which the E911 listing can be associated.

parts of the Pittsburgh MSA, and there is every reason to believe that the same is true in Allegheny County. Thus, the E911 listings data used here undoubtedly understate the extent of competition in the Pittsburgh MSA today.

9. As a result of this competition, Verizon's retail residential switched access lines have declined in the Pittsburgh MSA – by approximately **** percent from 2000 to 2005 – even though the number of households in the MSA increased by approximately 2 percent during this time.⁷ Based on the necessarily incomplete data available to Verizon that do not include various forms of intermodal competition, competitors currently provide service to approximately **** percent of residential lines in Verizon's service area in the Pittsburgh MSA.

10. There also is robust competition for enterprise customers in the Pittsburgh MSA. There is a wide variety of competing providers serving these customers, including the cable company, interexchange carriers, competitive LECs, other incumbent LECs, systems integrators, and equipment vendors. The major cable operator in the Pittsburgh MSA offers service to business customers, using both its cable networks and fiber networks that it has deployed specifically to serve business customers. Other competitors are using a combination of their own facilities, facilities obtained from third-party providers, and special access obtained from Verizon.

11. According to data from GeoTel, there are at least four known competing carriers that operate fiber networks within the Pittsburgh MSA and these networks span at least **** route miles. As GeoTel itself recognizes, its information regarding CLEC fiber

⁷ U.S. Census Bureau, *County-Level Housing Unit Dataset*, http://www.census.gov/popest/housing/files/HU-EST2005_US.CSV.

routes, while extensive, is not comprehensive. GeoTel continually works to update its databases, and it provides Verizon with updates approximately every six months. Each of these updates contains new information. Moreover, GeoTel does not have complete data for every CLEC. During the course of the Verizon/MCI merger, for example, Verizon received other confidential sources of data that showed additional CLEC fiber beyond what is contained in the GeoTel data. Thus, there is reason to believe that the GeoTel information understates, perhaps significantly, the extent to which CLECs have self-provisioned fiber facilities. In the Pittsburgh MSA, GeoTel data on fiber route miles are significantly understated as the GeoTel data do not include fiber miles for AT&T, which operates what is likely the largest competitive fiber network in the Pittsburgh MSA. There are at least one or more known competing fiber providers in **** percent of wire centers in the Pittsburgh MSA, and these wire centers represent approximately **** percent of Verizon's retail switched business lines in the MSA.

12. Based on the most recent business E911 listings data available for Allegheny County and as of December 2005 for other parts of the MSA, competing carriers are serving business customers in **** percent of the wire centers in the Pittsburgh MSA, and these wire centers account for **** percent of Verizon's retail switched business lines in the MSA. As of December 2005, competitors are using special access to serve business customers in **** percent of wire centers in the Pittsburgh MSA. These wire centers serve more than **** percent of Verizon's retail switched business lines in the MSA.

13. As a result of this competition, Verizon's retail business switched access lines have declined in the Pittsburgh MSA - by approximately **** percent from 2000 to

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2005 – even though the population in the MSA decreased by only 2 percent during this time.⁸

Based on the most recent data available for Allegheny County and as of December 2005 for other parts of the MSA, competitors in the Pittsburgh MSA had obtained approximately

**** business E911 listings, and as of the end of December 2005 competitors were serving approximately **** voice-grade equivalent lines using special access and private lines obtained from Verizon.

II. COMPETITION FOR MASS-MARKET SWITCHED ACCESS SERVICES

14. The wireline telephone business has undergone and is continuing to undergo fundamental change. Cable, wireless, Voice over Internet Protocol (“VoIP”), e-mail, and instant messaging are all being used as replacements for traditional wireline services. At the end of 2005, cable companies already offered voice telephone service to approximately 57 percent of homes nationwide, and by the end of 2008, 94 percent of homes will have access to voice

⁸ U.S. Census Bureau, *Annual Estimates of the Population of Metropolitan and Micropolitan Statistical Areas*, <http://www.census.gov/population/www/estimates/metropop/2005/cbsa-01-fmt.xls>.

telephone service from a cable company.⁹ There are also multiple over-the-top VoIP providers such as Vonage, Packet8, VoicePulse, Skype, and Lingo that offer service nationwide to anyone with a cable modem or other type of broadband connection. Wireless carriers are aggressively competing both for lines and for traffic. At least 69 percent of the U.S. population now has a wireless phone,¹⁰ and at least 10 percent of wireless subscribers have given up their wireline phone while at least 14 percent use their wireless phone as their primary phone.¹¹ According to an analysis by JP Morgan, ILECs nationwide have lost approximately 9 percent of their primary access lines to wireless.¹² They have lost an additional 7 percent of their primary lines to cable and other VoIP providers.¹³ And they have lost 6 percent of their lines to CLECs.¹⁴ JP Morgan estimates that, by 2010, wireless will capture 18 percent of primary lines while cable and other VoIP providers will capture 28 percent.¹⁵

⁹ See C. Moffett, *et al.*, Bernstein Research, *Quarterly VoIP Monitor: Six Million and Counting* at Exhibit 17 (June 12, 2006).

¹⁰ CTIA, *Wireless Quick Facts*, http://files.ctia.org/pdf/Wireless_Quick_Facts_April_06.pdf. The Yankee Group estimates that more than 70 percent of U.S. households have a wireless phone. K. Griffin, Yankee Group, *Pervasive Substitution Precedes Displacement and Fixed-Mobile Convergence in Latest Wireless Trends* at 4 (Dec. 2005).

¹¹ K. Mallinson, Yankee Group, *Wireless Substitution of Wireline Increases Choice and Competition in Voice Services* at 5 (July 27, 2005); C. Wheelock, In-Stat/MDR, *Cutting the Cord: Consumer Profiles and Carrier Strategies for Wireless Substitution* at 1 (Feb. 2004). See also J. Armstrong, *et al.*, Goldman Sachs, *2006 Outlook – Stuck in Neutral* at 31 (Jan. 13, 2006) (wireless-only customers represent a 12.5 percent share of the residential market).

¹² J. Chaplin, *et al.*, JP Morgan, *State of the Industry: Consumer* at Tables 57 & 72 (Jan. 17, 2006).

¹³ See *id.* at Tables 57 & 72 (lines served by cable and other VoIP providers as a percentage of total telephony households).

¹⁴ See *id.* & Table 21 (excluding lines lost to MCI).

¹⁵ See *id.* at 10-12. Some analysts expect cable telephony to enjoy a share of more than 30 percent of all U.S. households by the end of 2010. See F. Louthan, *et al.*, Raymond James Equity Research, *Reassessment of Access Lines and Wireline Carriers* at 3 (July 5, 2006) (citing IDC estimates).

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A. Cable

15. Comcast is the largest provider of cable television service in the U.S. and in the Pittsburgh MSA. Its network passes approximately 739,000 homes (or more than 65 percent of homes) in the MSA.¹⁶ See Exhibit 3. Comcast recently acquired approximately 1.7 million cable subscribers through transactions with Adelphia and Time Warner, including the approximately 187,000 homes (an additional 15 percent of homes in the MSA) passed by Adelphia's network in the Pittsburgh MSA.¹⁷ Comcast has indicated that it plans to upgrade the Adelphia systems to provide mass-market voice services.¹⁸

16. Comcast (then AT&T Broadband) began offering circuit-switched voice service in the Pittsburgh area in 1999.¹⁹ In April 2006, Comcast began offering Pittsburgh customers a bundle of broadband, cable TV, and phone service for \$99 per month for the first year.²⁰ Prior to

¹⁶ Media Business Corp., *Top 10 MSOs by County* (Mar. 2004).

¹⁷ Comcast Press Release, *Time Warner and Comcast Complete Adelphia Communications Transactions* (July 31, 2006); Comcast Press Release, *Time Warner Cable and Comcast To Acquire Assets of Adelphia Communications; Companies Also To Swap Certain Cable Systems and Unwind Comcast's Interests in Time Warner Cable and Time Warner Entertainment Company* (Apr. 21, 2005); Media Business Corp., *Top 10 MSOs by County* (Mar. 2004).

¹⁸ See, e.g., Letter from J. Coltharp, Comcast Corp. and S. Teplitz, Time Warner Inc., to M. Dortch, FCC, MB Docket No. 05-192 (July 6, 2006) ("Time Warner and Comcast have committed to deploy advanced services for consumers in Adelphia's service area, including VoIP and expansion of video-on-demand services."); Letter from J. Coltharp, Comcast Corp., to M. Dortch, FCC at 2, MB Docket No. 05-192 (Nov. 22, 2005) ("Comcast plans to either launch or make substantial upgrades – at a much faster pace than Adelphia would be able to achieve on its own – to the following services: Internet Protocol ('IP') telephony, video on demand ('VOD'), digital cable, broadband high-speed data ('HSD'), high-definition television ('HDTV'), digital video recorders ('DVRs'), and wireless services.").

¹⁹ See *AT&T Asks PUC To Ensure Flawed Bell Atlantic Systems Are Fixed To Make Way for Safe, Fair Local Phone Competition*, Cambridge Telecom Report (Jan. 17, 2000).

²⁰ A. Sostek, *Comcast Bundles Plans To Lure Customers*, Pittsburgh Post-Gazette at D-1 (Apr. 5, 2006).

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the introduction of the \$99 bundle, Comcast served more than 100,000 phone customers in the area.²¹

17. As of June 2006, Comcast offered circuit-switched voice telephone service and VoIP to 60 percent of its footprint nationwide, or 26 million homes.²² According to its chairman, Comcast plans to market its voice service to 80 percent of its footprint by the end of 2006.²³ Comcast is providing service to more than 1.7 million customers, and reports that it is adding an average of more than 17,000 customers per week.²⁴ The company recently stated that “[t]he next several years will provide tremendous growth opportunities for Comcast. Comcast Digital Voice is available to more people every day, and by the end of this year we will be marketing our ‘Triple Play’ package of video, voice and data services to the majority of our customers. This will continue to reinforce our competitive advantage and position us to deliver more value to our customers and shareholders.”²⁵

18. In the Pittsburgh MSA, Comcast currently offers unlimited local and long-distance calling with calling features including voicemail for \$39.95 to \$44.95 per month for customers who subscribe to other Comcast services, or \$54.95 per month as a standalone service.²⁶

²¹ *Id.*

²² Comcast Press Release, *Comcast Reports Second Quarter 2006 Results* (July 27, 2006).

²³ *CMCSA – Comcast Corporation at Sanford C. Bernstein & Co. Strategic Decisions Conference*, Thomson StreetEvents at 5 (June 2, 2006) (statement of Brian Roberts).

²⁴ *See* Comcast Press Release, *Comcast Reports Second Quarter 2006 Results* (July 27, 2006).

²⁵ Comcast Press Release, *Comcast Reports First Quarter 2006 Results* (Apr. 27, 2006) (quoting Brian L. Roberts, Chairman and CEO of Comcast Corporation).

²⁶ Comcast, *Comcast Digital Voice Service: Residential Pricing List (Effective: August 18, 2006), Western Pennsylvania*, <http://www.comcast.com/MediaLibrary/1/1/About/PhoneTermsOfService/PDF/DigitalVoice/StatePricingLists/Pennsylvania/Z41T95WPA%20pricing%20list%20V7.pdf>.

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19. When a cable company wins a new residential subscriber, it typically obtains an E911 listing for that subscriber. Based on the most recent E911 listings data available for Allegheny County and as of December 2005 for other parts of the MSA, Comcast is providing mass-market voice service to customers in wire centers in the Pittsburgh MSA that account for ****[BEGIN HIGHLY CONFIDENTIAL] [END HIGHLY CONFIDENTIAL]**** percent of Verizon's residential access lines in the MSA. Based on these same data, Comcast provides service to approximately ****[BEGIN HIGHLY CONFIDENTIAL] [END HIGHLY CONFIDENTIAL]**** residential lines in the Pittsburgh MSA.

20. Mass-market voice services offered by cable companies are typically priced at or below comparable offerings from Verizon. Exhibit 1 is a chart that compares the prices and features of Comcast's voice telephone service offering in the Pittsburgh MSA. *See* Exhibit 1. This chart shows that the cable offering is very competitive.

B. Wireless

21. There are multiple competitive wireless providers serving the Pittsburgh MSA. As the maps in Exhibit 4 illustrate, Cingular, Sprint Nextel, T-Mobile, and Cricket all provide service in the MSA,²⁷ and competitive wireless service from at least one of these carriers is available throughout the MSA.

22. These wireless carriers all provide service that is competitive with wireline service for comparable offerings. Exhibit 1 is a chart that compares some of the voice telephone service offerings of these wireless competitors in the Pittsburgh MSA with Verizon's wireline service offering. *See* Exhibit 1. The service packages listed on the chart are those most prominently featured in advertising materials and are most comparable between service

²⁷ Verizon Wireless also provides service throughout the Pittsburgh MSA.

providers. The chart demonstrates that wireless providers in the Pittsburgh MSA offer buckets of minutes and other features at prices that are competitive with comparable packages offered by Verizon and other wireline providers.

23. Wireless carriers are now competing with wireline carriers both for local access lines and, even more extensively, for long-distance calls, as well as local calls. For a growing number of customers, wireless service is displacing landline telephone service. During the last few years, the number of wireless subscribers has grown from 140 million to more than 207 million, growing at more than 20 million new wireless subscribers each year.²⁸ By contrast, there are approximately 175 million wireline access lines, and that number is declining each year.²⁹ According to the FCC's recent *Local Competition Report*, the number of national wireless subscribers has continued to grow rapidly (by approximately 12 percent), while the number of wireline access lines has declined.³⁰

24. Lehman Brothers estimates that 20 million wireline access lines have been lost to wireless since 1999, and that wireless will continue to win more than 6 million subscribers from wireline each year.³¹ Deutsche Bank states that “wireless cannibalization” amounts to “more

²⁸ CTIA, *CTIA's Semi-Annual Wireless Industry Survey Results*, <http://files.ctia.org/pdf/CTIAEndYear2005Survey.pdf>.

²⁹ See, e.g., Ind. Anal. & Tech. Div., Wireline Competition Bureau, FCC, *Local Telephone Competition: Status as of December 31, 2005* at Table 1 (July 2006) (End-user switched access lines have declined steadily since their peak in December 2000).

³⁰ See *id.* at Tables 1 & 14.

³¹ See B. Bath, Lehman Brothers, *Telecom Services - Wireline* at Figure 11 (July 7, 2005). See also T. Horan, *et al.*, CIBC World Markets, *3Q05 Communications and Cable Services Review* at Exhibit 12 (Nov. 23, 2005) (estimating wireless substitution at 20 million lines as of year-end 2005, increasing by 5-6 million lines each year through 2007).

than 1m lines lost per quarter.”³² Analysts predict that the number of wireless-only users will grow to 20-25 percent of the market by 2010.³³ A Harris Interactive survey found that 39 percent of current landline customers are interested in going wireless altogether in the next two years.³⁴ Even if they are not replacing their landline phone altogether, at least 14 percent of U.S. consumers now use their wireless phone as their primary phone.³⁵ And even larger percentages of young consumers – which will make up the next generation of homeowners – are disconnecting their wireline service, which make it likely that the rate at which customers use wireless in place of wireline will increase even further in the future.³⁶

³² V. Shvets, *et al.*, Deutsche Bank, *4Q04 Review: Wireless OK . . . RBOCs Fare Poorly* at 6 (Feb. 28, 2005). See also F. Louthan, *et al.*, Raymond James, *VZ, SBC, BLS, Q: Cable Threat Comparison for RBOCs* at 2 (July 11, 2005) (“look for wireless substitution to be the largest displacer of access lines over the next five years”).

³³ See D. Barden, *et al.*, Banc of America Securities, *Setting the Bar: Establishing a Baseline for Bell Consumer Market Share* at 4 (June 14, 2005); F. Louthan, *et al.* Raymond James Equity Research, *Reassessment of Access Lines and Wireline Carriers* at 2 (July 5, 2006) (predicting 25 percent wireless substitution by 2010).

³⁴ See National Consumers League Press Release, *National Consumers League Releases Comprehensive Survey about Consumers and Communications Services* (July 21, 2005).

³⁵ C. Wheelock, In-Stat/MDR, *Cutting the Cord: Consumer Profiles and Carrier Strategies for Wireless Substitution* at 1 (Feb. 2004) (“14.4% of US consumers currently use a wireless phone as their primary phone”). See also J. Armstrong, *et al.*, Goldman Sachs, *2006 Outlook – Stuck in Neutral* at 31 (Jan. 13, 2006) (wireless-only customers represent a 12.5 percent share of the residential market).

³⁶ See Clyde Tucker, Brian Meekins, J. Michael Brick, & David Morganstein, Household Telephone Service and Usage Patterns in the United States in 2004, presented at the 2004 Annual Meeting of the American Association for Public Opinion Research (A Census Bureau study found that in households headed by someone under 24 years of age, 18.0 percent had a cellular telephone only; and 9.6 percent of households headed by someone between 25 and 34 years of age had cellular telephones only). See also A. Quinton, *et al.*, Merrill Lynch, *Telecom Services: Unraveling Revenues* at 5 (Nov. 20, 2003) (“[W]e believe that demographic trends favor wireless. . . . So, as the US population ages, more young people are likely to become wireless subscribers – and either displace the purchase of a wireline service with wireless or cut the cord on an existing line.”); S. Ellison, IDC, *U.S. Wireline Displacement of Wireline Access Lines Forecast and Analysis, 2003-2007* at 7 (Aug. 2003) (“The first communications services purchased by youth and young adults are now often wireless services. Adoption of wireless by

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25. In addition, wireless carriers are competing even more extensively to displace telephone calls and minutes that previously were made on wireline networks. Merrill Lynch estimated that “approximately 23% of voice minutes in 2003 were wireless,” and that in 2004 “wireless could make up approximately 29% of voice minutes in the US.”³⁷ The Yankee Group estimates that wireless subscribers make 64 percent of their long-distance calls and 42 percent of their local calls on their wireless phones.³⁸ The FCC’s own data show that wireline toll minutes have declined rapidly for the industry as a whole. Average residential toll minutes per line reached a peak of 149 minutes per month in 1997, and declined to only 71 minutes per month in 2003.³⁹ In total, consumers have reduced the number of long distance minutes of use on landline phones by 52 percent during that period.⁴⁰ Moreover, approximately 32.9 percent of wireless subscribers use their landline only for local calls.⁴¹ These findings “suggest[] that wireless is

teenagers is increasingly being translated into forgoing traditional primary access lines when such wireless users go to college or otherwise establish their own households.”).

³⁷ D. Janazzo, *et al.*, Merrill Lynch, *The Next Generation VIII: The Final Frontier?* at 5 (Mar. 15, 2004); *Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993*, Eighth Report, 18 FCC Rcd 14783, ¶ 102 (2003) (“One analyst estimates that wireless has now displaced about 30 percent of total wireline minutes.”).

³⁸ K. Griffin, Yankee Group, *Pervasive Substitution Precedes Displacement and Fixed-Mobile Convergence in Latest Wireless Trends* at 5 & Exhibit 3 (Dec. 2005).

³⁹ Ind. Anal. & Tech. Div., Wireline Competition Bureau, *Trends in Telephone Service* at Table 14.2 (June 2005) (“*Trends in Telephone Service*”) (includes: IntraLATA-Intrastate, InterLATA-Intrastate, IntraLATA-Interstate, InterLATA-Interstate, International, and Others (toll-free minutes billed to residential customers, 900 minutes, and minutes for calls that could not be classified)).

⁴⁰ *Trends in Telephone Service* at Table 14.2.

⁴¹ D. Chamberlain, In-Stat/MDR, *Cutting the Cord: Consumer Profiles and Carrier Strategies for Wireless Substitution* at 1 (Oct. 2005).

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eroding the usage of wireline long-distance and local toll services twice as much as the rate of complete wireless substitution.”⁴²

26. The absolute increase in wireless minutes has been explosive. By 2005, wireless minutes of use had risen to 1.4 trillion, an increase of 35.8 percent from 2004 and more than 400 percent since 2000.⁴³ This increased usage has been accompanied by a rapid erosion in traditional distinctions between the locations from which subscribers use fixed and mobile service, as subscribers increasingly use their mobile devices at stationary locations from which wireline alternatives would readily be used. For example, a Yankee Group survey found that the percentage of wireless usage in the home by mobile phone users doubled as a percentage of total usage between 2001 and 2005.⁴⁴ By 2005, wireless subscribers reported that 24 percent of their wireless calling took place inside the home, and 10 percent of their wireless calling took place at work.⁴⁵

27. There is statistical evidence that wireless puts competitive pressure on wireline pricing. An econometric analysis by the Competitive Enterprise Institute found that “a one percent increase in wireline prices would result in nearly a 2 percent increase in wireless demand. In other words, if wireline carriers were to increase their prices, wireless service providers would gain a substantial number of subscribers. This finding, coupled with the fact

⁴² *Id.* at 6.

⁴³ See CTIA, *CTIA's Semi-Annual Wireless Industry Survey Results* at 7, <http://files.ctia.org/pdf/CTIAEndYear2005Survey.pdf>.

⁴⁴ See K. Mallinson, Yankee Group, *Wireless Substitution of Wireline Increases Choice and Competition in Voice Services* at Exhibit 3 (July 27, 2005).

⁴⁵ K. Griffin, Yankee Group, *Pervasive Substitution Precedes Displacement and Fixed-Mobile Convergence in Latest Wireless Trends* at 5 (Dec. 2005).

that wireless prices continue to decrease, suggests that wireline providers may soon be under pressure to decrease prices in order to stem market share losses.”⁴⁶

C. Traditional CLECs

28. Although declining in importance relative to intermodal competitors, there are still traditional CLECs that serve mass-market customers. In the Pittsburgh MSA, a number of CLECs serve mass-market customers using Verizon’s Wholesale Advantage product – which is the market-based successor to the regulated UNE platform service that Verizon was at one time required to provide. Some CLECs also resell Verizon’s retail residential service. As of the end of December 2005, competitors are serving approximately **** voice-grade equivalent residential lines in the Pittsburgh MSA using Wholesale Advantage, and **** voice-grade equivalent residential lines on a resale basis.

D. Over-the-Top VoIP

29. Consumers who today are unable to receive telephone services directly from their cable company can usually obtain them from multiple independent over-the-top VoIP providers. Any customer who has access to cable modem or other broadband services – which more than 90 percent of U.S. households now do⁴⁷ – can obtain voice services from one of these providers. VoIP vastly expands the number of competitors that can offer mass-market voice telephone service because they can offer VoIP over any type of broadband facility provided by any other company. Broadband access through satellite, BPL, Wi-Fi, and WiMax is emerging, and these

⁴⁶ Stephen B. Pociask, Competitive Enterprise Institute, *Wireless Substitution and Competition: Different Technology but Similar Service – Redefining the Role of Telecommunications Regulation* at 15 (Dec. 15, 2004) (endnote omitted).

⁴⁷ See NCTA, *Broadband Availability*, <http://www.ncta.com/ContentView.aspx?contentId=60> (116.1 million homes passed by cable modem service as of 2005); see also NCTA, *2006 Industry Overview* at 11 & Chart 6 (cable modem service is available to approximately 93 percent of homes passed by cable as of year-end 2005) (citing Morgan Stanley).

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technologies will offer an alternative means through which mass-market customers can access VoIP service.⁴⁸ Vonage, the largest of the new over-the-top providers, currently offers local numbers in 44 states and the District of Columbia.⁴⁹ Vonage already is approaching two million VoIP subscribers, and reports that it is adding an average of more than 22,000 subscribers each week.⁵⁰

30. As shown in Exhibit 2, mass-market customers in the Pittsburgh MSA can choose from at least 25 over-the-top VoIP providers who offer local phone numbers. These VoIP providers are offering service at prices that are competitive to Verizon's service, with plans that start at \$5.95 for metered service (ZingoTel's 100-minute Basic plan) and \$14.95 for unlimited service (ZingoTel's Residential Unlimited plan). Verizon has prepared a chart that compares the prices and features of voice telephone service offerings of several leading competitors in the Pittsburgh MSA. *See* Exhibits 1 & 2. For example, Vonage and AT&T both offer unlimited local and long-distance packages for \$24.99 per month.⁵¹ Vonage also offers a VoIP package for \$14.99 per month that includes 500 minutes with additional minutes at 3.9 cents.⁵² Packet8, Lingo, and BroadVoice offer similar packages for \$19.99 or less, not including promotional

⁴⁸ *See, e.g., Appropriate Framework for Broadband Access to the Internet over Wireline Facilities*, Report and Order and Notice of Proposed Rulemaking, 20 FCC Rcd 14853, ¶ 33 (2005).

⁴⁹ Vonage, *Available Area Codes*, http://www.vonage.com/avail.php?lid=nav_avail.

⁵⁰ *See* Vonage, Form 10-Q at 14 (SEC filed Aug. 4, 2006). More than 95 percent of Vonage subscribers are in the U.S. *See* Vonage, Form S-1A at 1 (SEC filed May 23, 2006).

⁵¹ Vonage, *Premium Unlimited Plan*, http://www.vonage.com/services_premium.php; AT&T, *Plans & Pricing*, <http://www.usa.att.com/callvantage/plans/index.jsp>.

⁵² Vonage, *Basic 500 Plan*, http://www.vonage.com/products_basic.php.

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discounts such as the first month free.⁵³ See Exhibit 2. Some providers offer pay-as-you-go plans, often with a small number of minutes, for \$5.95 to \$9.99, to attract low-volume users. See Exhibit 2.

31. For customers who have not yet subscribed to broadband service, the combination of broadband service and VoIP is competitive with what customers pay for a narrowband combination of local, long-distance and dial-up Internet access. One study concluded that the average narrowband household could capture a net savings of \$6 per month by subscribing to broadband and migrating to VoIP service.⁵⁴ In fact, many subscribers appear to be making the switch from narrowband to broadband principally in order to obtain VoIP phone service. According to a recent study by Bernstein Research, at least 40 percent of all VoIP subscribers are new subscribers to broadband services that are attracted to the voice-data-video bundle that cable operators offer.⁵⁵ As Bernstein explains, cable “[v]oice bundles induce not only existing HSD [high-speed data] customers to add voice to existing bundles, they also add incremental growth to HSD through three separate mechanisms. First, they induce new customers either to *convert* from dial-up to HSD in order to get the bundled phone price; second, they induce DSL customers

⁵³ Packet8, *Residential Plans*, <http://www.packet8.net/about/residential.asp>; Lingo, *Home Plans*, http://www.lingo.com/voip/residential/home_plans.jsp; BroadVoice, *Rate Plans, Compare Plans*, http://www.broadvoice.com/rates_compare.html.

⁵⁴ See M. Rollins, *et al.*, Citigroup, *Share Wars – Telco vs. Cable* at 7 (Oct. 5, 2005) (assuming \$50 a month landline service & \$21 a month dial-up, replaced by \$40 a month cable modem service and an independent VoIP provider at \$25 a month); see also C. Moffett, *et al.*, Bernstein, *Quarterly VoIP Monitor: The “Halo Effect” of VoIP is Driving Faster Subscriber Growth* at 4 (Sept. 2, 2005) (“[T]he bundled price of VoIP and broadband is compelling to dial-up subscribers, for whom the cost of upgrading to broadband is more than offset by the savings on telephony.”).

⁵⁵ See C. Moffett, *et al.*, Bernstein Research, *Cable and Satellite: ~40% of Cable VoIP Customers “New” to Broadband* (July 6, 2006).

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to switch to cable HSD in order to get the bundled phone price; and/or third, they induce HSD customers to retain their HSD service, thereby reducing churn.”⁵⁶

32. Many customers view VoIP service as a replacement for their primary telephone line. For example, approximately 60-70 percent of Vonage’s subscribers are porting their telephone numbers.⁵⁷ Analysts estimate that over-the-top VoIP providers will displace five percent of local telephone access lines by the end of 2010.⁵⁸

III. COMPETITION FOR ENTERPRISE SERVICES

33. Just as there is intense competition for mass-market customers in the Pittsburgh MSA, the same is true for enterprise customers. Indeed, this is widely considered the most competitive segment of the telecommunications industry.⁵⁹ The Commission has recognized that competition for medium and large enterprise customers is “strong” and is poised to remain so because these customers “are sophisticated, high-volume purchasers of communications services that demand high-capacity communications services” and because there are a “significant

⁵⁶ *Id.* at 3.

⁵⁷ See D. Shapiro, *et al.*, Banc of America Securities, *Battle for the Bundle* at 30 (June 14, 2005).

⁵⁸ See J. Chaplin, *et al.*, JPMorgan, *Telecom Services/Wireline: State of the Industry: Consumer* at 12 (Jan. 13, 2006).

⁵⁹ *SBC Communications Inc. and AT&T Corp. Applications for Approval of Transfer of Control*, Memorandum Opinion and Order, 20 FCC Rcd 18290, ¶ 73 n.223 (2005) (“competition in the enterprise market is robust”); *Applications of AT&T Wireless Services, Inc. and Cingular Wireless Corporation for Consent to Transfer Control of Licenses and Authorizations, et al.*, Memorandum Opinion and Order, 19 FCC Rcd 21522, ¶ 248 n.590 (2004) (“[W]e note that [] competition is greater for enterprise services than for mass market services.”); *Federal Communications Commission 2004 Biennial Regulatory Review; Consumer & Governmental Affairs Bureau*, Staff Report, 20 FCC Rcd 88, Appendix, ¶ 44 (2005) (“Competition for business customers in metropolitan areas, in general, continues to develop more rapidly than competition for residential customers or customers in rural areas.”).

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