

internet access functionality) can be accommodated via cellular phones, an even greater proportion of Qwest's residential and business landline customer base will be encouraged to "cut the cord."

II. CABLE SERVICES COMPETITION.

14. Cox is one of Qwest's major competitors in the Phoenix MSA and has enjoyed significant success in marketing its Digital Telephone service to residential and business customers. In February 2004, Cox Communications announced it was serving one million digital telephone subscribers nationwide: "Cox's successful seven-year history of providing primary line telephone service is key to its bundling strategy and has resulted in more than one million telephone customers. In Cox's most mature markets, one in three homes subscribe to Cox Digital Telephone."²⁰ Only two years later, in reporting full year 2006 financial results, Cox reported a 100% increase in its telephone service subscriber base versus 2004:

"Cox ended 2006 with 5.4 million basic video customers, representing a net gain of more than 30,000 customers over 2005; 5.9 million total residential customer relationships, an increase of nearly 2%; 3.3 million high-speed Internet customers, an increase of more than 16%; and **over 2 million telephone customers**, representing growth of over 21%. Additionally, sell-in--the percentage of new cable customers who subscribe to Cox Digital Telephone and/or Cox High Speed Internet--is also at a record high, about 60%."²¹ (Emphasis added).

²⁰ *Cox Communications Surpasses Five Million Digital Service Subscriptions*, February 12, 2004, www.cox.com. See Exhibit 1, Page 4.

²¹ *News Release: A Decade of Bundling Delivers Cox Communications Considerable Competitive Advantages*, <http://phx.corporate-ir.net/phoenix.zhtml?c=76341&p=iroi-newsArticle&t=Regular&id=955911&>. See Exhibit 1, Page 6.

Based on its news release above, Cox now enjoys a Digital Telephone penetration rate of approximately 37% (e.g.: 2 million / 5.4 million) of its current cable television subscriber base in the markets it serves. It is also noteworthy that Cox has established a separate marketing division, Cox Business Services, to focus specifically on the small and Enterprise business market segments.²² Further, Cox reported in July 2006 that its Digital Telephone service would be deployed across the entire Cox network infrastructure by the end of 2006.²³ Finally, to capitalize on its strong success in selling bundles of services to its target markets, Cox has launched--in San Diego and Phoenix--an integrated bundle of services that incorporates "Mobile Access" wireless service into the Cox service package.²⁴ Clearly, Cox is continuing to aggressively expand its focus in serving residential and business telecommunications markets in direct competition with Qwest.

15. Independent industry analysts identify ILEC access line losses to cable telephony providers as significant and continuing. For example, Fitch Ratings states:

"The competitive impacts of technological change remained intense, as expected, in 2006 and this should continue in 2007. Cable multiple system operators (MSOs) have aggressively rolled out digital telephony services using voice over Internet protocol (VoIP) technology that has increased retail access line erosion of incumbent local exchange carriers (ILECs). The scale of this erosion, which is expected to reach a total of approximately 6 million, representing cable telephony net additions in

²² <http://www.coxbusiness.com/index.html>. See Exhibit 1, Page 8.

²³ *Cox Digital Telephone to be Available in all Cox Markets by End of Year, July 13, 2006*, www.cox.com. See Exhibit 1, Page 9.

²⁴ *Cox Customers in Arizona and San Diego are First to Experience Integration and Mobility of Cox Services*, <http://phx.corporate-ir.net/phoenix.zhtml?c=76341&p=irol-newsArticle&i=Regular&id=962949&>. While Cox utilizes both circuit-switched and VoIP telephone technologies, both types of technologies are encompassed in Cox's telephone service marketing materials as "Cox Digital Telephone" service. See Exhibit 1, Page 10.

2006 of more than 3 million, has increased with the widespread availability of cable telephony and its associated multi-service bundles.”²⁵

Like the majority of cable MSOs, Cox has deployed VoIP technology to support continued growth in its digital telephone market segment. Industry analyst Light Reading states:

“Cox, the cable industry’s biggest overall phone player with 1.8 million circuit-switched and VoIP subscribers, does not break down its customer totals by technology. But the privately owned MSO, which added an estimated 70,000 IP phone customers in the spring, is aggressively expanding its VoIP reach.”²⁶

Clearly, the cable service providers, including Cox, are continuing to focus on expanding the base of subscribers for cable-based telephone services as these providers seek to improve their revenue streams by driving up the number of customers purchasing multiple services in addition to basic cable television service.

16. In June 2006, Cox completed its purchase of the CableAmerica cable system, which serves the communities of Mesa, Florence, Wickenburg, Queen Creek, Coolidge and Gila Bend, bringing Cox’s cable customer base in Phoenix and southern Arizona to “more than 1 million customers in 42 communities.”²⁷ In the Phoenix MSA alone, Cox’s network passes approximately 1.5 million homes (including the CableAmerica properties).²⁸ Presuming Cox’s public statements regarding its penetration rate on a system-wide level hold true for the Phoenix MSA, Cox now provides Digital Telephone

²⁵ *Regulatory Event Risk Headlines Fitch’s U.S. Telecom Outlook for 2007*, November 29, 2006. See Exhibit I, Page 12.

²⁶ http://www.lightreading.com/document.asp?doc_id=108862&print=true, See Exhibit I, Page 20.

²⁷ <http://phx.corporate-ir.net/phoenix.zhtml?c=76341&p=irol-newsArticle&t=Regular&id=870537&>. See Exhibit I, Page 22.

²⁸ Source: CentrisPlus, 2006.

service to at least 370,000 homes (e.g.: 1 million X digital telephone penetration rate of 37%) in the area, in addition to the customers it now serves in the small business and Enterprise business markets.

17. In addition to residential local and long distance services, Cox provides a broad range of business products to small business and Enterprise customers in the Phoenix MSA, including voice telephone service, digital trunks, Centrex service, long distance and “toll free” services, private line service, transparent LAN service, virtual private network service and business video service.²⁹ In its press release announcing full year 2005 results, Cox reported very strong growth in its commercial business sector, and had “concluded 2005 with Cox Business Services serving more than 160,000 customers and year-over-year growth of 20%.”³⁰ In emphasizing Cox’s commitment to the business market, Cox Vice President William Stemper stated: “Cox is in a unique position in the commercial services arena. All of our pieces --- from the network we own and manage, to our architecture with built-in reliability to the **business solutions and expertise we offer to small and medium-sized business owners and enterprises alike** --- contribute to the sense of trust that our customers have with us.”³¹ (Emphasis added.)

18. Cox now offers its “Carrier Access” loop and transport services to other carriers as a direct alternative to Qwest’s wholesale services. Cox states that its Carrier Access services allow carriers to:

²⁹http://www.coxbusiness.com/systems/az_phoenix/index.html. See Exhibit 1, Page 23.

³⁰<http://phx.corporate-ir.net/phoenix.zhtml?c=76341&p=irol-newsArticle&t=Regular&id=836402&>. Since Cox is now a privately held entity, effective December 2004, it is no longer required to publish earnings results and therefore has not issued 2006 earnings results. See Exhibit 1, Page 26.

³¹ <http://www.coxbusiness.com/pressroom/pressreleases/2003-1027.html>. See Exhibit 1, Page 39.

“Choose from multiple bandwidths to connect your network to your customer’s location, to provide connectivity between your POPs, or to connect you with other serving wire centers. You may also select the right interconnection bandwidth you need to meet your capacity requirements for your demand set. You’ll be sure to get the right fit every time.”³²

In describing its Carrier Access service, Cox further states:

“Built on our own fiber-based SONET self-healing network, Cox Carrier Access service gives you high-capacity communications that set the standard for high-speed and high-quality digital transmissions at a cost-effective price.”³³

Clearly, Cox is very active in providing residential, small business, Enterprise business retail and wholesale telecommunications in direct competition with Qwest in the Phoenix MSA.

19. On its website, Cox reports its media coverage area in the Phoenix DMA³⁴ for use in displaying the geographic reach of its coaxial and fiber network to potential advertisers interested in using the Cox network to distribute advertising. This map clearly shows that Cox’s DMA coverage area encompasses virtually the entire Phoenix MSA.³⁵ In fact, according to this Cox media coverage map, the Cox network serves Qwest wire centers in the Phoenix MSA which contain [REDACTED] of Qwest’s retail residential lines and [REDACTED] of Qwest’s switched retail business lines in the MSA (based on December 2006 Qwest access line data).³⁶

³² <http://www.coxbusiness.com/products/other/carrierservices.html>. See Exhibit 1, Page 40.

³³ *Id.*

³⁴ http://www.coxmedia.com/markets.aspx?print=1&market=DA_792987. The term “DMA” represents the phrase “Designated Market Area,” and is commonly used in the media industry to define geographic coverage areas for advertising.

³⁵ This DMA map is included in this declaration as a reasonable approximation of Cox’s network facilities footprint, since Cox offers this map on its public website to potential advertisers as a representation of the geographic reach advertisers can expect when using the Cox network to distribute advertising in the Phoenix DMA.

³⁶ Source: Qwest Forecast Data Mart data as of December 2006.

20. In 2006, Cox announced that it had partnered with MobilePro to deploy municipal wireless broadband services in Tempe, Chandler and Gilbert³⁷ as part of the contract awarded to Cox by the State of Arizona to provide communications services to the government. This arrangement will provide government employees in these geographic areas the capability to utilize high capacity wireless connections for their communications needs in lieu of traditional landline telephone services. In addition to focusing on the small business and Enterprise markets, Cox is also marketing its services to the government sector in Arizona. Clearly, Cox is now moving to a new competitive model that is not limited to its traditional service platforms that have been historically limited to its coaxial cable network in the Phoenix MSA.

III. CLECs

21. In addition to Cox, which is operating as a CLEC and is offering local exchange and long distance services in Qwest wire centers encompassing the vast majority of Qwest's customers in the Phoenix MSA, as of December 2006, over [REDACTED] unaffiliated CLECs were competing with Qwest within this geographic area. Of this number, [REDACTED] CLECs were using non-Qwest network facilities to provide service, [REDACTED] were using the Qwest Platform Plus ("QPP")³⁸ finished wholesale services and

³⁷<http://phoenix.bizjournals.com/phoenix/stories/2006/03/13/daily9.html>. See Exhibit I, Page 41.

³⁸ Qwest Local Services Platform ("QLSP") is the Qwest wholesale service which replaces the QPP service as Qwest/CLEC QPP commercial agreements expire, and since no CLECs in Arizona were utilizing QLSP to serve customers until January 2007, there are no QLSP line counts in Qwest's December 2006 wholesale tracking data.

██████████ were reselling Qwest retail services.³⁹ It is important to note that CLECs utilizing non-Qwest network facilities, QPP/QLSP and resale are not reliant upon Qwest UNEs to provide service to their customers.

22. CLECs are utilizing Qwest wholesale services to compete with Qwest in every wire center in the Phoenix MSA. Highly Confidential Exhibit 2 shows the distribution of Qwest wholesale services purchased by CLECs as of December 2006 in each wire center, segmented by residential and business line categories. Since Qwest has no means of determining the type of retail service for which CLECs are utilizing standalone UNE-L and EEL services, and it has been Qwest's experience that those CLECs relying on Qwest's network have typically utilized resale, UNE-Platform or QPP to serve their residential customers, these wholesale services are attributed to the "business" category in this summary. It is important to note that the information shown in Highly Confidential Exhibit 2 excludes any data associated with access lines served via CLEC-owned network facilities, via Special Access service purchased from Qwest or via network facilities leased from non-Qwest providers, and therefore represents only a subset of CLEC lines in service in the Phoenix MSA.

23. To the extent CLECs are utilizing their own networks to serve residential and business customers in the Phoenix MSA, Qwest has no means to obtain precise in-service access line counts for these CLECs. However, Qwest does track the number of white pages listings, by rate center, for CLECs that are "facilities-based" (those utilizing

³⁹ Qwest wholesale tracking systems, December 2006.

CLEC-owned switches and loops, such as Cox, and/or CLEC-owned switches and unbundled loops or Special Access services purchased from Qwest), and Qwest can use this information to develop a conservative estimate of the number of lines served by such CLECs.⁴⁰ Based upon white pages listings data as of January 2007, there were approximately [REDACTED] business lines and [REDACTED] residential lines associated with facilities-based CLECs in the Phoenix MSA rate centers. Following is a brief overview of a representative sampling of the CLECs now serving the Phoenix MSA, with particular emphasis on those CLECs utilizing their own facilities.

24. AT&T, the largest telecom company in the U.S., offers a wide range of telecommunications services to all classes of residential, small business and Enterprise business customers in the Phoenix MSA. The company's website indicates that it provides solutions designed to meet all personal communications needs (at home and on the go) as well as the needs of small, medium, large and global businesses and governmental entities. AT&T also offers wholesale and wireless services.⁴¹ Additionally, AT&T has expanded its product reach by offering its CallVantage VoIP service--which bypasses Qwest's switched voice network--to any customer in the Phoenix MSA with a broadband internet connection.⁴² According to GeoTel, AT&T has over [REDACTED] route miles of fiber within the Phoenix MSA which may be used to

⁴⁰ About 75% of Qwest's residential lines and 36% of its business lines are listed in the white pages directories. Qwest assumes the CLECs' customer bases will have similar listings per line ratios, and estimates facilities-based CLEC lines on this basis. Note that business customers often elect to list only their primary telephone number in the white pages directory, so that there are significantly more business lines than business white pages listings. To the extent customers of facilities-based CLECs do not request that their telephone numbers be included in the Qwest white pages listings database, these telephone numbers are not reflected in the facilities-based CLEC customer white pages listings at all.

⁴¹ <http://att.sbc.com/gen/landing-pages?pid=3308> See Exhibit 3, Page 1.

⁴² <http://www.consumer.att.com/> See Exhibit 3, Page 2.

provide a wide range of voice and data services to customers without relying on the purchase of Qwest wholesale services.⁴³

25. Eschelon is a major facilities-based CLEC providing services to small and Enterprise business customers, and serves a number of markets in the western U.S., including the Phoenix MSA. In describing its operations, Eschelon states:

Eschelon Telecom, Inc. is a facilities-based competitive communications services provider of voice and data services and business telephone systems in 45 markets in the western United States. The company serves over 60,000 business customers and has in excess of 550,000 access lines in service throughout its markets in Arizona, California, Colorado, Minnesota, Montana, Nevada, Oregon, Utah and Washington.⁴⁴

On November 1, 2006, Eschelon announced that it had completed its acquisition of Mountain Telecommunications, Inc. ("MTI"), a CLEC serving the Phoenix and Tucson markets.⁴⁵ This acquisition enhances Eschelon's positioning with Enterprise business customers in the Phoenix area, as MTI states that it is "a locally-owned, facilities-based CLEC serving businesses, government and educational organizations throughout the State of Arizona."⁴⁶ The combined Eschelon/MTI entity offers a broad range of voice and data services to small and Enterprise business customers, including local exchange service, digital T-1 services, digital PBX trunks, long distance, integrated voice/data services and a wide range of features.⁴⁷

⁴³ GeoTel fiber route data, October 2006.

⁴⁴ www.eschelon.com/about_us/ See Exhibit 3, Page 3.

⁴⁵ *Id.*

⁴⁶ http://www.mntel.com/about_us.php See Exhibit 3, Page 4.

⁴⁷ <http://www.eschelon.com/voice/index.aspx>. See Exhibit 3, Page 9.

26. Similar to Eschelon, Integra is a facilities-based CLEC providing a range of services to small and Enterprise business customers, including basic business voice lines, long distance services, T-1 services, voice/data integrated services, features, private line services, internet access, etc.⁴⁸ In describing itself, Integra states:

“Integra Telecom, Inc. is a facilities-based, integrated communications carrier, dedicated to providing a better choice for businesses in eight western states. It owns and operates a best-in-class carrier network...the company serves nearly 400,000 lines in the metropolitan areas of Arizona, California, Idaho, Minnesota, North Dakota, Oregon, Utah and Washington. In contrast to companies that simply resell services from the monopoly Regional Bell Operating Companies (RBOC), Integra owns and operates its own network offering local dial tone, domestic and international long distance, high speed Internet and data services (including digital subscriber line or DSL), voice messaging, and numerous ancillary services designed to support the communications needs of businesses.”⁴⁹

On August 1, 2006, Integra acquired Electric Lightwave, which is a fiber-based carrier serving 23 metropolitan areas in eight western states (including Arizona and the Phoenix MSA).⁵⁰ In discussing its acquisition of Electric Lightwave, Integra stated:

“Through its acquisition of Electric Lightwave in 2006, Integra owns and operates an eight-market, 2,200 route mile (160,000 fiber miles) metropolitan area network, with direct fiber access into over 580 major commercial buildings. Many other competitive local exchange carriers are scrambling to find network alternatives in response to recent FCC rules that increase the cost of leasing network from the Bell companies. Integra, by acquiring Electric Lightwave’s metropolitan area network, becomes one of the first to insulate itself from this unpredictable landscape of telecom regulation.”⁵¹

According to GeoTel’s competitive fiber tracking data, Integra/ELI now owns approximately [REDACTED] miles of fiber within Qwest wire center boundaries in the Phoenix MSA, which can be used to provide services to small and Enterprise business

⁴⁸ <http://www.integratelecom.com/products/> See Exhibit 3, Page 10.

⁴⁹ <http://www.integratelecom.com/about/> . See Exhibit 3, Page 11.

⁵⁰ <http://www.electricleightwave.com> See Exhibit 3, Page 12.

⁵¹ http://www.integratelecom.com/about/network_and_facilities.asp See Exhibit 3, Page 13.

customers in the MSA without reliance on Qwest's network. Interestingly, on September 26, 2006, Integra announced the results of business "market share" research conducted for Integra by Riley Research Associates during July and August 2006 in seven MSAs, including the Phoenix MSA. The results of this research (which do not appear to account for the presence of intermodal competition) show Qwest with a 67% share of the business market, the combination of Cox, Eschelon, AT&T, McLeod, Integra (prior to the ELI acquisition), Verizon and XO with a 22% share of the business market, and all other CLECs with an 11% share of the business market. While not dispositive, Integra's own data shows that a significant level of business telecommunications competition exists in the Phoenix MSA, and that Integra is well positioned with its acquisition of facilities-based Electric Lightwave to make even greater inroads into the small business and Enterprise business markets in the area.

27. On October 17, 2006, Level 3 announced its acquisition of Broadwing Corporation, a CLEC serving small and Enterprise business customers in a variety of U.S. markets, including the Phoenix MSA. Until this acquisition, Level 3 was primarily a major "carriers' carrier" offering wholesale telecom services to other communications providers. However, in discussing its Broadwing acquisition, Level 3 stated:

"The acquisition of Broadwing is consistent with both the Level 3 wholesale market strategy as well as our more recent entry into the enterprise market. We believe the combination of Level 3 and Broadwing will create value for our investors through the elimination of duplicative network and operating costs, the addition of a solid revenue base, and a further strengthening of our financial position. Broadwing has made great strides with the national enterprise customers as a result of their strong product portfolio and national sales teams. This creates an exciting

opportunity for us to leverage both of these capabilities to accelerate the growth of Level 3's Business Markets Group."⁵²

Level 3 announced the completion of this acquisition in early January 2007. As is the case with other CLECs serving the Phoenix MSA, it is noteworthy that Level 3 has established a specific marketing organization, the Level 3 Business Markets Group, to focus specifically on serving the small and Enterprise business markets--a strategy that has been enhanced through Level 3's acquisition of Broadwing. Level 3 has also partnered with Covad to deliver VoIP telecom services to the small and medium business market.⁵³ This Covad-branded service is now available to any Phoenix MSA customer with a broadband internet connection as a direct substitute for Qwest's retail voice services. With its acquisition of Broadwing, Level 3 now owns and operates a 39,500 mile fiber network,⁵⁴ including over [REDACTED] fiber miles in Qwest wire centers in the Phoenix MSA.⁵⁵

28. Time Warner Telecom is a facilities-based CLEC that owns over 24,000 miles of fiber in 22 states, including the Phoenix and Tucson MSAs of Arizona,⁵⁶ and now owns over [REDACTED] miles of fiber in Qwest's wire centers in the Phoenix MSA.⁵⁷ Time Warner Telecom focuses on the small and Enterprise business markets, and offers a wide range of telecommunications services including business voice service, dedicated high capacity services, digital trunks, ISDN, long distance, dedicated internet access, LAN

⁵² <http://www.level3.com/press/7625.html> See Exhibit 3, Page 14.

⁵³ <http://www.level3.com/press/7561.html> See Exhibit 3, Page 16.

⁵⁴ <http://www.level3.com/2192.html> See Exhibit 3, Page 17.

⁵⁵ Source: GeoTel, October 2006.

⁵⁶ http://www.twtelecom.com/about_us/networks.html See Exhibit 3, Page 19.

⁵⁷ GeoTel competitive fiber data, October 2006.

services, etc.⁵⁸ Time Warner Telecom also provides wholesale services to other telecom carriers. For example, on June 1, 2005, Time Warner Telecom announced an agreement with the merged AT&T/SBC to provide, through 2010, “Special Access and other last mile network services to the companies nationwide.”⁵⁹ Thus, AT&T/SBC can obtain Special Access services from a provider other than Qwest as AT&T/SBC seeks to further expand its business presence in markets such as Phoenix. Time Warner Telecom offers its business VoIP service, branded as TW Telecom One Solution, to small and medium business PBX customers via the Time Warner Telecom metro Ethernet system in various markets in the U.S., including Phoenix.⁶⁰ In announcing results for the fourth quarter of 2006, Time Warner Telecom reported that it had grown enterprise business revenue by 43% year over year (including “organic growth” of 16%, with the remainder attributable to its acquisition of Xspedius Communications) and had grown data and Internet revenue by 40% year over year (including “organic growth” of 30%).⁶¹ Time Warner Telecom also serves as a “carrier’s carrier” in offering wholesale services, such as collocation, to other competitive telecom service providers in a number of markets, including Phoenix.⁶²

29. Verizon closed its acquisition of MCI in January 2006, resulting in a combined telecom entity generating annual revenues of approximately \$90 billion.⁶³ In the process, Verizon acquired MCI’s operations and customer base in the Phoenix MSA. MCI has offered a broad range of residential and small and Enterprise business services in the

⁵⁸ http://www.twtelecom.com/cust_solutions/sm_med_biz_sol.html See Exhibit 3, Page 21.

⁵⁹ Time Warner Telecom press release: *Time Warner Telecom, AT&T, SBC Extend Long-Term Service Agreement*, June 1, 2005. See Exhibit 3, Page 22.

⁶⁰ Time Warner Telecom press release: *Time Warner Telecom Launches VoIP-Based Business Solutions Over Metro Ethernet*, February 23, 2005. See Exhibit 3, Page 25.

⁶¹ http://www.twtelecom.com/Documents/Announcements/News/2007/TWTC_q4_06_.pdf See Exhibit 3, Page 27.

⁶² <http://www.twtelecom.com/Documents/Resources/PDF/MarketingCollateral/3201CoLo.pdf> See Exhibit 3, Page 40.

⁶³ <http://newscenter.verizon.com/press-releases/verizon/2006/page.jsp?itemID=29672197> See Exhibit 3, Page 42.

Phoenix MSA for a number of years. For example, MCI's Arizona Tariff Nos. 1 and 2 were revised during early 2006 to reflect Verizon's name, and show that Verizon continues to offer long distance, local exchange service, PBX trunk service, ISDN service, foreign exchange service, directory assistance, etc. to Arizonans.⁶⁴ The current MCI website also shows that Verizon continues to offer voice, IP, internet access, T-1 service, frame relay, hosting services, etc. to virtually every residential and business market segment.⁶⁵ Verizon also offers its VoiceWing VoIP product to multi-line business customers with access to a broadband internet connection, regardless of whether Verizon/MCI is the broadband connection provider.⁶⁶ Based on GeoTel data, Verizon/MCI had over [REDACTED] miles of fiber in the Qwest wire centers in the Phoenix MSA as of October 2006 which can be used to bypass Qwest's local network.

30. XO Communications is a significant provider of retail business and wholesale telecommunications services in the Phoenix market that owns approximately [REDACTED] miles of fiber in Qwest's wire centers in the Phoenix MSA.⁶⁷ XO's Phoenix fiber facilities are part of its 18,000 mile national fiber network, which reaches 75 major metropolitan markets in the U.S.⁶⁸ XO provides telecom services to Enterprise business customers as well as wholesale services to other telecom carriers, and announced in October 2006 that it had restructured its businesses into two major segments--XO Business Services and XO Carrier Services--to reflect its focus on these specific market

⁶⁴ MCI Arizona Tariff No. 1, Sheet Nos. 1 and 6. See Exhibit 3, Page 46.

⁶⁵ <http://www.mci.com/> See Exhibit 3, Page 47.

⁶⁶ http://www22.verizon.com/Business/fyb/Broadband+Services/VoiceWing/VoiceWing+for+Business/7365/7365_AZ.htm See Exhibit 3, Page 48.

⁶⁷ Source: GeoTel competitive fiber analysis, October 2006.

⁶⁸ http://telephonyonline.com/ftp/marketing/comptel_xo_wholesale_100906/ See Exhibit 3, Page 49.

segments.⁶⁹ In addition, Nextlink, XO's wireless broadband service division, now offers a range of broadband wireless private line services, including DS3, OC-3 and OC-12 services to Enterprise and wholesale customers in major markets in the U.S., including Phoenix. These offerings compete directly with high capacity services offered by Qwest.⁷⁰ XO provides a wide range of local services for business customers, including basic voice business lines, business trunks, Centrex service, voice messaging, ISDN-PRI, directory assistance, foreign exchange service, long distance services, etc.⁷¹ In addition to its traditional voice services, XO also actively promotes its VoIP-based services provided via its XOptions Flex product line.⁷²

31. It is important to note that in the Phoenix MSA, these CLECs are focused squarely on reduced reliance on Qwest UNEs to deliver competitive local exchange service to their customers. This is being achieved by self-provisioning network facilities (either by wireline or wireless means), purchasing network capacity from other carriers, or by purchasing finished services such as Qwest Platform Plus or Qwest Local Services Platform (the Qwest wholesale services that replaced UNE-Platform service) from Qwest via business-to-business contractual arrangements.

⁶⁹ *Id.*

⁷⁰ http://www.nextlink.com/livefiles/ServiceGroups/1/Service_Providers.pdf See Exhibit 3, Page 50.

⁷¹ <http://www.xo.com/products/smallgrowing/voice/index.html> See Exhibit 3, Page 52.

⁷² <http://www.xo.com/products/smallgrowing/integrated/> See Exhibit 3, Page 53.

IV. SPECIAL ACCESS.

32. Special Access service can be utilized as a substitute for Qwest unbundled network elements. In fact, many landline-based competitors are currently purchasing Special Access services from Qwest in order to serve customers in the Phoenix MSA. As of December 2006, competitors purchased almost [REDACTED] Voice Grade Equivalent ("VGE") lines in the Phoenix MSA via Special Access.⁷³ Of these VGEs, [REDACTED] are based on DS1 Special Access, [REDACTED] are based on DS3 Special Access, and the remainder are based on OCn and other Special Access services. While Qwest does not have direct knowledge of the services CLECs provide to their customers via Special Access services, the fact that a significant proportion of Special Access services sold by Qwest to CLECs in the Phoenix MSA are DS1 and above suggests they are being utilized to serve Enterprise customers. These customers typically have need for a large number of access lines and/or significant telecommunications bandwidth capacity. In fact, the number of Special Access Voice Grade Equivalent circuits being provided to competitors in the Phoenix MSA exceeds the number of VGE circuits being provided to CLECs via unbundled network elements, Qwest Platform Plus and resale combined. In addition, revenues for Qwest Special Access provided to competitors in the Phoenix MSA for the month of August, 2006, are almost [REDACTED] [REDACTED]. It is clear that carriers are utilizing Special Access services very broadly in providing telecom services in the Phoenix MSA.

⁷³ VGEs represent equivalent voice channels; for example, a DS1 is equivalent to 24 voice channels, a DS3 is equivalent to 672 voice channels, an OC3 is equivalent to 2016 voice channels, and an OC12 is equivalent to 8064 voice channels. Special Access data is drawn from Qwest's wholesale tracking systems and reflects data vintage December 2006.

33. It is also worth noting that, while Special Access is provided by Qwest throughout the Phoenix MSA, there is also competitive fiber in most of these wire centers that can be used as an alternative to Qwest Special Access services, as discussed in the following section of our declaration. In fact, over [REDACTED] of the Special Access VGEs in the Phoenix MSA are in wire centers that also have competitive fiber in place, and these wire centers contain the great majority of Qwest's access lines in the MSA.

V. FIBER-BASED COMPETITORS.

34. A significant amount of fiber optic cable has been placed by competitive service providers in the Phoenix MSA for use in bypassing Qwest's network. According to GeoTel,⁷⁴ over [REDACTED] miles of fiber (excluding fiber owned by Qwest and Qwest's affiliates) is now in place in the Phoenix MSA, and this fiber is owned by approximately 24 unaffiliated providers.⁷⁵ Based on the GeoTel data, at least one fiber-based competitor is in [REDACTED] of Qwest's wire centers in the Phoenix MSA, and these wire centers contain [REDACTED] of Qwest's retail residential lines and [REDACTED]

⁷⁴ "GeoTel Communications, Inc. is the leading provider of telecommunications infrastructure data in a geographic information system (GIS). GeoTel's unique business strategy implements and converges the mapping of telecommunications fiber and other telecommunications infrastructure with GIS technologies. These two items integrated into one digital data set gives leverage and insight into the competitive metropolitan fiber optic landscape across America." http://www.emcstore.com/productcart/pc/viewCat_h.asp?idCategory=66.

⁷⁵ GeoTel continually works to update its data regarding fiber-based competitors and provides updated data approximately every six months. However, GeoTel does not possess complete data regarding each fiber-based competitor, and the data reported above is therefore likely understated. GeoTel data underlying the numbers above was provided to Qwest in October 2006.

of Qwest's retail business lines in the MSA. In addition, non-Qwest fiber is now being used to serve over [REDACTED] buildings in the Phoenix MSA.⁷⁶

35. According to GeoTel, some of the most significant alternative telecom fiber providers in the Phoenix MSA include [REDACTED]

[REDACTED]
[REDACTED] 78

Confidential Exhibit 4 shows the known fiber routes in the Qwest wire centers for the 24 known entities with competitive fiber within the Phoenix MSA. These fiber facilities can be used to directly bypass a number of Qwest mass market and Enterprise services, such as local exchange service, private line service, ISDN, local area networks, frame relay service, long distance services, etc.

VI. WIRELESS SERVICE COMPETITION.

36. Wireless phones are now widely accepted by business and residential customers alike for voice telephony. In addition, wireless providers are now augmenting their services with data applications such as dial-up wireless Internet access, text messaging and image transmission to bring additional functionality to their services and to attract new customers. The customer shift toward wireless substitution in Arizona can be seen

⁷⁶ Source: GeoTel, October 2006.

⁷⁷ Salt River Project ("SRP") Telecom is a division of SRP, based in Tempe, AZ, which was established in 1903 as the nation's first power and water federal reclamation project. SRP Telecom is a carrier-neutral provider of telecommunications infrastructure to wireline and wireless telecommunications carriers as well as to enterprise business customers in the greater Phoenix area. <http://www.srpnet.com/telecom/default.aspx>.

⁷⁸ *Id.*

by reviewing facts provided by the FCC in its most recent Local Telephone Competition Report.⁷⁹ From June 2000 to June 2006, the FCC's data shows that Incumbent telephone company access lines in Arizona decreased from 3.052 million to 2.227 million--a reduction of 825,000.⁸⁰ As of June 2006, the FCC shows approximately 970,000 CLEC access lines in the state.⁸¹ On a net basis (Incumbent and CLEC lines combined), there were 3.197 million wireline access lines in Arizona as of June 2006. In contrast, wireless subscriber counts in Arizona grew from 1.625 million to 4.158 million between June 2000 and June 2006; an increase of 2.533 million or 156%. Wireless subscribers in Arizona now well exceed the combined total of ILEC and CLEC wireline access lines in the state.⁸² Clearly, wireless services are outpacing traditional wireline services in fulfilling many Arizonans' telecommunications needs.

37. In its most recent Commercial Mobile Radio Service ("CMRS") competition report,⁸³ the FCC provides facts with regard to the percentage of households that have "cut the cord" (i.e., have disconnected wireline telephone service and now rely exclusively on wireless service for their voice telecommunications needs). The FCC states:

Wireless substitution has grown significantly in recent years. According to a 2005 National Health Interview Survey (NHIS), 7.8 percent of adults lived in households with only wireless phones in the second half of 2005, up from 5.5 percent in the first half of 2004 and 3.5 percent in the first half of 2003.⁸⁴

⁷⁹ Local Telephone Competition: Status as of June 30, 2006, *Industry Analysis and Technology Division, Wireline Competition Bureau*, January 2007.

⁸⁰ *Id.*, Table 10.

⁸¹ *Id.*, Table 9.

⁸² *Id.*, Table 14.

⁸³ Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services, Tenth Report, September 29, 2006.

⁸⁴ *Id.*, p. 89, ¶205.

The FCC's data clearly shows a linear increase in the proportion of wireless subscribers who have "cut the cord," and there is no sign that this trend is abating, but rather, is continuing its inexorable upward pace--driven by the omnipresence, increasing functionality and affordable prices of wireless telephones. In fact, the National Center for Health Statistics--the research source for the data relied upon by the FCC regarding wireless substitution--recently released an updated report showing that the proportion of households that have "cut the cord" has increased to 9.6% as of June 2006, continuing the steady upward trend of two basis points per year observed in the FCC's data since 2003.⁸⁵ However, this data only tells part of the story. In many instances, subscribers may remove a second landline in favor of wireless service and/or shift a significant amount of telephone usage to their wireless service. In each of these instances, demand for Qwest wireline telephone service is reduced, even though the customers have not yet disconnected their wireline telephone service entirely. The FCC states:

Even when not "cutting the cord" completely, consumers appear increasingly to choose wireless service over traditional wireline service, particularly for certain uses. For example, according to one analyst, customers in nearly a third of American households make at least half their long distance calls at home from their cell phones rather than from their landlines. In the early 2006 survey of cellphone users described above, an additional 42 percent of cellphone users said that they also had a landline phone, but that they used their cellphones "most."⁸⁶

This data provides undeniable evidence that wireless service subscribers are using wireless service as a direct substitute for traditional wireline telephone services.

⁸⁵ <http://www.cdc.gov/nchs/products/pubs/pubd/hestats/wireless2006/wireless2006.htm>. See Exhibit 5, Page 1.

⁸⁶ Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services, Tenth Report, September 29, 2006, P. 90, ¶206.

38. Other independent experts have studied the phenomenon of wireless substitution and echo the FCC's conclusions. For example, the Yankee Group reports that 51% of local calls and 68% of long distance calls have been replaced by wireless.⁸⁷ Independent research firm Instat/MDR concurs in this finding, as shown in a February 2004 CNET News.com article, in which they state: "by 2008, nearly a third of all U.S. wireless subscribers won't have a landline phone in their home, according to a forecast released Wednesday by high-tech market research firm Instat/MDR. That's a dramatic increase in what's known as cord cutting."⁸⁸ In October 2006, Telephia released results of its primary research conducted during Second Quarter 2006 showing the rate of wireless substitution in large metropolitan areas in the United States, including the Phoenix metropolitan area. Telephia found that 13.5% of the survey respondents in the Phoenix area reported that they had cut the cord--a percentage that translates to over 207,000 Phoenix area households.⁸⁹ In short, there is no evidence that the rate of substitution of wireless service for traditional wireline service is diminishing. Rather, all the evidence demonstrates that such substitution will continue to increase at a robust rate.

39. Competitive wireless service is now available to the vast majority of customers in Qwest's Phoenix MSA service territory from at least one of various major carriers such as Sprint PCS, T-Mobile, Verizon, and AT&T (f/k/a Cingular).⁹⁰ Exhibit 5, page 11, displays the wireless coverage areas of the carriers serving the Phoenix MSA, based on a

⁸⁷ 2006 U.S. Technologically Advanced Family Survey, Yankee Group, September 2006.

⁸⁸ "Cord Cutting" Frays Phone Revenues, CNET News.com, February 25, 2004. See Exhibit 5, Page 4.

⁸⁹ http://www.telephia.com/html/documents/TotalCommunications_000.pdf, October 18, 2006. See Exhibit 5, Page 5.

⁹⁰ Other smaller wireless carriers, such as Alltel and Cricket, also serve the Phoenix MSA (see <http://www.mountainwireless.com/cellaz.shtm>). See Exhibit 5, Page 7.

conservative mapping of a five mile⁹¹ coverage footprint around each known cellular tower. Wireless services now provide functionality nearly identical to wireline service, from the perspective that both provide switched voice communication capability, access to directory assistance, access to popular calling features (such as call waiting, three-way calling, caller I.D., voice messaging, etc.), access to operator services, number portability (e.g.: customers may now port a wireline telephone number to a wireless carrier and vice versa) and access to E911 service.

40. Wireless broadband (“WiFi”) service represents another form of radio-based competition that is being actively deployed in many communities within Qwest’s Phoenix MSA service territory and is a precursor to WiMAX service, which will have a much greater coverage area around each transmitter. According to Travel Island, which identifies active public WiFi locations for travelers, WiFi service is now available in over 64 locations within the Phoenix MSA, including locations in Cave Creek, Chandler, Glendale, Mesa, Peoria, Phoenix, Queen Creek, Scottsdale and Tempe.⁹² In any of these locations, users can utilize a WiFi connection to access the internet and use VoIP services to make and receive telephone calls without reliance on Qwest’s local network. In other words, WiFi services represent yet another physical “communications pipe” into homes and businesses in the Phoenix MSA. This technology continues to be aggressively deployed. For example, in 4th Quarter 2006, Alltel introduced its Axxess broadband wireless service in the Phoenix area, enabling broadband internet access via an Alltel

⁹¹ Depending on local conditions, cellular reception is viable at distances as great as 30 miles from the cellular tower (source: http://en.wikipedia.org/wiki/Cell_site.) Mapping based on 2006 data obtained by research firm GeoResults.

⁹² http://www.travel-island.com/travel/wireless/us_arizona.html. See Exhibit 5, Page 12.

wireless phone or a broadband wireless connection to a laptop computer.⁹³ Alltel maintains that “this next generation EVDO (evolution data optimized) technology provides customers with unlimited wireless access to the internet at speeds comparable to wired broadband connections such as cable modem or DSL.”⁹⁴

41. Qwest does not maintain that wireless service is viewed by every customer in the Phoenix MSA as a complete substitute for traditional wireline service. A certain number of customers will never switch from wireline service to wireless service no matter how attractive wireless service becomes. However, it is clear, when current facts regarding wireless service functionality (for voice as well as data/internet applications), price and convenience are examined, wireless service is now a viable and direct substitute for Qwest’s wireline services for many Arizonans, and it is equally clear that the rate of such substitution will continue to increase. This form of competition continues to grow in intensity and now represents significant price constraining competition in the Arizona telecom market.

VII. VOIP COMPETITION.

42. VoIP service, which typically consists of unlimited local and long distance service plus an array of calling features, is now readily available from a broad range of providers to any residence or business customer in the Phoenix MSA that has broadband internet

⁹³http://www.alltel.com/access/mobile_wcp.html. See Exhibit 5, Page 20.

⁹⁴<http://www.alltel.com/corporate/media/news/06/nov/n411nov2106a.html> See Exhibit 5, Page 21.

access.⁹⁵ As a preliminary matter, some parties contend that VoIP service is significantly more expensive than traditional landline service because a broadband connection is needed to enable VoIP service. However, this precept incorrectly implies that a customer purchases broadband service solely to facilitate VoIP. In fact, most customers purchase broadband services primarily for internet access and entertainment purposes, not simply to facilitate VoIP. For these customers, there is no incremental cost for broadband when they elect to add VoIP telephone service via the preexisting broadband internet connection, and the cost of broadband is therefore not a factor in their VoIP purchase decision.

43. According to the FCC, broadband access lines in Arizona have grown at an astounding rate from 109,867 in June 2000 to 1,392,711 in June 2006, reflecting an increase of over 1,165%.⁹⁶ In fact, in the first six months of 2006 alone, broadband access lines in Arizona increased by nearly 35%. As of June 2006, approximately 55% of the broadband access lines in Arizona were served by cable modem.⁹⁷ The FCC found that “more than 99% of the country’s population lives in the 99% of zip codes where a provider reports having at least one high-speed service subscriber,”⁹⁸ and every zip code in Arizona has at least one broadband service provider available as of June 2006.⁹⁹ Thus, broadband service is now widely available and customers in Arizona, including those in the Phoenix MSA where competitive broadband services are readily available from

⁹⁵ Broadband internet access is now available from a number of sources, including cable modem service, digital subscriber line, wireless broadband and satellite.

⁹⁶ *High Speed Services for Internet Access: Status as of June 30, 2006*, Industry Analysis and Technology Division, Wireline Competition Bureau, January 2007, Table 10.

⁹⁷ *Id.*, Table 9.

⁹⁸ *Id.*, P. 4.

⁹⁹ *Id.*, Table 17.

multiple providers, have embraced this service in large and rapidly increasing numbers. Each broadband customer represents a potential VoIP subscriber.

44. Currently, there are at least 48 VoIP providers (excluding Qwest) serving the Phoenix MSA including Vonage, Lingo/Primus, Broadvoice, SunRocket, ZipGlobal, Skype and many others. Many of these providers, such as Vonage, Lingo/Primus, and Covad offer service options for both the residential and business markets, while others, such as Speakeasy and SunRocket, focus primarily on the residential market. Vonage, which is probably the best-recognized independent residential VoIP provider, recently announced that its customer base has rapidly grown to over 2 million subscribers in the U.S.¹⁰⁰ in little over two years. Since VoIP calls don't rely on Qwest's switched network (and calls transported via non-Qwest broadband facilities don't rely on Qwest's local loop network), the rapid customer VoIP adoption rate represents an additional form of network bypass competition.

45. While VoIP providers such as Vonage are currently reporting impressive subscriber totals, industry experts forecast exponential VoIP growth in the future. For example, Frost and Sullivan found that VoIP market revenue totaled \$295.1 million in 2004 and expect it to reach \$4,076.7 million in 2010, a **growth rate of over 1,200%**.¹⁰¹ Additionally, the Yankee Group found that roughly 44% of all U.S. households now

¹⁰⁰ <http://pr.vonage.com/releasedetail.cfm?ReleaseID=209928> See Exhibit 6, Page 1.

¹⁰¹ Real World Network, Trend and Forecasts, *North American Residential VoIP Market to Increase Growth*, July 19, 2005. See Exhibit 6, Page 2.