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Federal Communications Commission
Office of the Secretary

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of)
)
Petition of Qwest Corporation for Forbearance)
Pursuant to 47 U.S.C. § 160(c) in the)
Minneapolis-St. Paul, Minnesota)
Metropolitan Statistical Area)

WC Docket No. _____

**PETITION OF QWEST CORPORATION FOR
FORBEARANCE PURSUANT TO 47 U.S.C. § 160(c)**

Craig J. Brown
Daphne E. Butler
Suite 950
607 14th Street, N.W.
Washington, DC 20005
303-383-6653
Daphne.Butler@qwest.com

Attorneys for

QWEST CORPORATION

April 27, 2007

REDACTED – FOR PUBLIC INSPECTION

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DECLARATION OF ROBERT H. BRIGHAM AND DAVID L. TEITZEL
REGARDING THE STATUS OF TELECOMMUNICATIONS COMPETITION IN
THE MINNEAPOLIS-ST. PAUL, MINNESOTA METROPOLITAN STATISTICAL
AREA

I. INTRODUCTION AND SUMMARY.

1. My name is Robert H. Brigham. My business address is 1801 California Street, Denver, Colorado 80202, and I am currently employed by Qwest Service Corporation ("QSC")¹ as a Staff Director in the Public Policy department. In my current position, I develop and present Qwest's advocacy before regulatory bodies concerning pricing, competition and regulatory issues. I have been employed by Qwest and its predecessor companies for over 30 years, holding various management positions in Marketing, Costs and Economic Analysis, Finance and Public Policy. I have testified before numerous state commissions in the Qwest region.

¹ QSC performs support functions, such as regulatory support, for other Qwest entities.

2. My name is David L. Teitzel. My business address is Room 3214, 1600 7th Ave., Seattle, WA 98191. My title is Staff Director and I am a member of QSC's Public Policy organization. In that position I develop and present company advocacy in matters relating to the manner in which Qwest Corporation ("Qwest") is regulated for retail services. These matters include regulatory reform in dockets before state Commissions and the FCC. I have been employed by Qwest and its predecessor companies for over 32 years and have held a number of management positions in various departments, including Regulatory Affairs, Network and Marketing.

3. The purpose of this declaration is to demonstrate that extensive competition exists for Qwest's mass market and enterprise telecommunications services in the Minneapolis-St. Paul Metropolitan Statistical Area ("MSA") from a wide variety of intramodal and intermodal competitors. Consistent with the analytical framework the Commission applied to Qwest's earlier forbearance request with respect to the Omaha MSA, our declaration provides facts and evidence demonstrating that these competitors are actively competing with Qwest in the Minneapolis-St. Paul MSA via a full range of telecommunications service platforms. Many competitors compete for customers by building their own facilities or utilizing other non-Qwest facilities (including competitive fiber cable networks, coaxial cable networks, wireless services, internet-based services, etc.). Competitors also compete via the purchase of wholesale services from Qwest, including Unbundled Network Elements ("UNEs"), Qwest Platform Plus ("QPP"), Qwest

Local Services Platform ("QLSP"),² Special Access services, and retail services sold at a resale discount.

4. Our declaration and associated exhibits contain information obtained from publicly-available sources and internal Qwest databases, and the sources of data upon which we rely in this declaration are fully identified. We attest that all Qwest data in this declaration is accurate as of the filing date of Qwest's petition in this proceeding and that any information obtained from non-Qwest sources is shown precisely as it is reported by the source. A summary of the competitive information in our declaration is set forth below.

5. As of 2005, U.S. Census data shows that there were approximately 1.24 million households and 3.14 million people in the Minneapolis-St. Paul MSA,³ up from 1.13 million and 2.98 million respectively in 2000.⁴ Clearly, the Minneapolis-St. Paul MSA is experiencing a steady growth trend, with households increasing almost 10% and population increasing more than 5% over this timeframe. It can be conservatively assumed that demand for telecommunications services in the Minneapolis-St. Paul area has increased apace. However, despite this upward trend in housing and population,

² In January 2007, CLECs began converting their QPP-based services to the new Qwest Local Services Platform ("QLSP") wholesale service as discussed later in this declaration.

³ The Minneapolis-St. Paul MSA encompasses Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington and Wright Counties.

⁴ <http://www.census.gov/popest/housing/HU-EST2005-CO.html>;
http://www.census.gov/population/www/estimates/Estimates%20pages_final.html. (Table 1).

Qwest's retail access line base in the Minneapolis-St. Paul area has fallen sharply since 2000 as residential and business customers have availed themselves of the expanding array of competitive alternatives to Qwest's services. As shown in Table 1 below, Qwest's retail residential, business and public coin access line base in the Minneapolis-St. Paul MSA has declined dramatically since 2000:⁵

-----begin confidential-----

Table 1

Qwest Retail Access Lines in the Minneapolis-St. Paul MSA

<u>Retail Service</u>	<u>Dec. 2000</u>	<u>Dec. 2006</u>	<u>Difference</u>	<u>% Difference</u>
Residential	██████	██████	██████	██████
Business	██████	██████	██████	██████
Public	████	████	████	████
Total	██████	██████	██████	██████

-----end confidential-----

These access line trends are driven by the proliferation of intramodal and intermodal competitive alternatives to Qwest's services in the Minneapolis-St. Paul MSA, and the range of alternatives continues to expand, as we discuss in our declaration.

- The mix of competitive alternatives in the Minneapolis-St. Paul MSA continues to evolve. Traditional competitors, such as CLECs, continue to aggressively compete with

⁵ These results exclude any access line losses occurring prior to December 2000 and therefore understate the extent of competitive losses in the Minneapolis-St. Paul MSA.

Qwest and intermodal competitors such as wireless and Voice over Internet Protocol ("VoIP")⁶ providers, are rapidly gaining a significant share of the telecommunications market. It is noteworthy that CLECs are lightly regulated and intermodal competitors are generally subject to even less regulation. Since these competitors are under no obligation to report customer in-service data,⁷ especially at the MSA level, precise measurements of competitor "shares" are not possible to obtain. However, independent research houses have addressed this void by conducting primary customer research to quantify competitive telecommunications dynamics, and Qwest has purchased such research to gain insights into market trends.

For example, TNS Telecoms, an independent research firm, conducts a quarterly "share" analysis in each of the states to estimate competitors' shares of the residential telecommunications markets. TNS collects actual billing information from a statistically-reliable sample of customers in each state⁸ (and select MSAs) and tabulates the number of residential customers subscribing to Qwest service (landline, DSL or wireless) as well as services of Qwest's landline and wireless competitors. TNS uses this data to calculate "shares of customer connections" (excluding video connections) for each service provider

⁶ VoIP services are now offered on a "stand-alone" basis by providers such as Vonage, SunRocket, Packet8, etc., as well as on an "integrated" basis by Cable MSOs such as Comcast.

⁷ The regulatory status of local telephone service provided by VoIP technology is the subject of an open FCC proceeding (IP-Enabled Services, WC Docket No. 04-36, Notice of Proposed Rulemaking, 19 FCC Rcd 4863). Currently, telecom providers are not required by FCC instructions for Form 477, which is the reporting tool used by telecom providers to report in-service access line counts to the FCC, to report VoIP-based access lines. If the FCC rules in its pending IP services proceeding that VoIP service is a telecommunications service, providers of these services may be required to report in the future access lines served via VoIP. However, until that time, providers utilizing VoIP to provide telecom services are not required to report in-service data to the FCC.

⁸ In Qwest's 14-state territory, the TNS research sample is drawn strictly from exchanges within the Qwest service area footprint and does not include data from Independent service territory.

in the consumer telecommunications market.⁹ TNS defines a "connection" as any telecommunications service used by the customer. For example, a residential access line, a wireless service and a broadband internet line used by a customer would each be counted as a discrete "connection" under the TNS definition. Thus, a customer with Qwest landline service, Qwest DSL service and Verizon Wireless service would be counted as having three "connections," with Qwest holding a 66% "connections share."

In fourth quarter 2000, TNS reported that Qwest's share of residential customer connections in the Minneapolis-St. Paul MSA was [REDACTED]. By fourth quarter 2006, Qwest's share of residential communications connections in the Minneapolis-St. Paul MSA had declined to [REDACTED].¹⁰ This data confirms that an increasing number of Minneapolis-St. Paul-area consumers are utilizing non-Qwest telecom alternatives to satisfy their telecommunications needs.

7. It is equally difficult to develop precise measurements of "share" in the business markets given the diverse scope of intramodal and intermodal competition that now exists in the Minneapolis-St. Paul MSA, and the general lack of available customer in-service data for these competitors. However, TNS Telecoms also conducts primary research in the small business and enterprise business segments and has assembled "revenue share"

⁹ TNS Telecoms does not conduct a "connections share" analysis for the business market, and instead produces a "share of total telecom spend" analysis for the business segment.

¹⁰ Source: TNS Telecoms, February 2007.

estimates for these markets that indicate competitive trends.¹¹ TNS classifies businesses generating less than \$1,500 in monthly telecom revenues as “mass market” business customers and businesses generating monthly revenues at or above this level as “enterprise” business customers. The TNS research shows that as of the fourth quarter of 2006, Qwest’s share of Minneapolis-St. Paul MSA revenues was [REDACTED] for the small business market and [REDACTED] for the enterprise market.¹² Thus, a large and expanding proportion of both small and enterprise business customers in the Minneapolis-St. Paul MSA are purchasing a wide array of telecommunications services from Qwest’s competitors, as described in the following sections of our declaration.

8. Comcast Communications, the predominant cable provider serving the Minneapolis-St. Paul MSA, aggressively competes with Qwest in the telecommunications market.¹³ As of December 2006, Comcast was serving a geographic area encompassing Qwest wire centers that account for over [REDACTED] of the Qwest residential lines and approximately [REDACTED] of the Qwest business lines in the Minneapolis-St. Paul MSA.¹⁴ As discussed later in this declaration, Comcast competes

¹¹ TNS Telecoms does not collect “connections share” data in the business market, and instead, determines “revenue share” for the various competitors in the market based on the amount of monthly spending of the survey respondents with each telecommunications service provider from whom they report they are purchasing service.

¹² Source: TNS Telecoms, February 2007.

¹³ The competitive dynamics regarding Comcast in the Minneapolis-St. Paul MSA are similar to the competitive dynamics in the Omaha MSA, where the Commission has previously reviewed and ruled upon a Qwest forbearance petition.

¹⁴ Based on Comcast media coverage map of the Twin Cities, MN DMA. The coverage area of the Comcast media map was compared to the list of communities Comcast has reported to the FCC it now serves in the Minneapolis-St. Paul MSA to confirm the accuracy of the Comcast DMA map for the Twin Cities area (see <http://twincities.comcastspotlight.com/sites/Default.aspx?pageid=5216&siteid=129&subNav=2>). See Exhibit 1, Page 1.

with Qwest by utilizing its own extensive coaxial cable and fiber network and Comcast-owned switches. Comcast offers a broad range of telecommunications services to residential, small business and enterprise business customers in the Minneapolis-St. Paul MSA.

9. In addition to Comcast, there are at least [REDACTED] unaffiliated CLECs actively competing with Qwest in the Minneapolis-St. Paul MSA, ranging from national CLECs such as AT&T, McLeodUSA, and XO Communications, to regional CLECs such as Eschelon, Integra, POPP Telecom and TDS Metrocom. As discussed in following sections of our declaration, these CLECs are serving residential customers as well as business and governmental customers of virtually all sizes. As of December 2006, CLECs are competing with Qwest in 100% of the wire centers in the Minneapolis-St. Paul MSA.¹⁵

10. A significant amount of fiber optic cable has been placed by competitive service providers in the Minneapolis-St. Paul MSA, and this fiber is used to bypass Qwest's network. According to GeoTel, approximately [REDACTED] miles of fiber (*excluding* fiber owned by Qwest and Qwest's affiliates) has been placed in the Minneapolis-St. Paul MSA. This fiber is typically used by Qwest's competitors to serve enterprise and wholesale customers.¹⁶ The GeoTel data shows that at least one fiber-based competitor

¹⁵ Source: Qwest Wholesale Database, December 2006.

¹⁶ 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

is present in [REDACTED] of Qwest's wire centers in the Minneapolis-St. Paul MSA, and these wire centers contain over [REDACTED] of Qwest's retail residential lines and [REDACTED] of Qwest's retail business lines in the Minneapolis-St. Paul MSA. In addition, competitive fiber is now being used to serve over [REDACTED] buildings in the Minneapolis-St. Paul MSA.¹⁷

11. Landline-based competitors are also using special access services purchased from Qwest to serve customers in the Minneapolis-St. Paul MSA. As of December 2006, competitors purchased over [REDACTED] voice grade equivalent ("VGE") special access channels in this geographic area—a number that exceeds the number of VGE circuits provided to CLECs via unbundled network elements, Qwest Platform Plus and resale combined.

12. Wireless service is used as a direct substitute for traditional landline service by an ever-increasing number of customers and is contributing to Qwest's retail access line reductions. At least four major wireless service providers, including Verizon, AT&T, T-Mobile and Sprint, are now providing service in the Minneapolis-St. Paul MSA,¹⁸ with at least one wireless provider providing service in every Qwest wire center. The Commission's recent Commercial Mobile Radio Services ("CMRS") report released on

competitor, and the data reported above is therefore likely understated. GeoTel data underlying the numbers above was provided to Qwest in October 2006.

¹⁷ Source: GeoTel, October 2006.

¹⁸ Qwest also provides wireless service in the Minneapolis-St. Paul MSA. According to an analysis by TNS, however, Qwest holds only a [REDACTED] share of the consumer wireless market in the Minneapolis-St. Paul area.

September 29, 2006 cites to various sources in estimating that 6 to 12 percent of U.S. households have replaced their landlines with wireless service.¹⁹ Other research, however, suggests that these estimates actually understate the proportion of customers in the Minneapolis-St. Paul MSA who have “cut the cord.” On October 18, 2006, Telephia, an independent research entity specializing in Consumer market research, released the results of primary research showing that 15.2% of the households polled in the Minneapolis-St. Paul metropolitan area used only wireless service in their homes and no longer subscribed to landline telephone service.²⁰ There can be no doubt that wireless service represents a significant and growing form of direct competition to Qwest’s landline service business in the Minneapolis-St. Paul MSA.

As discussed later in our declaration, the number of wireless subscribers in Minnesota climbed to 3.5 million in June 2006 and now significantly exceeds the number of ILEC and CLEC lines combined in the state. Further, as described later in our declaration, Yankee Group research found that more than 51% of local calls and 68% of long distance calls have been replaced by wireless. As customers with both a wireless and wireline phone find that an increasingly significant proportion of their voice calls (as well as 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.”

¹⁹ CMRS Report at pp. 89-90.

²⁰ *Midwesterners Cut the Cord: Households in Detroit and Minneapolis-St. Paul Have The Highest Rate of Wireless Substitution Among 20 Largest U.S. Cities, According to Telephia*: Oct. 18, 2006. See Exhibit 1, Page 2.

II. CABLE SERVICES COMPETITION.

13. The Minneapolis-St. Paul MSA is primarily served by one major cable Multi Service Operator (“MSO”) – Comcast.²¹ In April 2005, as part of a \$17.6 billion bid to purchase the assets of Adelphia Communications (which was operating under Chapter 11 bankruptcy protection), Comcast and Time Warner Cable announced an agreement to exchange cable properties—an exchange that included the transfer of Time Warner Cable’s properties in Minneapolis to Comcast.²² As a result of this transaction, Comcast announced that it would add 193,000 Time Warner Cable subscribers in Minneapolis to its 345,000 subscribers in the St. Paul and northwestern suburban areas to become the dominant cable provider in the Minneapolis-St. Paul MSA. The transfer of the Minneapolis cable franchise to Comcast was approved by the Minneapolis City Council in July 2006, and today Comcast serves approximately 600,000 households in the Minneapolis-St. Paul MSA with cable television, telephony and/or high-speed internet service.²³

14. A detailed map of Comcast’s network in the Minneapolis-St. Paul MSA is proprietary and not available to Qwest. However, the “Comcast Spotlight” map presented on the Comcast website (see Exhibit 1, page 1) clearly shows that Comcast’s

²¹ Some Qwest wire centers, especially in the Lake Minnetonka area, are served by Comcast and Mediacom. And, as discussed later in this declaration, Charter Communications and U S Cable each serve a limited number of smaller communities within the MSA.

²² <http://www.bizjournals.com/twincities/stories/2005/04/18/daily54.html>. See Exhibit 1, Page 4.

²³ Estimates based on Comcast Spotlight map of Minneapolis-St. Paul coverage area—Exhibit 1, Page 1. See: http://www.comcastspotlight.com/www/common/media/minneapolis_st_paul/Maps/CSTCMapZ111.pdf

cable coverage area in the Minneapolis-St. Paul Designated Market Area (“DMA”)²⁴ encompasses nearly all of the Minneapolis-St. Paul MSA, and indicates that Comcast serves customers in 48 of the 58 Qwest wire centers in the MSA.²⁵ In fact, according to this Comcast media coverage map, the Comcast network serves Qwest wire centers that contain over [REDACTED] of Qwest’s residential lines and approximately [REDACTED] of Qwest’s switched business lines in the Minneapolis-St. Paul MSA.²⁶

Comcast has reported that nationally, it provides cable service to 24.2 million of the 45.7 million homes it passes, for a penetration rate of 51.3%.²⁷ Assuming this same penetration rate holds true for Comcast in the Minneapolis-St. Paul MSA, its network would pass approximately 1.2 million homes.²⁸

15. Comcast Digital Voice (“CDV”) service, which utilizes VoIP technology, is available to virtually all of its customers in the Minneapolis-St. Paul MSA,²⁹ and Comcast is marketing its CDV offering aggressively, as described below. With 1.2

²⁴ On its “Comcast Spotlight” website, Comcast reports its media coverage area and the number of cable households in the Minneapolis-St. Paul Designated Market Area (“DMA”). DMA is a term commonly used in the media industry to define geographic coverage areas for advertising purposes. The data provided as Exhibit 1, page 1, includes a map of Comcast’s coverage area in the Minneapolis-St. Paul DMA, along with the number of cable households in each geographic zone within the DMA. This data is offered to potential advertisers as a representation of the geographic reach advertisers can expect when using the Comcast network to distribute advertising, and represents a reasonable approximation of Comcast’s network facilities footprint within the Minneapolis-St. Paul DMA.

²⁵ Some Qwest wire centers, especially in the Lake Minnetonka area, are also served by Mediacom.

²⁶ Source: Qwest Forecast Data Mart data as of December 2006.

²⁷ Comcast 10K, filed with the SEC on February 28, 2007, page 3.

²⁸ This estimate is derived as follows: 600,000 households served / 0.513 penetration rate = 1,169,591 homes passed.

²⁹ Prior to transferring its facilities to Comcast, Time Warner Cable had been offering digital phone service to its cable customers in Minneapolis. Comcast began offering CDV to its St. Paul area customers in early 2006.

million homes passed in the Minneapolis-St. Paul MSA, if Comcast achieves its goal of a 20% CDV penetration level by 2009 (see below), this would equate to over 200,000 CDV customers. These phone service customers are served entirely via Comcast-owned network facilities, as Comcast does not rely on Qwest wholesale network elements in the provision of its telephone services.

16. Comcast's CDV offering has been growing rapidly on a national basis, and this growth is accelerating. In 2006, Comcast senior leadership expressed highly optimistic prospects for growth in its digital voice telephone operations over the next three years.

John Alchin, co-Chief Financial Officer for Comcast stated:

“In that time frame, it is entirely conceivable and even probable that we could add 10 million phone customers.”³⁰

In September 2006, Comcast reported that it was expecting to add 1.3 million to 1.4 million digital phone customers nationally for the year versus the 1 million additions it had previously estimated.³¹ However, Comcast's success with its Digital Voice product in 2006 actually *exceeded* these projections; Comcast added over *1.5 million* digital phone customers for the year.³²

³⁰ <http://www.marketwatch.com/news/story/comcast-confident-cable-phone-war/story.aspx?guid={F8C09A0C-9A88-4057-AD62-3917AB81D79F}>. See Exhibit 1, Page 5.

³¹ <http://www.multichannel.com/article/CA6374497.html>. See Exhibit 1, Page 7.

³² *Comcast Reports 2006 Results and Outlook for 2007, Announces 3-for-2 Stock Split*, Press Release issued February, 1, 2007, Table 6. See Exhibit 1, Page 11.

According to its Fourth Quarter 2006 Report, Comcast has a nationwide subscriber base of 2.5 million telephone subscribers, with 1.86 million CDV subscribers and 652,000 circuit switched telephone customers.³³ Comcast reported rapidly accelerating CDV growth throughout 2006. Following growth of 232,000 subscribers in the first quarter, 326,000 subscribers in the second quarter, and 483,000 subscribers in the third quarter, Comcast added 508,000 CDV customers in the fourth quarter of 2006.³⁴ In describing Comcast's 2006 performance, Chairman and CEO Brian Roberts proclaimed:

2006 was simply our best year ever. Powered by our triple play offering and superior products, we added more RGUs [i.e., revenue-generating units] than at any other time in our history and reported terrific growth in cable revenue and Operating Cash Flow. This record-setting performance demonstrates substantial operating momentum, and we could not be more enthusiastic about the future.³⁵

By year end 2007, Comcast plans to have CDV service available to 40 million homes nationally, and projects that it will provide CDV to 8 million—or 20%—of these customers by 2009.³⁶ Comcast has reported that the company's Digital Voice service was driving the adoption of other products, with 80% of its CDV customers also purchasing cable and high speed internet.³⁷

³³ *Id.*

³⁴ Citigroup Entertainment, Media and Telecommunications Conference, Presentation of Comcast, January 9, 2007; page 11; see: <http://www.veracast.com/webcasts/citigroup/ent07/05103689.cfm>. See Exhibit 1, Page 26.

³⁵ *Comcast Reports 2006 Results and Outlook for 2007, Announces 3-for-2 Stock Split*, Press Release issued February, 1, 2007, Page 1. See Exhibit 1, Page 11.

³⁶ Citigroup Entertainment, Media and Telecommunications Conference, Presentation of Comcast, January 9, 2007; page 11; see: <http://www.veracast.com/webcasts/citigroup/ent07/05103689.cfm>. See Exhibit 1, Page 26.

³⁷ *Id.*

17. Comcast currently offers its CDV service, which is provided via VoIP technology,³⁸ to residential customers served via the Comcast network at a standard price of \$39.95 for customers already subscribing to Comcast cable television and high speed internet service. For customers with either Comcast cable television service or high speed internet service, Comcast prices its CDV service at \$44.95 per month. If the customer wishes to subscribe only to CDV service, Comcast's monthly rate for the service is \$54.95. Comcast Digital Voice service includes unlimited local and long distance calling (including free long distance calls to Canada) plus 12 standard calling features.³⁹ Comcast has also been aggressively promoting its "triple play" bundle of Comcast Digital Cable, Comcast High-Speed Internet and Comcast Digital Voice to *new* customers in the Minneapolis-St. Paul area (other promotions are available for existing customers). Comcast's promotional rate for this bundled package is \$99.00/month for 12 months, after which time the price increases to \$135.38.⁴⁰ In addition, Comcast has recently been using direct mail advertising in the Minneapolis-St. Paul area to offer its CDV service at a price of \$29.95 for 4 months.⁴¹ This particular promotion appears to be targeted to select customers, and is offered on a limited-time basis.

³⁸ While Comcast uses VoIP technology in providing telephone services, Comcast requires its digital telephone subscribers to use Comcast's coaxial loop network. Comcast's telephone service is not offered to any subscriber that subscribes to broadband service from a provider other than Comcast.

³⁹ See Exhibit 1, Page 45.

⁴⁰ <http://www.comcast.com/shop/buyflow/default.ashx>. See Exhibit 1, Page 49.

⁴¹ See Exhibit 1, Page 59.

18. While Comcast has traditionally marketed its services to residential consumers, this focus is now expanding. Comcast recently announced that its “next great business opportunity” is to sell internet, voice and video services to small and medium sized businesses.⁴² On August 7, 2006, Comcast announced the appointment of Mr. William Stemper as president of Comcast Business Services. In announcing Mr. Stemper’s appointment, Dave Watson, Executive Vice President of Operations for Comcast stated:

I’m thrilled that he will lead Comcast’s continued efforts as we leverage our unparalleled network to deliver video, voice and data services for the business marketplace.⁴³

Comcast states that its target is to capture 20% of the phone market in five years, resulting in \$12 to \$15 billion in additional revenues. Comcast also announced that it would invest \$250 million in 2007 and \$3 billion over five years to serve these business customers.⁴⁴

On March 21, 2007, Comcast announced the opening of a call center in Centennial, Colorado, that will serve as “one of two facilities nationwide dedicated to the company’s small business clientele”⁴⁵ in Minneapolis-St. Paul and elsewhere. According to Comcast, the center will initially be staffed with 100 employees, with room to expand to

⁴² Comcast defines this market as businesses with less than 20 employees.

⁴³ http://www.cmcsk.com/phoenix.zhtml?c=147565&p=irol-newsarticle_pf&ID=892959. See Exhibit 1, Page 60.

⁴⁴ Citigroup Entertainment, Media and Telecommunications Conference, Presentation of Comcast, January 9, 2007; pages 12-13: <http://www.veracast.com/webcasts/citigroup/emt07/05103689.cf>. See Exhibit 1, Page 26. Also, see “Comcast CEO says next target is businesses,” Philadelphia Inquirer, January 11, 2007. See Exhibit 1, Page 61.

⁴⁵ http://www.rockymountainnews.com/drmn/tech/article/0.2777.DRMN_23910_5431464.00.html. See Exhibit 1, Page 62.

400 employees.⁴⁶ In making this announcement, Jim Erickson, Comcast's vice president of business services for the west division stated:

The Centennial office will play an integral part in the nation's largest cable company's plans to offer a bundle of phone, Internet and video services to the estimated 5 million small businesses in its territory. Comcast already offers Internet and pay TV to businesses but will ramp up efforts when it launches phone service later this year.⁴⁷

Clearly, Comcast is already positioning itself to pursue its "next great business opportunity."

19. Comcast's commitment to the Minneapolis-St. Paul area is illustrated by its announcement on March 14, 2007 that it would be adding 200 jobs in the Minneapolis-St. Paul area, representing an 11% increase in its existing workforce of 1,800 in the Twin Cities.⁴⁸ Comcast advised that the new jobs would be in "direct and commercial sales, communication technology and customer service in the call centers."⁴⁹

20. Finally, Comcast and other cable providers are now moving into the wireless market. Comcast, along with Time Warner Cable, Cox Communications and Advanced Newhouse are involved in a joint venture with Sprint Nextel to provide integrated mobile phone service to their cable customers.⁵⁰ Comcast began offering the Sprint Nextel

⁴⁶ *Id.*

⁴⁷ *Id.*

⁴⁸ <http://www.bizjournals.com/twincities/stories/2007/03/12/daily30.html>. See Exhibit 1, Page 63.

⁴⁹ *Id.*

⁵⁰ http://news.com.com/2100-1039_3-6147061.html. See Exhibit 1, Page 64.

wireless service in Boston and Portland in 2006, and plans to expand to other areas in 2007 (Comcast has not yet publicly revealed its wireless implementation plan for the Minneapolis-St. Paul MSA).⁵¹ This arrangement allows Comcast to fill a gap in its product portfolio, and will enable Comcast to offer the “quadruple play” bundle of services to customers, consisting of video, broadband internet access, digital telephone and wireless service. Since customers clearly prefer one-stop shopping for their communications services, this arrangement is a tool for Comcast to drive up penetration rates for all services in the bundle.

Comcast sees mobility as a way to add more convenience and value to its customer base. In an article on C/Net, Tom Nagel, senior vice president and general manager for wireless at Comcast, stated “There is no question that wireless ties all of our services together. The idea is you can take the services you enjoy at home with you when you’re on the go using a mobile device.”⁵² According to this article, Comcast’s initial launch “will allow customers to access their e-mail, cable TV guide and home voice mail from their cell phones. They’ll offer some video content on their phones that would otherwise be available only at home. Eventually, the cable companies want to allow customers to be able to do things like program their DVRs remotely from their handsets.”⁵³

⁵¹ http://biz.yahoo.com/indie/061130/458_id.html?v=1. See Exhibit 1, Page 66.

⁵² http://news.com.com/2100-1039_3-6147061.html. See Exhibit 1, Page 64.

⁵³ *Id.*

21. 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 2006 of more than 3 million, has increased with the widespread availability of cable telephony and its associated multi-service bundles.⁵⁴

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

North American cable operators are now signing up an average of about 11,000 new customers a day for IP phone service, up from 9,900 customers per day in the first quarter. Although impressive, that's not too surprising given that all three of the biggest cable IP phone players - Time Warner Cable, Cablevision Systems and Comcast - are now signing up close to 10,000 or more subscribers every week.⁵⁵

Clearly, Comcast and other cable service providers see the provision of telephone service as a key ingredient in their strategy to expand the customer base and improve revenue streams by driving up the number of customers purchasing multiple services in addition to basic cable television service.

⁵⁴ Regulatory Event Risk Headlines Fitch's U.S. Telecom Outlook for 2007, November 29, 2006. See Exhibit 1, Page 68.

⁵⁵ http://www.lightreading.com/document.asp?doc_id=108862&print=true. See Exhibit 1, Page 76.

22. While Comcast is the dominant cable provider, Mediacom, Charter, and U S Cable each serve some customers in the Minneapolis–St. Paul MSA. Mediacom provides cable, high speed internet and phone service to portions of the west and southwest suburbs of the Minneapolis-St. Paul MSA, including the area around Lake Minnetonka. Monthly prices for *Mediacom Phone* service (with 14 features and unlimited nationwide calling) are \$29.95 for customers that also order both cable and high speed internet, \$39.95 for customers ordering cable or high speed internet, and \$49.95 for customers ordering a la carte.⁵⁶ Charter provides cable service to customers in the northwest portion of the MSA including the Qwest exchanges of Buffalo and Elk River, and now offers telephone service to customers in these two exchanges. Charter is currently promoting phone service as part of a package that also includes digital cable and high speed internet services for an introductory “Charter Bundle” price of \$99.97.⁵⁷ U S Cable serves some north and northeast suburban areas of the Minneapolis-St. Paul MSA—such as Forest Lake, Isanti and Cambridge—that in total represent less than 3% of Qwest’s access lines in the Minneapolis-St. Paul MSA. U S Cable does not as yet offer its own telephone service, but it does provide broadband internet service, enabling its customers to purchase VoIP telephone services from independent VoIP providers.

III. CLECs

⁵⁶ <http://www.mediacomcc.com/phone.html>. See Exhibit 1, Page 78.

⁵⁷ <http://www.charter.com/Visitors/LocalArea.aspx?zipcode=55330> and <http://www.charter.com/Visitors/LocalArea.aspx?zipcode=55313>. See Exhibit 1, Page 80.

23. In addition to Comcast, as of December 31, 2006 there are over [REDACTED] unaffiliated CLECs currently offering telephone services in competition with Qwest in the Minneapolis-St. Paul MSA. Of these CLECs, [REDACTED] are providing service to customers via their own non-Qwest network facilities, [REDACTED] are providing service utilizing UNE Loops, [REDACTED] are providing service using the Qwest Platform Plus (“QPP”)⁵⁸ finished wholesale service and [REDACTED] are reselling Qwest retail services.⁵⁹ It is important to note that CLECs utilizing non-Qwest network facilities, QPP/QLSP and/or resale *are not reliant upon Qwest UNEs* to provide service to their customers.

24. CLECs are utilizing Qwest wholesale services to compete with Qwest in every wire center in the Minneapolis-St. Paul MSA. Highly Confidential Exhibit 2 shows the distribution of Qwest wholesale services purchased by CLECs as of December 2006, segmented by residential and business line categories. Since Qwest has no means of determining the type of retail service CLECs provide to end users when they purchase stand-alone⁶⁰ UNE-L and Enhanced Extended Loop (“EEL”) services, these wholesale services are attributed to the “business” category in this summary.⁶¹ It is important to note that the data in Highly Confidential Exhibit 2 excludes any CLEC access lines served via: (1) CLEC-owned loop and switching network facilities, (2) Special Access

⁵⁸ Qwest Local Services Platform (“QLSP”) is the Qwest wholesale service that replaces QPP service as Qwest/CLEC QPP commercial agreements expire. Qwest signed QLSP agreements with several CLECs in late 2006 and early 2007. However, based on these agreements, the conversion of QPP lines to QLSP lines began after January 1, 2007. Thus, Qwest’s December 2006 wholesale in-service tracking data includes QPP lines, but not QLSP lines.

⁵⁹ Qwest wholesale tracking systems, December 2006.

⁶⁰ In this context, “stand-alone” means UNE-L that is not purchased in conjunction with QPP or QLSP service.

⁶¹ The bulk of UNE Loops are purchased by CLECs that market their services almost exclusively to business customers. Thus, it is reasonable to attribute UNE Loops to the business category.

service purchased from Qwest, or (3) network facilities leased from non-Qwest providers, and therefore represents only a subset of CLEC lines in service in the Minneapolis-St. Paul MSA.

25. To the extent CLECs are utilizing their own networks to serve residential and business customers in the Minneapolis-St. Paul MSA, Qwest has no means to obtain precise in-service access line counts. However, Qwest does track the number of white pages listings, by rate center, for CLECs that are “facilities-based” (those utilizing CLEC-owned switches and loops, such as Comcast, and/or those utilizing CLEC-owned switches and unbundled loops or Special Access services purchased from Qwest), and Qwest can use this information to estimate the number of lines served by such CLECs.⁶² Based on white pages listings data as of January 2007, there are approximately [REDACTED] business lines and [REDACTED] residential lines associated with facilities-based CLECs in the Minneapolis-St. Paul MSA rate centers. Following is a brief overview of several CLECs now serving the Minneapolis-St. Paul MSA, with particular emphasis on CLECs that utilize their own facilities.

26. 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

⁶² 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.

business customers in the Minneapolis-St. Paul MSA. According to its website, AT&T 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 is a significant provider of wireless services, and offers wholesale services to other carriers.⁶³ In addition, 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 Minneapolis-St. Paul MSA with a broadband connection.⁶⁴ AT&T also offers one of the most extensive VoIP service portfolios for businesses, thereby “enabling enterprises to migrate seamlessly between traditional and next-generation services.”⁶⁵ According to GeoTel, AT&T has over [REDACTED] route miles of fiber within the Minneapolis-St. Paul MSA. This fiber may be used to provide a wide range of voice and data services to customers without relying on the purchase of Qwest wholesale services.⁶⁶

27. Integra is a facilities-based CLEC providing a range of services to small and enterprise business customers, including basic business voice lines, long distance

⁶³ <http://att.com/gen/landing-pages?pid=3308>. See Exhibit 3, Page 1.

⁶⁴ <http://www.consumer.att.com/>. See Exhibit 3, Page 2.

⁶⁵ <http://www.att.com/gen/investor-relations?pid=5711>. See Exhibit 3, Page 3.

⁶⁶ GeoTel fiber route data, October 2006.

services, T-1 services, voice/data integrated services, features, private line services, internet access, etc.⁶⁷ 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.⁶⁸

On March 20, 2007, Integra Telecom, Inc. announced that it has entered into an agreement to purchase Minneapolis-based Eschelon, pending governmental and shareholder approvals expected in the third quarter of 2007. At that time, Integra estimates that combined Integra/Eschelon revenues will be approximately \$700 million annually and that the combined companies will “serve an average of 20 percent of the businesses in the metropolitan areas in which they operate,” which includes the Minneapolis-St. Paul MSA.⁶⁹ Since Integra and Eschelon remain separate entities until the transaction is finalized, this declaration will discuss the market characteristics of the current Integra and Eschelon separately.

⁶⁷ <http://www.integratelecom.com/products/default.asp>. See Exhibit 3, Page 5.

⁶⁸ <http://www.integratelecom.com/about/>. See Exhibit 3, Page 6.

⁶⁹ http://www.integratelecom.com/about/news/news_releases/2007/2007-03-20_news_release.asp. See Exhibit 3, Page 7.