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November 16, 2007

Ex Parte

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Room TW-A325
Washington, DC 20554

Re: *Petitions of the Verizon Telephone Companies for Forbearance Pursuant to 47 U.S.C. § 160(c) in the Boston, New York, Philadelphia, Pittsburgh, Providence and Virginia Beach Metropolitan Statistical Areas, WC Docket No. 06-172*

Dear Ms. Dortch:

During the course of this proceeding Verizon has submitted voluminous evidence demonstrating that, in each of the six MSAs in which it is seeking forbearance, competition is even more advanced than it was in Omaha with respect to both mass-market and enterprise customers. Although the CLECs dispute this in recent letters, they have failed to provide meaningful information of their own. By contrast, several cable operators have recently submitted data at the Commission's request, and these data corroborate Verizon's own showing and demonstrate that the requested forbearance should be granted.

Cable Coverage

In the *Omaha Forbearance Order*, the Commission's primary focus was not on the extent to which the incumbent cable operator had already succeeded in winning customers, but instead on the extent of its network facilities and the "substantial competitive threat" that its ability to use those facilities "to offer the full range of services that are substitutes for the incumbent LEC's local service offerings" posed. *Omaha Forbearance Order* ¶¶ 60 & n.156, 66.

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Consistent with this framework, Verizon provided voluminous evidence demonstrating that, in addition to competitive alternatives that exceed what was available in Omaha, competition from cable is just as widespread in the six MSAs for which Verizon seeks forbearance as it was in Omaha. For example, Verizon provided maps of the franchise areas in which incumbent cable operators were providing telephony services; E911 data indicating the wire centers in which cable operators are serving voice customers and providing a measure of the number of lines they are serving over their own networks; and additional material such as cable websites describing the services that cable operators are offering in each of the six MSAs. *See* Lew/Verses/Garzillo Decls., Exhs. 3 & 7; Lew/Wimsatt/Garzillo Reply Decl., Exhs. 3.A-3.F.

Although Verizon is still in the process of analyzing them, the data that cable operators have submitted thus far in this proceeding confirm that within their local franchise areas they are capable of providing voice service to **[Begin Highly Confidential]** **[End Highly Confidential]** of customers, which includes **[Begin Highly Confidential]** **[End Highly Confidential]** of customers in the corresponding Verizon wire centers. The percentage of customers in each MSA that can receive cable voice service is likely to be even higher than what the major cable companies report, because there may be portions of the six MSAs served by smaller independent cable operators who provide voice services and who have not provided data here. In addition, certain wire centers may be served by multiple incumbent cable operators, neither of which serves a majority of the wire center on its own, but when combined together offer voice services to the majority of customers in that wire center.

Cox reports that it provides coverage to 75 percent or more of homes in **[Begin Confidential]** **[End Confidential]** percent of the wire centers it serves in the Providence MSA, and to **[Begin Confidential]** **[End Confidential]** percent of the wire centers it serves in the Virginia Beach MSA. *See* Letter from J.G. Harrington, Dow Lohnes PLLC, to Marlene H. Dortch, FCC, WC Docket No. 06-172, Attach. at 2-3 (Oct. 30, 2007) (“Cox Oct. 30 Letter”); Letter from J.G. Harrington, Dow Lohnes PLLC, to Marlene H. Dortch, FCC, WC Docket No. 06-172, Attach. at 2-3 (Nov. 1, 2007) (“Cox Nov. 1 Letter”). In the New York MSA, Time Warner Cable reports that it provides coverage to 75 percent or more of homes in **[Begin Highly Confidential]** **[End Highly Confidential]** percent of the wire centers it serves, and that it provides coverage to 75 percent or more of businesses in **[Begin Highly Confidential]** **[End Highly Confidential]** percent of the wire centers it serves. *See* Letter from Brian W. Murray, Latham & Watkins LLP, to Marlene H. Dortch, FCC, WC Docket No. 06-172, Exhs. 1 & 4 (Nov. 5, 2007) (“TWC Nov. 5 Letter”) (excluding businesses in New Jersey, reported in Exh. 3, for which wire center data were not available).

Comcast has also provided data for the number of homes that it passes in each Verizon wire center. *See* Letter from Michael C. Sloan, Davis Wright Tremaine, to Marlene Dortch, FCC, WC Docket No. 06-172 (FCC filed Nov. 9, 2007) (“Comcast Nov.

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9 Letter”). Comcast did not provide data on the “coverage” of its network within each wire center, because Comcast did not have information on the total number of homes within each Verizon wire center. *See id.* at 3. These data are available from publicly available sources, however. Attachment A provides the total number of homes within each Verizon wire center based on data from Claritas, a leading provider of demographic data. It also compares these totals to the number of homes Comcast passes in each wire center.¹ Although these data are from different sources and may contain some discrepancies,² this comparison shows that Comcast is capable of providing voice service to [Begin Highly Confidential] [End Highly Confidential] of customers, which includes [Begin Highly Confidential] [End Highly Confidential] of customers in the corresponding Verizon wire centers. In the Boston MSA, Comcast’s reported homes passed account for 75 percent or more of homes in [Begin Highly Confidential] [End Highly Confidential] percent of the wire centers it serves. In the Philadelphia, Pittsburgh, New York, and Providence MSAs, the corresponding figures are [Begin Highly Confidential] [End Highly Confidential], respectively. *See* Attach. A, Exhs. 1-5. As discussed below, these totals include only the homes to which Comcast offers its VoIP service; Comcast also provides circuit-switched telephony in Boston and Pittsburgh, so its coverage in those MSAs is undoubtedly higher than the totals here suggest.

Although Cablevision has not yet provided data in response to the Commission’s request, it has already publicly stated that it makes voice services available to *all* of the homes in its franchise territory, that it serves a significant number of business customers, and that an even larger number of business customers are within reach of its existing cable plant. *See* NY Pet’n at 5; NY Decl. ¶ 16; Verizon Reply Comments at 13, 46-48. Thus, even if Cablevision does not ultimately respond to the Commission’s data request,

¹ Comcast provided data on a wire-center basis according to 11-character Common Language Location Identifier (“CLLI”) codes in the Telcordia Local Exchange Routing Guide (“LERG”). The last three characters of these 11-character codes specify the “Network Switching Entity Code,” or put simply, the type of switch, and it is possible to have more than one switch serving a given wire center. The data Verizon has submitted in this proceeding thus far are presented by 8-character CLLI codes that designate unique geographic areas. Comcast’s data were therefore converted to 8-character wire centers, and these correlations are presented in Attachment A as Exhibits 6-10. Exhibits 1-5 within the Attachment consolidate these data by 8-character wire centers, and add household data, including a calculation of Comcast’s coverage of all households in the wire center.

² The principal discrepancy is that, for certain wire centers, Comcast’s homes passed in a wire center exceeds the total number of households in a wire center according to the Claritas data. This may occur due to the process used to allocate homes and homes passed to wire centers. Neither Comcast nor Claritas compiles data by wire center, and the data for the geographic categories they use must therefore be mapped to wire centers. As Verizon has explained, that process, while reasonably accurate, is not precise, and could result in an overstatement in one wire centers at the expense of an understatement in an adjacent wire center. In any event, in instances where Comcast’s home passed exceed the number of homes in a wire center, it is clear that, regardless of Comcast’s precise coverage in the wire center, it is capable of serving more than 75 percent of the homes in that wire center.

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the Commission may conclude that Cablevision is capable of providing voice services to more than 75 percent of end-user locations within its franchise territory. *See* Lew/Wimsatt/Garzillo Reply Decl., Exh. 3A (listing wire centers in which Cablevision has E911 listings).

Decline in Switched Access Lines

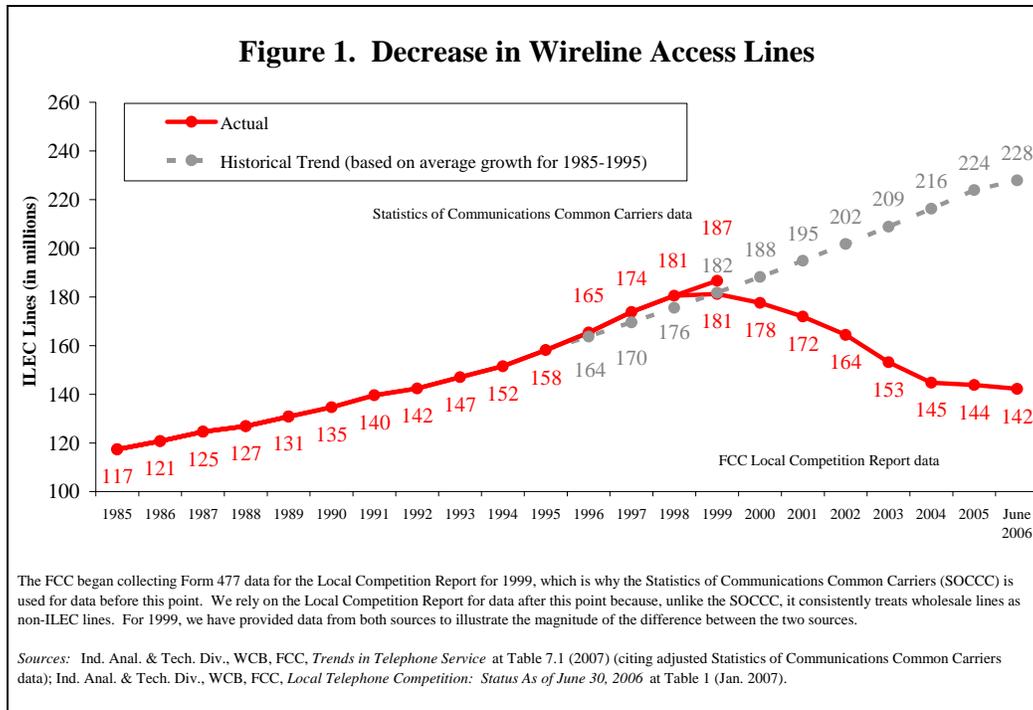
In Omaha, the Commission found that “growth in Cox’s residential access line base and corresponding decline in Qwest’s base” demonstrated that customers were willing and able to switch providers. *Omaha Forbearance Order* ¶ 33. Verizon accordingly submitted data showing that, in each of the six MSAs, its retail switched access lines were steadily declining due to competition. *See* Verizon Reply at 37-38, Table 5; Lew/Wimsatt/Garzillo Reply Decl. ¶ 10, Table 1.

Verizon also demonstrated that these declines occurred despite the fact that the number of households in each MSA increased during this time.³ Verizon explained that it was therefore important to take into account not only the trend in the absolute number of lines and minutes, but also a comparison to historical growth rates. *See* Verizon Reply at 39. Verizon accordingly provided data demonstrating that, between 1999 and June 2006, the number of wireline access lines nationwide decreased from approximately 181 million to 142 million, a difference of 39 million. By contrast, historical growth trends suggest that, but for losses to competition, there would have been 250 million wireline access lines as of June 2006, a difference of approximately 70 million compared to 1999 levels. *See id.* at 39-40, Figure 1.

With respect to Verizon’s estimate of the number of lines that, but for competition, Verizon would have been expected to serve given historical growth trends, Verizon used the average growth from 1995-1999 to estimate growth from 2000-2006. If the same analysis is performed using the average growth rate from 1985-1995 – so as to eliminate any argument that growth during 1995-1999 is at odds with historical trends due to demand for second lines for dial-up Internet access – there is still a significant disparity between prior growth and current losses. For example, the average annual growth rate from 1985-1995 is 3.5 percent, compared to 4.6 percent from 1995-1999. As shown in the figure below, using the 1985-1995 growth rate shows that, but for losses to competition, there would have been 228 million wireline access lines as of June 2006, a difference of approximately 47 million compared to 1999 levels. *See* Figure 1.

³ *See* NY Pet’n at 16; NY Decl. ¶ 8; Boston Pet’n at 16; Boston Decl. ¶ 7; Phil. Pet’n at 17; Phil. Decl. ¶ 8; Pitt. Pet’n at 16; Pitt. Decl. ¶ 9; Providence Pet’n at 15; Providence Decl. ¶ 7; Va. Beach Pet’n at 16; Va. Beach Decl. ¶ 9.

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Attachment B provides similar figures for each of the six MSAs. Because historical data on access line growth are not available at the MSA level, these figures use the average nationwide growth rate from 1985 to 1995 to plot the historical trend.

Share of Mass-Market Voice Connections

As Verizon has previously explained, the Commission has consistently held that, in a dynamic industry such as this one, historic measures of static market share are not especially meaningful in the competitive analysis. *See Verizon Reply* at 17. Thus, in the *Omaha* and *Anchorage* orders, the Commission rejected market share as a primary indicia of competition, and instead relied on “facilities coverage” of cable voice services. *Anchorage Forbearance Order* ¶¶ 31-34; *see Omaha Forbearance Order* ¶ 62. In numerous other proceedings, the Commission reached a similar conclusion.⁴

⁴ *See Verizon Communications Inc. and MCI, Inc. Applications for Approval of Transfer of Control*, Memorandum Opinion and Order, 20 FCC Rcd 18433, ¶ 74 (2005) (market share analysis “may misstate the competitive significance of existing firms and new entrants.”); *Applications of AT&T Wireless Services, Inc. and Cingular Wireless Corporation for Consent To Transfer Control of Licenses and Authorizations*, Memorandum Opinion and Order, 19 FCC Rcd 21522, ¶ 148 (2004) (“the presence and capacity of other firms matter more for future competitive conditions than do current subscriber-based market shares.”); *Price Cap Performance Review for Local Exchange Carriers*, Second Further Notice of Proposed Rulemaking in CC Docket No. 94-1, Further Notice of Proposed Rulemaking in CC Docket No. 93-124, and Second Further Notice of Proposed Rulemaking in CC Docket No. 93-197, 11 FCC Rcd 858, ¶ 143

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Although the Commission did consider market share in Omaha, it did so only as one of several factors relevant to forbearance from dominant-carrier regulation, and did not consider market share at all with respect to forbearance from unbundling regulations. Even where the Commission looked at market share, however, it did not rely on the same analysis or market share tests that it has used in the dominant carrier proceedings, and it would not be appropriate to do so. As the D.C. Circuit has held, the forbearance provisions of the 1996 Act impose “no particular mode of market analysis or level of geographic rigor.” *EarthLink v. FCC*, 462 F.3d 1, 8 (D.C. Cir. 2006). To the contrary, Congress “established § 1[6]0 as a viable and *independent* means of seeking” relief from regulatory requirements. *AT&T Corp. v. FCC*, 236 F.3d 729, 738 (D.C. Cir. 2001) (emphasis added). The Commission’s obligation to forbear arises when the criteria in Section 160(a) are satisfied, irrespective of whether the carrier qualifies for non-dominant carrier status under the Commission’s dominant carrier analysis. Otherwise, forbearance would cease to be an independent alternative, and the Commission could “forbear” from enforcing dominant carrier regulation against only those carriers that would not meet the prior tests of dominance.

A market share test would likewise be inappropriate with respect to unbundling requirements. The impairment standard for imposing such requirements – which the Commission has recognized is “instructive” in deciding whether to forbear from those requirements – turns on whether competition is *possible*, not whether (or to what extent) actual competition is already occurring. *Omaha Forbearance Order* ¶ 63; *United States Telecom Assoc. v. FCC*, 359 F.3d 554, 575 (D.C. Cir. 2004) (focusing on whether “competition is possible” without UNEs); *United States Telecom Ass’n v. FCC*, 290 F.3d 415, 427 (D.C. Cir. 2002) (impairment exists only for those network elements that are “*unsuitable* for competitive supply”) (emphasis added).⁵ Moreover, the record evidence in this proceeding suggests that even if the Commission were to conduct an impairment analysis here, it would be satisfied in any event.

In Omaha, the Commission’s calculations of market share looked only at competition from cable and traditional CLECs. As Verizon has demonstrated, however, there are other intermodal alternatives that customers are using as a replacement for their wireline voice service and that therefore belong in the analysis as well. *See Verizon Reply* at 21-31. As Verizon has explained, a significant amount of line loss is due to

(1995) (any analysis of “the level of competition for LEC services based solely on a LEC’s market share at a given point in time would be too static and one-dimensional.”).

⁵ In light of this precedent, there is no merit to the CLECs’ claims that forbearance requires that “facilities-based competitors have achieved at least the level of competitive market penetration that existed in the Omaha MSA at the time of the *Omaha Forbearance Order*.” Letter from Brad E. Mutschelknaus, *et al.*, Kelley Drye & Warren, to Marlene Dortch, FCC, WC Docket No. 06-172, at 2 (Nov. 13, 2007); *see also* Letter from Brad E. Mutschelknaus, *et al.*, Kelley Drye & Warren, to Marlene Dortch, FCC, WC Docket No. 06-172, at 2-7 (FCC filed Nov. 5, 2007) (“CLEC Nov. 5 Letter”).

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competition from wireless. *See* Lew/Wimsatt/Garzillo Reply Decl. ¶¶ 12-14, 50. Verizon is also losing lines to over-the-top VoIP providers. *See id.* ¶ 52.

The figure below calculates Verizon's share of mass-market connections in each of the six MSAs when these various alternatives are taken into account. The denominator is the sum of (1) Verizon's retail residential wireline access lines (including MCI), (2) the number of Wholesale Advantage and resale lines Verizon provides to CLECs, (3) the number of competitive residential listings in the E911 database, (4) the number of over-the-top VoIP subscribers, and (5) the number of households (excluding those served by Verizon Wireless) that have cut the cord. Verizon's internal data as of December 2006 are the source for the first three items (although E911 data for certain areas within the Pittsburgh, Providence, and Virginia Beach MSAs are limited to 2005). Estimates of over-the-top VoIP subscribers by MSA were calculated by allocating nationwide VoIP subscribers (as reported by Bernstein Research⁶) to individual states based on the number of high-speed lines by state (as reported in the FCC's *June 2006 High-Speed Internet Access Report*⁷). These statewide totals were further disaggregated by county, based on 2006 Census Bureau data, then aggregated to the appropriate MSA. Estimates of households that have cut the cord were calculated based on the Census Bureau's 2006 housing data.⁸ Verizon assumed that 16 percent of households have cut the cord, and that 75 percent of wireless subscribers are served by carriers other than Verizon Wireless. *See* S. Flannery, *et al.*, Morgan Stanley, *Cutting the Cord: Wireless Substitution Is Accelerating* at 3, Exh. 2 (Sept. 27, 2007) ("*Morgan Stanley Wireless Substitution Report*") (estimating that, as of year-end 2007, 16 percent of U.S. households will have cut the cord) (Attachment C); T. Watts, *et al.*, Cowen and Company, *Strong Wireless Trends Support Pot'l Breakout for T and VZ* at 2 (Sept. 21, 2007) (estimating that Verizon Wireless has a 25 percent share of wireless subscribers nationwide).

⁶ *See* C. Moffett, *et al.*, Bernstein Research, *VoIP: The End of the Beginning* at Exh. 1 (Apr. 3, 2007) (4Q06 estimate).

⁷ *See* Ind. Anal. & Tech. Div., Wireline Competition Bureau, FCC, *High-Speed Services for Internet Access: Status As of June 30, 2006* at Table 10 (Jan. 2007).

⁸ *See* U.S. Census Bureau, *County-Level Housing Unit Datasets*, http://www.census.gov/popest/housing/files/HU-EST2006_US.CSV (2006 estimates). County-level data were aggregated to the appropriate MSA.

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[Begin Confidential]

[End Confidential]

Even as a measure of share of mass-market voice connections, this analysis is conservative in several key respects. First, the analysis includes only wireless subscribers who have cut the cord, even though the competitive impact of wireless goes well beyond that. Verizon demonstrated, for example, that much higher percentages of wireless subscribers use their wireless phones to make a significant number of their calls. *See* Verizon Reply at 25-26. In any event, even if the Commission were to include only households that have cut the cord, the analysis in Figure 2 still demonstrates that competitors have obtained a significant share of mass-market voice connections – between **[Begin Confidential]** **[End Confidential]** percent in each of the six MSAs.

Second, wireless substitution is growing rapidly, and the 16-percent figure used here likely understates the true level of substitution for the MSAs at issue. Morgan Stanley estimates that as of year-end 2008, approximately 19 percent of homes will be wireless-only, and predicts that this figure will rise to 22 percent in 2009, and 32 percent by 2012. *Morgan Stanley Wireless Substitution Report* at 3, Exh. 2. Although these are national figures, there is no basis to suppose that wireless use and wireless substitution are any less prevalent in the six MSAs than in the nation as a whole; indeed, as Verizon has demonstrated, if anything, the converse is likely to be true given the favorable demographics of these six MSAs. *See* NY Pet'n at 11; Boston Pet'n at 11; Phil. Pet'n at 11; Pitt. Pet'n at 10-11; Providence Pet'n at 10; Va. Beach Pet'n at 10.

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Third, the analysis excludes Verizon Wireless subscribers. As Verizon has explained, however, the competition that Verizon provides in wireless redounds to Verizon's wireline business just as if Verizon Wireless were an unaffiliated entity. *See* Verizon Reply at 26-27. That is because Verizon Wireless faces competition from three other national wireless carriers, one or more regional carriers, and a number of MVNOs. Verizon Wireless therefore cannot afford not to compete aggressively against these other wireless carriers in order to protect its wireline business; to the contrary, Verizon Wireless is the most successful wireless carrier in the country precisely because of how aggressively it competes.

Fourth, the analysis relies on cable E911 data from December 2006 or earlier, even though the number of cable voice lines has grown significantly since that time. As demonstrated below, the number of mass-market customers that cable companies have reported serving in the six MSAs exceeds the totals that Verizon reported.

In sum, the evidence here shows that Verizon has lost a large number of lines to competition, and that these declines are continuing. Competitive conditions in the six MSAs are in fact far above what is required to make a finding of "effective competition" for video services, which is the standard used to deregulate cable rates. In that context, "effective competition" exists if the franchise is served by two facilities-based competitors (including intermodal ones) that each offers service to at least 50 percent of households in the franchise area, and the share of these competitors is greater than 15 percent. *See* 47 U.S.C. § 543(l)(1)(B). Applying a similar analysis here makes clear that forbearance is appropriate in each of the six MSAs. As shown above, both cable companies and multiple wireless providers offer comparable voice services to customers throughout each of the six MSAs, and together they have captured well in excess of 15 percent of subscribers.

Residential E911 Data

In Omaha, the Commission relied on residential E911 listings that Qwest supplied to measure the extent of mass-market competition. *See Omaha Forbearance Order* ¶¶ 28-29. The Commission found that such data provided a "directional surrogate" for the number of access lines served by facilities-based competitors such as cable operators. *Id.* ¶¶ 29, 58 n.152; Verizon Reply at 18-19. Verizon submitted similar data here, which showed that cable companies and other competitors were providing service to large numbers of residential customers throughout each of the six MSAs. *See* Lew/Wimsatt/Garzillo Reply Decl. ¶ 11, Table 6 & Exhs. 3.A-3.F.

The data that cable companies have submitted in this proceeding regarding the number of residential customers they serve corroborate the totals in the residential E911 data that Verizon submitted. In addition, these data show that cable competition is growing rapidly. For example, Time Warner Cable reports serving **[Begin Highly Confidential]** **[End Highly Confidential]** residential subscribers as of June 2007 than Time Warner's residential E911 listings as of December 2006. *Compare*

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TWC Nov. 5 Letter, Exh. 4 *with* Lew/Wimsatt/Garzillo Reply Decl., Exh. 3.A. Cox reports serving **[Begin Highly Confidential]** **[End Highly Confidential]** residential subscribers in the Providence MSA, than Cox residential E911 listings as of December 2005. *Compare* Cox Oct. 30 Letter, Attach. at 5 *with* Lew/Wimsatt/Garzillo Reply Decl., Exh. 3.E. Charter also reports serving **[Begin Highly Confidential]** **[End Highly Confidential]** than its totals of residential E911 listings as of December 2006. *Compare* Letter from K.C. Halm, Davis Wright Tremaine, to Marlene H. Dortch, FCC, WC Docket No. 06-172, at 4, Table 2 (Nov. 6, 2007), *with* Lew/Wimsatt/Garzillo Reply Decl., Exh. 3.B.

Comcast has provided the number of mass-market subscribers for lines and homes passed for its Comcast Digital Voice (VoIP) service. Comcast does not report the subscribers it serves using circuit-switched cable telephony services, which Comcast has been providing in Boston since 1998 and Pittsburgh since 1999. *See* Boston Decl. ¶ 14; Pitt. Decl. ¶ 16. In the New York and Philadelphia MSAs where Comcast provides only VoIP service, it reports serving **[Begin Highly Confidential]**

[End Highly Confidential] mass-market customers than Comcast residential E911 listings as of December 2006. *Compare* Comcast Nov. 9 Letter, Attachs. *with* Lew/Wimsatt/Garzillo Reply Decl., Exhs. 3.A & 3.C. In the Providence MSA, Comcast reports providing VoIP service to **[Begin Highly Confidential]** **[End Highly Confidential]** residential subscribers than Comcast residential E911 listings as of December 2006. *Compare* Comcast Nov. 9 Letter, Attach. *with* Lew/Wimsatt/Garzillo Reply Decl., Exh. 3.E. In Boston and Pittsburgh, the Comcast-reported totals are **[Begin Highly Confidential]** **[End Highly Confidential]** than its December 2006 listings, ostensibly due to the fact that Comcast's reported totals exclude customers it is serving using circuit-switched technology. *Compare* Comcast Nov. 9 Letter, Attachs. *with* Lew/Wimsatt/Garzillo Reply Decl., Exhs. 3.B & 3.D.

The E911 listings data for Verizon's own residential lines in the six MSAs provides additional evidence of the reliability of these data. As demonstrated in Attachment D, in each of the MSAs the ratio of residential E911 listings to residential lines is approximately 1:1.

Business E911 Data

In the *Omaha Forbearance Order*, the Commission analyzed E911 listings only for residential customers. *See Omaha Forbearance Order* ¶ 28. Verizon nonetheless submitted data on business E911 listings as further evidence of the fact that cable companies – as well as many traditional CLECs – were competing extensively throughout each of the six MSAs.

Numerous parties have claimed that comparisons between E911 listings and business lines that competitors report show that E911 listings are higher than line totals by a ratio of 2-to-1 or more. *See* CLEC Nov. 5 Letter at 4. As Verizon has explained, however, even if the number of E911 listings overstates the number of competitor lines,

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they still provide an accurate measure of overall competitive activity. *See* Taylor Decl. ¶¶ 35-51. For example, consider a medium-business customer with 300 employees that is served through a DS-1 and a PBX with 300 stations. It would be inappropriate to treat this customer the same as a small business with 24 employees that is served with 24 individual voice lines. Although the first customer may have 300 E911 listings and only 24 voice-grade-equivalent lines, its relative competitive value – based on customer traffic and revenue – is much closer to 300 than 24. *See id.* ¶ 37.

The data that cable companies have submitted in response to the request from the Commission’s staff confirm that cable companies in these six MSAs are successfully and aggressively competing for enterprise customers. For example, in the Providence MSA, Cox reports that it is providing **[Begin Highly Confidential]** **[End Highly Confidential]** DS1 lines over its own facilities. *See* Cox Oct. 30, 2007 Letter, Attach. at 4-5; *compare with Omaha Forbearance Order* ¶ 69 (providing the number of DS1 lines Cox served in the Omaha MSA). In the New York MSA, Time Warner Cable reports that it provides data services to **[Begin Highly Confidential]** **[Begin Highly Confidential]** business lines, including businesses of all sizes. *See* TWC Nov. 5 Letter, Exhs. 1 & 3. Time Warner Cable also reports that its network covers more than **[Begin Highly Confidential]** **[End Highly Confidential]** of the business customer locations in its territory in the New York MSA, a percentage that **[Begin Highly Confidential]** **[End Highly Confidential]** no matter the size of the businesses. *See id.*; *compare with Omaha Forbearance Order* ¶ 66 n.174 (providing the percentage of business customer locations covered by Cox’s network in Omaha). Although Cablevision has not yet supplied data in response to the Commission’s request, it has recently announced that it added the 2,500th fiber-lit building to its network.⁹ Cablevision reported in January 2007 that it added the 2,000th fiber-lit building to its network, meaning that Cablevision has added 500 fiber-lit buildings to its network in just the past 11 months.¹⁰

The Attachments contain Confidential Information and Highly Confidential Information and have been marked “CONFIDENTIAL – SUBJECT TO PROTECTIVE ORDER” and “HIGHLY CONFIDENTIAL INFORMATION – SUBJECT TO SECOND PROTECTIVE ORDER IN WC DOCKET NO. 06-172 BEFORE THE FEDERAL COMMUNICATIONS COMMISSION” and in accordance with the First and Second Protective Orders in this proceeding.¹¹ A redacted version of this submission is being filed electronically on ECFS.

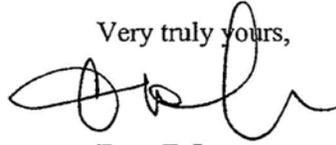
⁹ *See* PR Newswire, *Optimum Lightpath Connects 2,500th Fiber-Lit Building* (Nov. 14, 2007), <http://money.cnn.com/news/newsfeeds/articles/prnewswire/NEW030A14112007-1.htm>.

¹⁰ *See* Cable Digital News, *Lightpath Adds 2,000th* (Jan. 9, 2007), http://www.lightreading.com/document.asp?doc_id=114239&site=cdn.

¹¹ *Petitions of the Verizon Telephone Companies for Forbearance Pursuant to 47 U.S.C. § 160(c) in the Boston, New York, Philadelphia, Pittsburgh, Providence and Virginia Beach Metropolitan Statistical*

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Very truly yours,



Evan T. Leo
Counsel for Verizon

Attachments

cc: Dana Shaffer
Don Stockdale
Gary Remondino
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Nick Alexander
Marcus Maher

Areas, Order ¶ 5, WC Docket No. 06-172, DA 06-1870 (rel. Sept. 14, 2006); Petitions of the Verizon Telephone Companies for Forbearance Pursuant to 47 U.S.C. § 160(c) in the Boston, New York, Philadelphia, Pittsburgh, Providence and Virginia Beach Metropolitan Statistical Areas, Order ¶ 5, WC Docket No. 06-172, DA 07-208 (rel. Jan. 25, 2007).

ATTACHMENT A

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ATTACHMENT B

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ATTACHMENT C

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September 27, 2007

Telecom Services

Cutting the Cord: Wireless Substitution Is Accelerating

Wireless substitution could reach almost one-third of households by 2012, up from 13% now. The rural wireline carriers and Qwest are most exposed given their lack of wireless assets, while AT&T and Verizon are hedged. The tower companies, Leap, and Metro PCS are among those best positioned to benefit from substitution.

New analysis dimensions demographics and geographies of the change: In this report we analyze the growing phenomenon of US households going wireless only. At the end of 2006, an estimated 13% of US households had cut the cord, according to the National Health Interview Survey. We forecast that another 21 million households will go wireless only over the next five years, reaching 32% of households. We find that this trend is prevalent and accelerating across most demographic profiles, but is most pronounced among the young and lower income groups. More than 50% of households containing unrelated adults have cut the cord, according to recent data. We believe this phenomenon is driven by improved wireless coverage and better pricing and will be supported by new handsets and new wireless technologies, such as Unlimited Mobile Access (UMA) and femtocells. These technologies allow for voice transmission over Wi-Fi connections.

Steep access line decline underway: Our base case forecast implies that access lines in service will fall by an average of 3.5 million lines per year over the next five years as a result of wireless substitution alone. This will likely combine with cable competition to keep industry line loss in excess of 5% per year. Even where the access line remains, more and more traffic will run on wireless networks, reducing switched access revenues.

Recent Reports

Title	Date
Telecom Services: Wireless Data: Just Getting Started Simon Flannery / Vance Edelson / Sean Ittel / Daniel Gaviria	Sep 11, 2007
Telecom Services: 2Q07 Tracker: Cracks Appearing in Telecom Outlook, Stock Selecti Simon Flannery / Vance Edelson / Daniel Gaviria / Sean Ittel	Aug 24, 2007
Telecom Services: Bells Appear Well-Positioned to Weather Credit Pressures on Pens Simon Flannery / Daniel Gaviria	Aug 23, 2007
Telecom Services: Look for Buybacks to Accelerate Simon Flannery / Vance Edelson / Daniel Gaviria / Sean Ittel	Aug 1, 2007

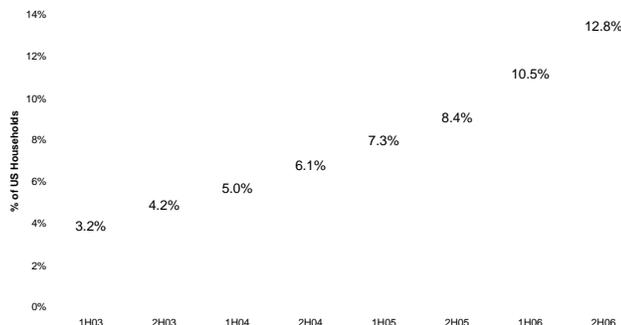
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Investment Case

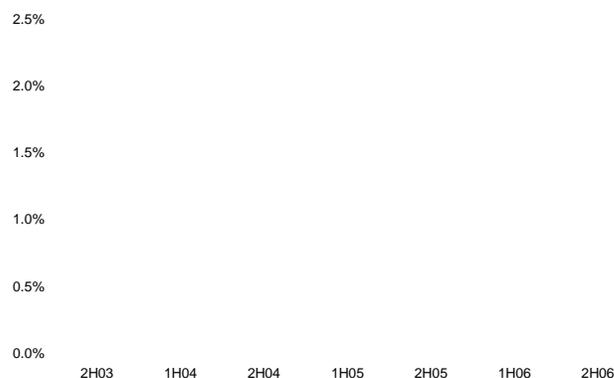
How Many Have Cut the Cord?

1 in 8 Households Have Cut the Cord



Source: CTIA's Wireless Industry Indices, Morgan Stanley Research

Substitution Picking Up Steam Incrementally



Source: CTIA's Wireless Industry Indices, Morgan Stanley Research

Key Findings:

- New technology and economic considerations continue to lead to increased wireless substitution.
- Almost one-third of households will have cut the cord by 2012.
- All of the parts of the following categories are cutting the cord more:
 - Household Structure: Unrelated adults without children lead this category with 54% penetration.
 - Household Ownership: Those who rent have cut the cord more than those who own their homes.
 - Age: 18-29 year olds rely solely on their wireless devices more than any other age group.
 - Job Status: Students in college are more likely to live in wireless-only households than any other profession.
- Location: Substitution is more prevalent among urban residents than of rural ones.
- Ethnic Group: Hispanics and African-Americans are more likely to live in wireless only households.
- Poverty Status: Cutting the cord has increased dramatically amongst those considered poor.

Exhibit 1

Pure Wireless Play Is Most Positively Impacted

	Positive	Negative	Mixed
Primary	LEAP	Q	Bells
	PCS	EQ	T VZ
Secondary	S	RLECs	CBB
	USM Towers		Telus

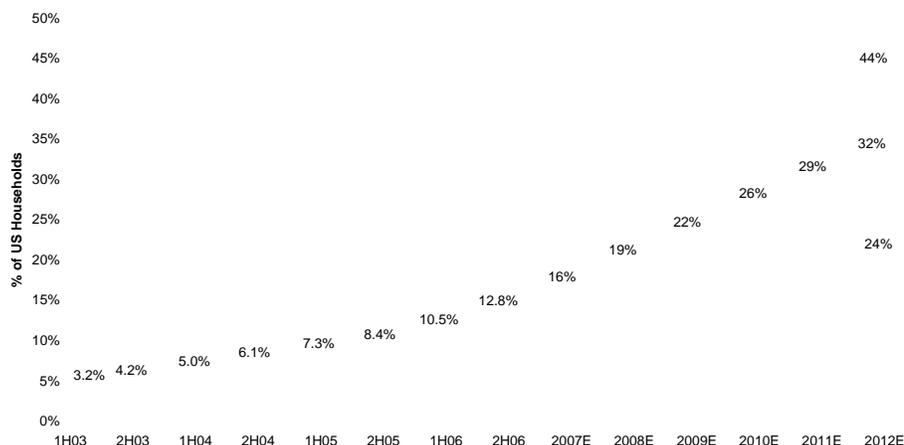
Source: Morgan Stanley Research

Forecast/Scenario Analysis

Where Are We Headed?

Exhibit 2

Nearly One-Third of Homes Become Wireless-Only in Base Case



Key Assumptions

- The US HH structure will remain relatively constant over the next five years.
- Wireless substitution will increase as a function of household structure proportions (see Exhibit 12)
- Substitution data from other countries has shown the extent to which this trend can penetrate.

Source: CDC - Wireless Substitution: National Health Interview Survey, July – December 2006, Morgan Stanley Research

Exhibit 3

Scenario Summaries

- Bull Case** **Wireless substitution is widespread** Wireless-Only HH reach 44% by 2012 based on an almost fully penetrated unrelated adults segment.
- Base Case** **Wireless substitution continues modestly** Wireless-Only HH reach 32% by 2012 based on significant growth in substitution from adults living alone.
- Bear Case** **Wireless substitution picks up slowly** Wireless-Only HH reach 24% by 2012 based on lagging uptake across all sectors.

Exhibit 4

Wireless-Only Household Projection for 2012

	2006 Wireless-Only HH	BEAR	BASE	BULL
			2012	
unrelated adults, no children	54.0%	70%	80%	90%
adult living alone	18.2%	30%	40%	50%
adult(s) with children	10.5%	20%	25%	35%
related adults, no children	8.5%	15%	25%	40%
	% of Total US HH			
unrelated adults, no children	2.8%	4.1%	4.7%	5.3%
adult living alone	4.4%	8.2%	10.9%	13.7%
adult(s) with children	2.9%	6.3%	7.8%	11.0%
related adults, no children	2.7%	5.3%	8.9%	14.2%
Total Wireless-Only HH	12.8%	23.9%	32.3%	44.1%
implied avg. line loss (million/yr)		2.0	3.5	5.7

Source: Morgan Stanley Research

Exhibit 5

Rewards Outweigh the Risks

Why?

New Technologies

- T-Mobile HotSpot@Home [UMA]
- Sprint Airave [femtocell]

Convenience

- Using one phone for all calls
- All-In-One Products: contacts, calendar, music, internet access, etc.

Product Driven Consumers

- Apple iPhone
- RIM Pearl
- RIM Curve

Costs

- More attractive pricing per minute for mobile solutions vs. fixed alternatives
- Broadband and wireless bundles (no landline required)

Signal Quality

- Dead spots in rural areas
- Dropped calls

Reliability

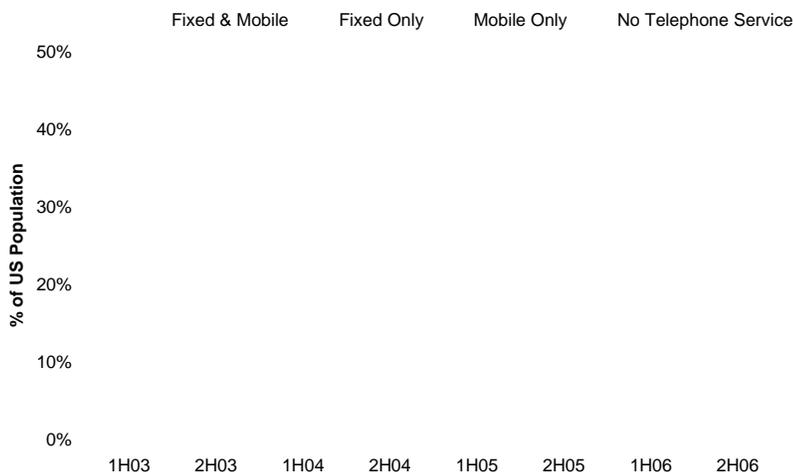
- Emergency Services – Difficult to pinpoint location
- Home alarm systems often require landlines
- Battery life of wireless phones

Why Not?

Source: Morgan Stanley Research

Exhibit 6

Close to 15 Million Wireless-Only Homes, Up 22% from 1H06

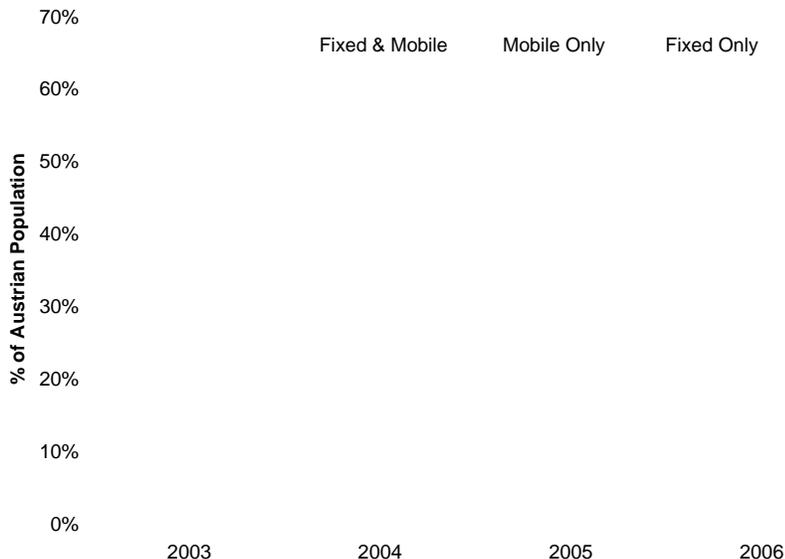


- The move towards wireless-only homes stems from a migration away from a fixed-only household.
- There is still more room for US wireless substitution to mature as line loss continues to slow.
- Although the number of wireless-only households are increasing, the number of households without any telephone service remains relatively stable around 2%

Source: CDC - Wireless Substitution: National Health Interview Survey, July – December 2006, Morgan Stanley Research
 Note: Landline and non-landline households with unknown wireless telephone status are not included (-11% of HH in 2006).

Exhibit 7

Austrian Wireless-Only HH at 30% and Still Growing

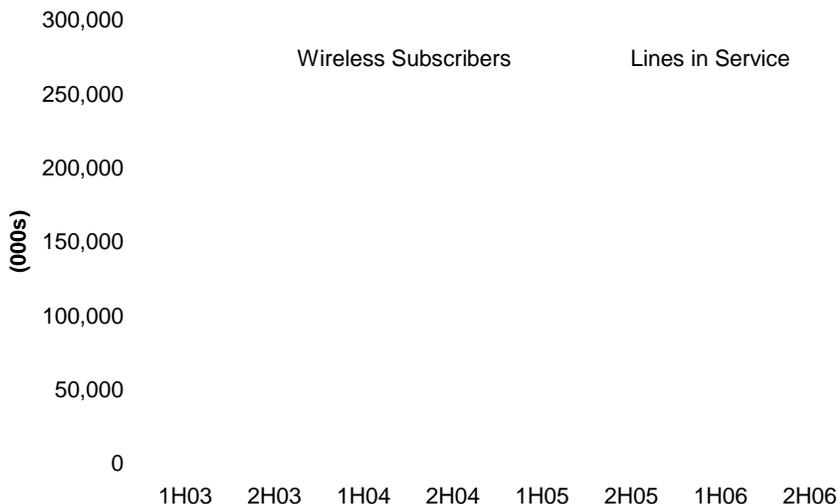


- Austria, where wireless substitution is near the highest levels in Europe, has 33% of homes that are wireless-only.
- The presence of four 3G competitors for a population of 8 million people has been a catalyst to the wireless-only migration.
- Mobile broadband has been discounted to 20 euros, while fixed broadband costs around 35 euros for similar effective speeds.

Source: Morgan Stanley Research

Exhibit 8

US Wireless Subs Grow as Lines in Service Falls



- Another indication of the growing trend of wireless substitution is evident in the growth of the number of wireless subscribers relative to the number of lines in service.
- A significant consequence of increasing subscriber growth is shown by LEAP, which notes that over 60% of their customer base uses its phones as their only phone.

Source: CTIA Wireless Industry Indices Year-End 2006 Morgan Stanley Research
Leap Wireless International, Inc -Bank of America 2007 Annual Investment Conference

Exhibit 9

Increasing Wireless Footprint –90 Million Covered POPs Today; 180 Million Covered POPs by 2009

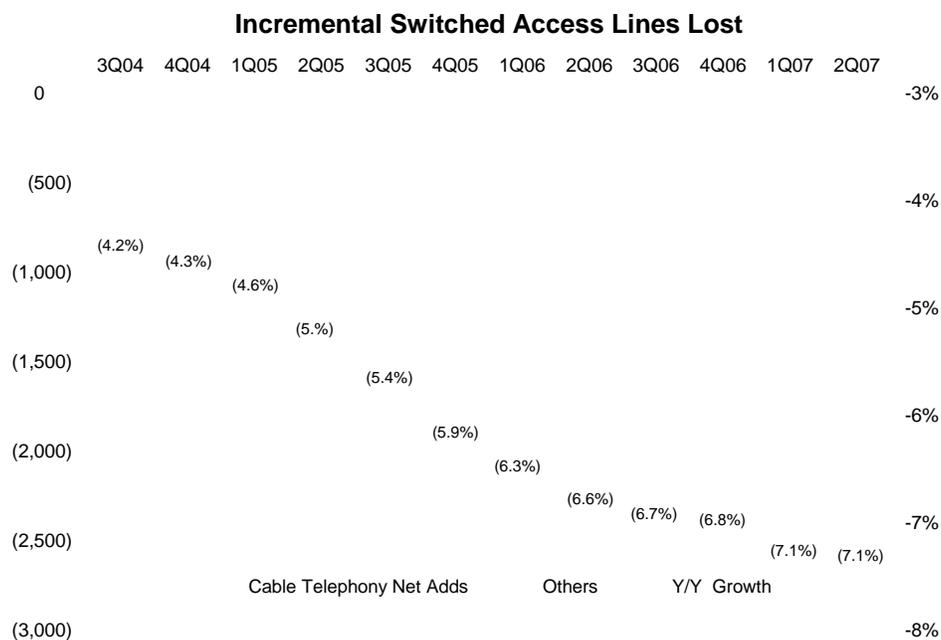
New Markets for Leap and Metro PCS

2007		2008/2009
Los Angeles	New York	Chicago
Raleigh / Durham	Boston	Washington, D.C. / Baltimore
Rochester	Philadelphia	Las Vegas
Charleston		

Source: Company data, Morgan Stanley Research

Exhibit 10

Majority of Lines Loss Coming from Households Cutting the Cord on their Main Line

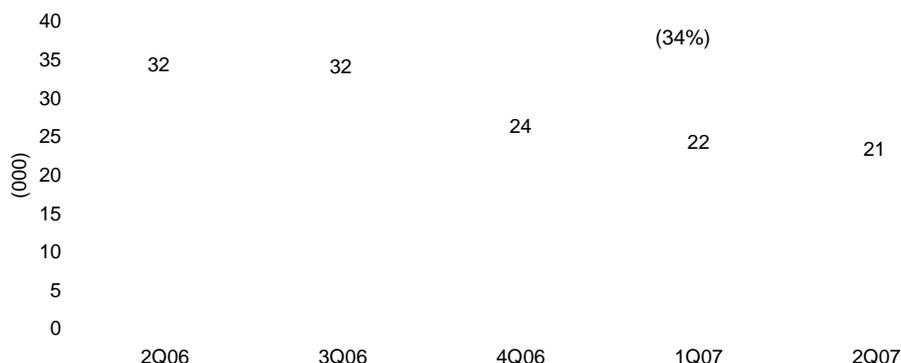


- Line loss is at 7.1% Y/Y, and has increased sequentially after showing signs of improvement in the last year.
- Primary residential line loss accounted for 42.3% of the 9.2 million lines lost in the past year.

Source: Company Data and Morgan Stanley Research, Note: Data shown for VZ, T, and Q

Exhibit 11

CBB: Declining Gross Adds Driving Line Loss



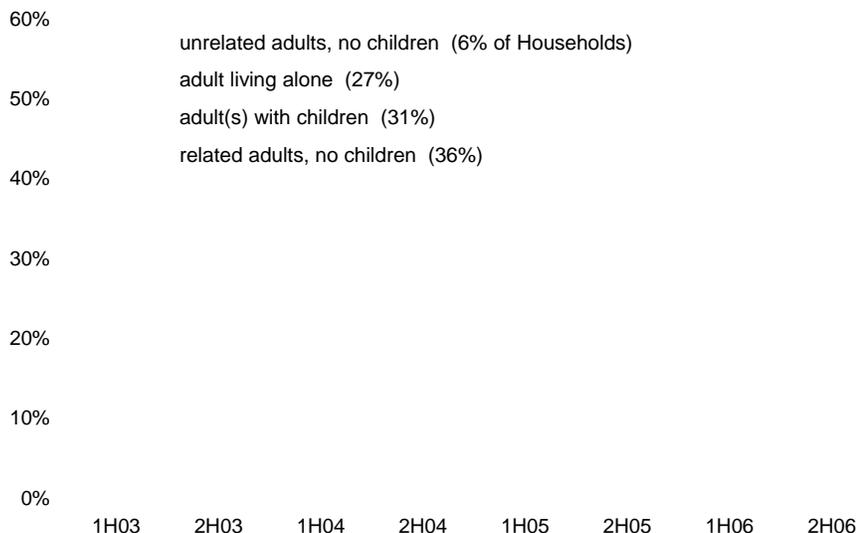
- Cincinnati Bell, among other carriers, cites declining gross adds as a greater threat to line loss than disconnections
- In light of this trend, Cincinnati Bell's efforts are focused on new wireless strategies in wireless like CBB Home Run, which uses UMA technology.

Source: Company Data, Morgan Stanley Research

Who Is Cutting the Cord?

Exhibit 12

Roommates Lead the Way

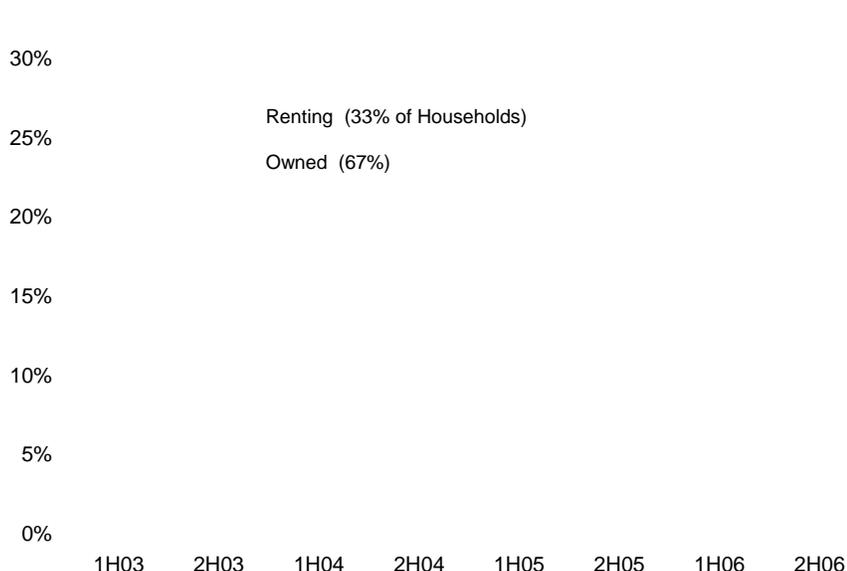


- Unrelated adults far surpass any other household structure of wireless-only households.
- We feel that this correlates with the high percentage of under-30 adults that also live in wireless-only HH (see Exhibit 14)

Source: CDC - Wireless Substitution: National Health Interview Survey, July – December 2006, American Community Survey 2003-2006; US Census Bureau, Morgan Stanley Research

Exhibit 13

Renters Are Five Times More Likely to Cut the Cord than Owners

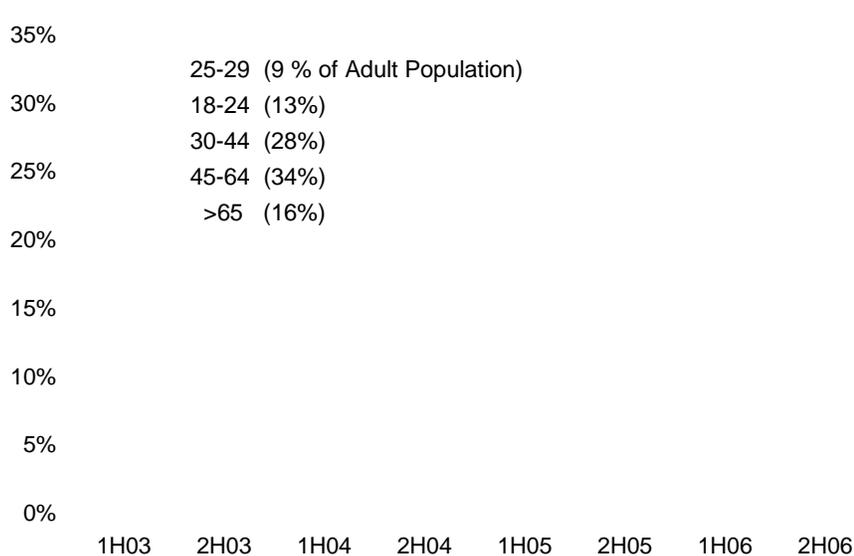


- More and more renters have opted for wireless substitution; 26.4% of renters live in wireless-only households.
- Owning one's home has led to less substitution, although the number of owners in wireless-only homes has increased.

Source: CDC - Wireless Substitution: National Health Interview Survey, July – December 2006, American Community Survey 2003-2006); US Census Bureau, Morgan Stanley Research

Exhibit 14

Wireless Substitution Is Trendy Among Young Adults



- Wireless substitution is apparent and growing in all age ranges, but adults under 30 have noticeably more wireless-only HH than the rest of the population
- This bodes well for LEAP, which has 52% of its customers under the age of 35.

Source: CDC - Wireless Substitution: National Health Interview Survey, July – December 2006, American Community Survey 2003-2006); US Census Bureau, Morgan Stanley Research

Exhibit 15

Increased Substitution in All Professions

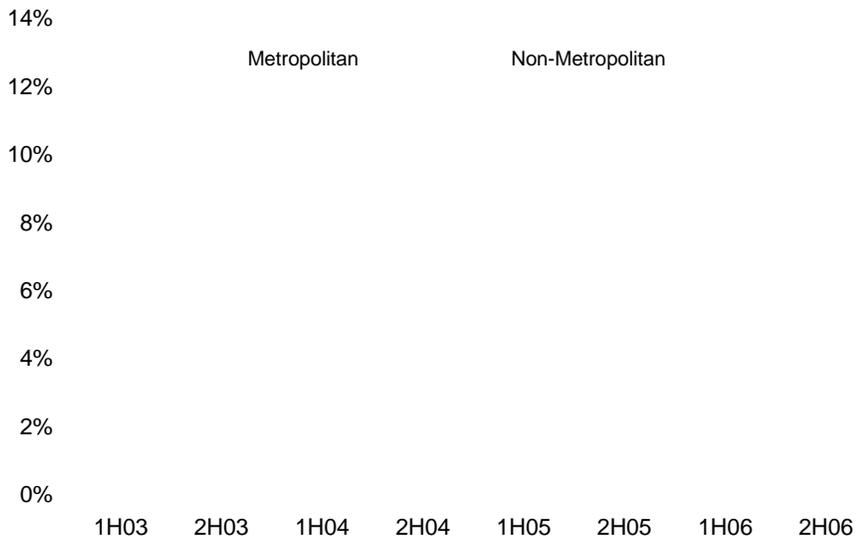


- A growing trend in wireless-only households is evident in the collegiate population.

Source: CDC - Wireless Substitution: National Health Interview Survey, July – December 2006, Morgan Stanley Research

Exhibit 16

Rural Wireless-Only HH Growing Steadily but Still Lags Behind



- Of those that live in metropolitan areas, 12.7% rely on wireless-only at home.
- We also note that metropolitan areas are typically three years ahead of rural markets.

Source: CDC - Wireless Substitution: National Health Interview Survey, July – December 2006, Morgan Stanley Research

Exhibit 17

Limited Dispersion between Ethnic Groups



- While Hispanics lead the race in wireless-only households, all races are increasing substitution.

Source: CDC - Wireless Substitution: National Health Interview Survey, July – December 2006, Morgan Stanley Research
 Poor = below the poverty line established by the US Census Bureau, Near Poor = 100% - 200% above the poverty line; Not Poor: greater than 200% of the poverty line

Exhibit 18

Wireless-Only HH Picks Up Steam Regardless of Poverty Status



- Wireless-only households are a growing trend among lower income households.
- This is a positive note for both PCS and LEAP. Leap, in particular, has 79% of its customer base from consumers that earn less than \$50,000/yr.

Source: CDC - Wireless Substitution: National Health Interview Survey, July – December 2006, Morgan Stanley Research
 Poor = below the poverty line established by the US Census Bureau, Near Poor = 100% - 200% above the poverty line; Not Poor: greater than 200% of the poverty line
 Leap Wireless International, Inc – Bank of America 2007 Annual Investment Conference

ATTACHMENT D

REDACTED – FOR PUBLIC INSPECTION

REDACTED – FOR PUBLIC INSPECTION