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November 19, 2007

Via Hand Delivery

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:

I am writing in response to the QSI Consulting study that the CLECs filed in the above-captioned proceeding on October 29, 2007.[1] QSI claims that granting Verizon's forbearance petitions for the six MSAs would lead to higher prices, which QSI estimates would cost consumers $2.4 billion per year. The QSI study is a transparent attempt to fabricate consumer harm where none exists. QSI reaches its conclusions only by assuming away virtually all competition, including from cable and wireless. With respect to traditional CLECs, QSI ignores the fact that most competitive carriers do not use UNEs and, therefore, would not be harmed by forbearance from unbundling regulation.

First, QSI assumes away intermodal competition in concluding that competition is inadequate to protect consumers. But Verizon submitted extensive evidence in this proceeding demonstrating widespread facilities-based competition for both mass-market and enterprise customers in each of the six MSAs.

[1] QSI Consulting, Inc., *An Analysis of Verizon's Petition for Forbearance: A Quantification of the Impact of Forbearance* (Oct. 2007) ("QSI Study"), *attached to* Letter from Genevieve Morelli, Kelley Drye & Warren, LLP, to Marlene Dortch, FCC, WC Docket No. 06-172 (Oct. 29, 2007).

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Second, QSI argues that after forbearance wholesale prices will rise from UNE levels to the commercial rates that Verizon charges. But eliminating UNEs where there is facilities-based competition will benefit consumers by promoting further competition and investment, as the Commission and the courts have found. QSI also argues that Verizon's commercial rates will increase following forbearance, but the source on which QSI relies — the GAO's special access report — shows the opposite, that deregulation has resulted in *lower* prices for special access.

Third, to support its prediction of higher *retail* prices, QSI argues that intermodal competition does not constrain price and that UNE-based competition is therefore critical. In fact, intermodal competition dwarfs UNE-based competition in significance, and has proven effective at constraining price.

Fourth, QSI fails to provide any supporting data for its calculations or even to describe its methodology, and its study should be rejected on that basis alone; the limited information that QSI does provide indicates that its black-box approach is highly flawed. For example, QSI relies on inaccurate and inflated special access prices in its calculations.

A. QSI Ignores the Extensive Evidence of Competition in the Six MSAs

Verizon has demonstrated that there is extensive facilities-based competition in each of the six MSAs. In each MSA, there is extensive competition from cable companies, who have ubiquitous networks they are using to provide services to both residential and business customers. CLECs also are providing competition extensively in each of the MSAs. Verizon has provided maps of known competitive fiber routes, data on wire centers with known competitive fiber, maps and data on known CLEC-lit buildings, E911 listings data that provide a reasonable approximation of levels and growth of competitive lines, data from Verizon's wholesale records showing how many lines competitors serve using a combination of their own facilities and Verizon's special access services, and statements from CLECs's own websites describing their extensive facilities and service offerings. In addition, there is a wide range of other intermodal competitors such as wireless, fixed wireless, and over-the-top providers who provide a significant and growing alternative to both business and residential customers.

QSI does not conduct any independent analysis of competition in the six MSAs, nor does it address any of the data that Verizon supplied. QSI instead argues with little or in most cases no support that such competition does not exist or is inadequate. There is no merit to QSI's claims.

First, QSI argues (at 9) that "cable operators do not present an economically-viable alternative to Verizon's wholesale loop and transport network elements." *See also* Letter from Jonathan Lee, Comptel, to Marlene Dortch, FCC, WC Docket No. 06-172 (FCC filed Nov. 13, 2007) (making similar claim). But whether or not cable companies provide service on a wholesale basis to CLECs is irrelevant here. As the Commission has found, the fact that cable companies have deployed facilities to serve end-user customers is sufficient to constrain prices. *See Omaha Forbearance Order* ¶¶ 67, 71. Indeed, it is well established that firms who self-supply competitive facilities impose pricing discipline and must be included in the analysis regardless of whether they choose to offer their facilities on a wholesale basis.[2]

QSI also claims (at 9) that cable networks do not reach many business customers, and even if they do "the cable network is not necessarily constructed to reliably serve most business customers." But the evidence here proves otherwise. *See* Letter from Evan Leo, Kellogg, Huber, Hansen, Todd, Evans & Figel, to Marlene Dortch, FCC, at 11 (FCC filed Nov. 16, 2007) ("Verizon Nov. 16 Letter"). Time Warner Cable has submitted data in this proceeding demonstrating that its network reaches a significant percentage of business customers in the New York MSA (the only one of the six in which it operates a cable network). *See* Letter from Brian W. Murray, Latham & Watkins LLP, to Marlene H. Dortch, FCC, WC Docket No. 06-172 (Nov. 5, 2007). As Verizon has demonstrated, other cable operators have been making similar claims. For example, Comcast's executives have stated that commercial services represent the "next great business opportunity" for Comcast and that it will make a "$250 million investment in commercial services in 2007" to do the "same thing" in the enterprise market as it has done in the mass market.[3] Comcast's COO explained that it is serving commercial customers "now" and that this "business is going to ramp very substantially" because it already has "all the systems in place," including an "existing footprint [that] goes against many, many small and medium-sized businesses" that enables Comcast to "provide th[e] wire" to these businesses.[4] Cablevision has "identified over 600,000 businesses inside [its] footprint that [it] passed with cable that were serviceable today," using Cablevision's *existing* plant that was originally deployed to serve residential customers.[5] Cox "ended the [first quarter of 2007] with more than 187,000 commercial customers, reflecting 32.2% year-over-year growth."[6] Verizon has demonstrated that these cable operators are providing a wide range of both voice and data services to enterprise customers over the facilities they have deployed. *See* Verizon Reply at 50 & n.106; Letter from Joseph

[2] *See, e.g.*, *AT&T Corp. v. Iowa Utils. Bd.*, 525 U.S. 366, 389 (1999) (faulting the Commission for failing to consider carriers that self-provide facilities in evaluating competitive alternatives); U.S. Dep't of Justice & Federal Trade Comm'n, *Horizontal Merger Guidelines* § 1.31 (1992) (the relevant market begins with all firms that currently produce or sell in the relevant market, including "vertically integrated firms to the extent that such inclusion accurately reflects their competitive significance in the relevant market").

[3] *Comcast Corporation at Citigroup 17th Annual Entertainment, Media and Telecommunications Conference Final*, FD (Fair Disclosure) Wire, Transcript 010907aw.757 (Jan. 9, 2007) (statement by Brian Roberts, Chairman and CEO, Comcast); Thomson StreetEvents, *CMCSA — Q4 2006 Comcast Corporation Earnings Conference Call*, Conference Call Transcript at 6 (Feb. 1, 2007) (statement by John Alchin, EVP, Co-CFO and Treasurer, Comcast).

[4] *Comcast Corporation at Goldman Sachs Communacopia XVI Conference — Final,* FD (Fair Disclosure) Wire, Transcript 091807ah.758 (Sept. 18, 2007) (statement by Stephen Burke, COO, Comcast Corp.).

[5] Thomson StreetEvents, *CVC Cablevision Systems Corp. at Banc of America Media, Telecommunications & Entertainment Conference*, Transcript at 7 (Mar. 28, 2007) (statement by Tom Rutledge, COO, Cablevision Systems Corp.). Cablevision determined this by "build[ing] a database" by "collect[ing] various business databases and . . . physically walk[ing] out [its] plant and identif[ying] all the small businesses inside [its] footprint and cross-referenc[ing] them against all the various databases." *Id.*

[6] Cox News Release, *Cox Answers the Phone and Says "Hello" to Continued Growth* (May 1, 2007).

Jackson, Verizon, to Marlene Dortch, FCC, WC Docket No. 06-172, at Attachment I (Oct. 10, 2007) ("Verizon Oct. 10 Ex Parte") (attaching cable websites describing cable business service offerings).

Second, QSI claims (at 8) without citation or support that CLECs have deployed "limited" loop and transport facilities in the six MSAs. As Verizon has demonstrated, CLECs have in fact deployed extensive fiber networks throughout the six MSAs, wherever appreciable demand for high-capacity services exists.[7] Verizon has also demonstrated that CLECs serve a significant number of buildings with their fiber networks in each of the six MSAs.[8]

QSI is unable to rebut this showing, and is therefore left to argue (at 8) that "[t]o the extent CLECs have their own transport facilities, there are a number of problems that limit the viability of these CLEC facilities for use by other CLECs." But, as discussed above, whether or not CLECs choose to make their facilities available on a wholesale basis is irrelevant. In any event, as the Commission has recognized and as Verizon has shown, competing carriers can and do lease facilities from each other. There are now a wide range of systems integrators that compete for enterprise customers by leasing facilities from multiple providers. *See* Verizon Reply at 54; *Verizon/MCI Order* ¶ 64. Verizon does the same thing when it competes outside its region. And competitive providers, such as Time Warner Telecom, have acknowledged that they do so as well.[9] Thus, whatever supposed "problems" CLECs face in leasing facilities from each other, they do not pose a meaningful obstacle to competition.

Third, QSI argues (at 9) again without citation or support that "wireless services are not yet a viable wholesale alternative for either residential or business customers." But as discussed, it is irrelevant whether wireless services offer CLECs a wholesale alternative. What matters is whether these services offer end-users a competitive alternative, and it is beyond serious question that they do. As Verizon has demonstrated, wireless services are being used extensively for voice services and increasingly for data services. *See* Verizon Reply at 22-23; Wimsatt/Lew/Garzillo Reply ¶ 50. In addition, fixed wireless services are now a viable alternative for high-capacity services, and fixed wireless providers are offering services on both a retail and wholesale basis. *See* Verizon Oct. 10 Ex Parte at Exh. G.

In sum, the central assumption of QSI's study — that competition would be insufficient to constrain prices after forbearance — is false. QSI makes no attempt to

[7] *See* NY Pet'n at 22-23; NY Decl. ¶ 46 & Exhs. 5-6; Boston Pet'n at 20-21; Boston Decl. ¶ 40 & Exhs. 5-6; Phil. Pet'n at 22-23; Phil. Decl. ¶ 42 & Exhs. 5-6; Pitt. Pet'n at 20-21; Pitt. Decl. ¶ 36 & Exhs. 5-6; Providence Pet'n at 20-21; Providence Decl. ¶ 38 & Exhs. 5-6; Va. Beach Pet'n at 20; Va. Beach Decl. ¶ 37 & Exhs. 5-6; Verizon October 10, 2007 Letter at Exhs. 1 & 2.

[8] *See* NY Decl. at Exhs. 5-6; Boston Decl. at Exhs. 5-6; Phil. Decl. at Exhs. 5-6; Pitt. Decl. at Exhs. 5-6; Providence Decl. at Exhs. 5-6; Va. Beach Decl. at Exhs. 5-6; Verizon Oct. 10 Ex Parte at Exh. 2.

[9] Letter from Thomas Jones, Willkie Farr & Gallagher, to Marlene Dortch, FCC, WC Docket No. 05-25 (Sept. 7, 2007) (acknowledging that "four other competitors . . . have provided wholesale price quotes to TWTC in a number of markets across the country.").

analyze the record in this proceeding, and it provides no data of it its own. Its less than two pages of largely unsupported assertions about competition is far too thin a read on which to base its exaggerated claims of consumer harm.

B. There Is No Basis for QSI's Claim that *Wholesale* Prices Will Rise after Forbearance

QSI assumes that, if Verizon is granted forbearance, wholesale prices for loops and transport will rise to the levels that Verizon charges pursuant to tariffs and commercial agreements. QSI then treats the difference between these two sets of rates as a "harm" to consumers. QSI's analysis is flawed in several respects.

As an initial matter, it is inappropriate to treat the difference in UNE and commercial rates as a consumer harm. Both the Commission and the courts have recognized that unbundling harms competition and that the costs of excessive unbundling to consumers outweigh any benefits. *See Omaha Forbearance Order* ¶ 76. As the Commission has explained, "excessive network unbundling requirements tend to undermine the incentives of both incumbent LECs and new entrants to invest in new facilities and deploy new technology." *Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, Report and Order and Order on Remand and Further Notice of Proposed Rulemaking, 18 FCC Rcd 16978, ¶ 3 (2003). Similarly, the D.C. Circuit has recognized that mandated unbundling "imposes costs of its own, spreading the disincentive to invest in innovation and creating complex issues of managing shared facilities." *United States Telecom Ass'n v. FCC*, 290 F.3d 415, 427 (D.C. Cir. 2002). Given the extensive facilities-based competition that already exists in the six MSAs, and the potential for even greater facilities-based competition to emerge, any potential benefits from unbundling regulation are slim, while the costs of such regulatory intervention are significant. *See Omaha Forbearance Order* ¶ 77. Forbearance will give both Verizon and other facilities-based competitors greater incentives to continue to invest in facilities, which will ensure the continued growth of long-lasting facilities-based competition.

Moreover, there is no basis to QSI's claim (at 15-16) that the elimination of UNEs will cause CLECs to exit the market. The evidence that Verizon has submitted shows just the opposite — that CLECs are competing successfully without UNEs — and QSI provides no contrary evidence. For example, Verizon has demonstrated that following the elimination of the UNE platform, competing carriers in the six MSAs have competed successfully using Verizon's commercial replacement, known as Wholesale Advantage. In fact, the number of residential lines competitors are serving using Wholesale Advantage far exceeds the number of unbundled analog loops they are obtaining (which is the type of loop that would be used to serve a mass-market customer). *See* Lew/Wimsatt/Garzillo Reply Decl. at Exh. 4. Likewise, Verizon has demonstrated that with respect to high-capacity services provided to enterprise customers, competing carriers are using special access much more extensively than UNEs, and are competing successfully for retail customers when they do so. *See* Verizon Reply at 5, 56-61; Lew/Wimsatt/Garzillo Reply Decl., Exh. 10; Verizon Oct. 10 Ex Parte at Exh. 10 Supp.

Finally, QSI argues (at 9-10) that forbearance will enable Verizon to raise prices for special access services. QSI bases this assumption, first, on its claim that there is insufficient competition in the six MSAs to constrain wholesale prices. As demonstrated above, however, this assumption is flawed and QSI ignores the extensive record of competition developed in this proceeding. Given that the rest of QSI's analysis stems from this flawed premise, it is unreliable and should be disregarded on that basis.

In any case, QSI also attempts to support its theory of wholesale price increases with the GAO's November 2006 report regarding special access.[10] According to QSI (at 10), "the GAO report is a clear and definitive demonstration that Verizon's requested relief from the TELRIC pricing requirements would generally translate into upward pressure on wholesale prices for network elements used by competing CLECs." In fact, the GAO report proves exactly the opposite — that special access prices have *decreased* in the wake of deregulation.

As Verizon has explained in WC Docket No. 05-25, the *GAO Report* found that, between 2001 and 2005, consumers of special access services have paid *less* for DS1 and DS3 special access services in *all* areas (both Phase I and Phase II) since the advent of pricing flexibility. *See GAO Report* at 14, 27-28, 32. The *GAO Report* also found that customers in areas with complete pricing flexibility (*i.e.*, Phase II areas) are paying significantly *less* for high-capacity services than they were prior to the advent of pricing flexibility, and that prices in both Phase I and Phase II areas declined by *more than* would have been required by price caps alone. *See id.* at 32. Based on these findings, the GAO emphasized that it "does not call for the reregulation of dedicated access prices." *Id.* at 15, 44.

Ignoring these findings, QSI focuses on the GAO Report's statement that "in areas where FCC granted full pricing flexibility . . . list prices and average revenues tend to be higher than or the same as list prices and average revenues in areas still under some FCC price regulation." QSI at 10 (quoting GAO Report at 1). But even if this were true, it does not prove QSI's point that deregulation leads to higher prices. Although the GAO Report claims that prices have declined more in Phase I areas than Phase II areas due to government-mandated price reductions in Phase I MSAs, the critical point is that prices in both Phase I and Phase II areas declined by *more than* would have been required by price cap regulation alone. Moreover, the GAO Report's finding also ignores the fact that prior to the advent of pricing flexibility, most of the prices in MSAs that became Phase II areas, where one would expect competition to be greatest, were *already lower* than prices in Phase I areas still subject to government-mandated reductions. Given the different starting points, one would expect smaller subsequent price reductions in Phase II areas than in Phase I areas to reach market equilibrium.

[10] *See* GAO, Report to the Chairman, Committee on Government Reform, House of Representatives, *FCC Needs To Improve Its Ability To Monitor and Determine the Extent of Competition in Dedicated Access Services*, GAO-07-80 (Nov. 2006) ("*GAO Report*").

C. There Is No Basis for QSI's Claim that *Retail* Prices Will Rise after Forbearance

QSI next argues (at 14) that a rise in wholesale prices will "induce retail price increases." QSI claims that "[i]n response to these wholesale price increases, CLECs may seek to flow through these cost increases to their end user customers in order to maintain their levels of profitability." QSI further assumes (at 15) that as the CLECs increase their rates "Verizon will opt to increase its retail rates in tandem with other market participants." None of these claims withstands scrutiny.

QSI's theories about retail price increases are based on its view that UNE-based CLECs provide the most significant form of competition today, and that intermodal competition is irrelevant. But this is not the case for either mass-market or enterprise customers.

More than two-thirds of the supposed $2.4 billion in price increases QSI predicts relate to mass-market voice and broadband services, yet intermodal competitors — not traditional CLECs — are the major source of competition for these services. As Verizon demonstrated, and as the Commission has recognized, cable, wireless, and over-the-top VOIP services provide extensive competition to Verizon's voice services, while cable and increasingly wireless provide competition to Verizon's broadband services.[11] As Verizon's data show, consumers clearly prefer these intermodal alternatives to the resale-like competition that UNE-based CLECs provide; in each MSA, incumbent cable companies alone have captured far more mass-market customers for voice services than all CLECs *combined*, including those who rely on UNEs as well as the large number of customers who use resale or Verizon's Wholesale Advantage service. *See* Verizon Reply at 19, 34; Lew/Wimsatt/Garzillo Reply Decl., Exh. 4.

QSI's claim about the role of UNE-based CLECs also is contrary to real-world experience that shows that excessive unbundling impedes, rather than promotes competition. As Verizon demonstrated in its Reply Comments (at 63-64), in the three years after the FCC eliminated unbundling of broadband facilities in the *Triennial Review Order*, the number of high-speed connections increased by more than two-and-a-half times, from less than 23 million lines in June 2003 to nearly 65 million lines in June 2006. Ind. Anal. & Tech. Div., Wireline Competition Bureau, FCC, *High-Speed Services for Internet Access: Status As of June 30, 2006* at Table 1 (Jan. 2007). Those increases have been across numerous platforms, with cable broadband connections more than doubling (from 13.7 million to 28.5 million lines), DSL increasing by 265 percent (from 8.9 million to 23.5 million), and fiber connections increasing more than six-fold (from 111,386 to 700,083 lines). *Id.* Likewise, as the Commission and the courts have found, unbundling of mass-market voice services through the UNE platform depressed

[11] *Verizon/MCI Order* ¶ 102 (concluding that for mass-market customers, "competition from intermodal competitors is growing quickly, and we expect it to become increasingly significant in the years to come."); *id.* ¶ 105 ("[W]e find that intermodal competitors, including facilities-based VoIP and mobile wireless providers, are likely to capture an increasing share of mass market local and long distance services.").

investment in facilities-based competition,[12] which has exploded since the elimination of that regulatory mechanism.

QSI does not deny the existence of this intermodal competition, but argues (at 20) that it should not count, because "intermodal competition is not price constrained competition." As a matter of economics, this does not pass the straight-face test; it is also empirically false. Intermodal forms of competition offer consumers different packages of price, quality, and functionality that provide more meaningful competition than service that merely duplicates an incumbent's offerings or shares a single network. As the Commission has recognized, only where competitors have "direct control of their networks" can they "ensure the quality of their service and . . . offer products and pricing packages that differentiate their services from the perspective of end users."[13]

The facts also show that intermodal competition does constrain prices. For example, Bank of America recently found that prices for bundled broadband plus unlimited local and long-distance voice services declined by an average of 4 percent in 2007 for all Bell companies combined, and by 15 percent in the case of Verizon. *See* D. Barden, *et al.*, Bank of America, *Battle for the Bundle: Consumer Wireline Services Pricing* at 5 (Oct. 12, 2007). This follows an average declines of 12 percent for Verizon's bundle between 3Q05 and 4Q06. *See id.* With respect to broadband services sold on a stand-alone basis, the average prices for both DSL and cable modem services have likewise declined over the past four years. *See* S. Flannery, *et al.*, Morgan Stanley, *The Broadband Report 3Q07* at 4, Exh. 8 (Oct. 18, 2007) (between 2003-2007, DSL ARPU fell from $41 to $33, while cable ARPU fell from $41 to $39).

QSI next argues that intermodal competition is not an option for all mass-market customers, claiming (at 20) that certain cable operators "do not include an affordable basic telephone-only plan." But that is irrelevant. Different services can impact the ability to raise prices so long as they are considered reasonably interchangeable by "marginal" customers — that is, the subset of customers who will switch between the services in the putative market in response to small changes in relative prices. The Commission has recognized that in order for two competing technologies to constrain each other's prices, it "only requires that there be evidence of sufficient substitution for significant segments of the mass market," not that every customer views the two services as substitutes. *Verizon/MCI Order* ¶ 91. In any event, the reality is that most customers today purchase multiple services — including voice, broadband, and video. Thus, competition for bundles creates competition for most consumers. In addition, the

[12] *See Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, Report and Order and Order on Remand and Further Notice of Proposed Rulemaking, 18 FCC Rcd 16978, ¶ 272 (2003) ("*Triennial Review Order*"), *vacated in part and remanded, USTA v. FCC*, 359 F.3d 554 (D.C. Cir.), *cert. denied*, 543 U.S. 925 (2004); *United States Telecom Assoc. v. FCC*, 359 F.3d 554, 580-84 (D.C. Cir. 2004).

[13] *Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, Third Report and Order and Fourth Further Notice of Proposed Rulemaking, 15 FCC Rcd 3696, ¶ 112 (1999); *see also AT&T Corp. v. Iowa Utils. Bd.*, 525 U.S. 366, 429 (1999) (Breyer, J., concurring in part and dissenting in part) ("It is in the *un*shared, not in the shared, portions of the enterprise that meaningful competition would likely emerge."); *Verizon Communications Inc. v. FCC*, 535 U.S. 467, 510 n.27 (2002).

availability of packages of services disciplines the prices for all offerings, including those sold on a stand-alone basis.

With respect to enterprise customers, the Commission has found that "intermodal competition from cable telephony, mobile wireless service providers, and providers of certain VoIP services will likely continue to provide these customers with viable alternatives." *Verizon/MCI Order* ¶ 77 (referring to enterprise customers). As demonstrated above, cable operators and fixed wireless operators are investing heavily to serve enterprise customers. And even though this intermodal competition may not yet be as extensive as in the mass market, its trajectory is more than sufficient to constrain price. As QSI concedes (at 16), "the potential for . . . entry . . . creates downward pressure on retail telecommunications prices."

In addition to intermodal competition, enterprise customers face retail competition from a wide variety of other sources — such as traditional telecom carriers, managed service providers, systems integrators, and equipment vendors. As Verizon demonstrated, many competitors are using their own facilities to provide a large number of business lines throughout each of the MSAs. *See* Verizon Reply at 54-57. The Commission reached these same conclusions in the *Verizon/MCI Order*, where it examined retail enterprise competition throughout Verizon's region. *See Verizon/MCI Order* ¶¶ 56-81.

As in the mass-market, the use of UNEs to serve enterprise customers does not account for the majority, or even a significant fraction, of the total competition. To the contrary, competition based on UNEs represents only a "minor portion of the competition" in the six MSAs. *Omaha Forbearance Order* ¶ 68. For example, Verizon demonstrated that, as of December 2006, competing carriers as a whole are purchasing between **[Begin Confidential]** **[End Confidential]** percent of DS1s and between **[Begin Confidential]** **[End Confidential]** percent of DS3s from Verizon as special access rather than UNEs in each of the six MSAs. Verizon Reply at 61-62; Lew/Wimsatt/Garzillo Reply Decl. Exh. 10. Moreover, just as this is true for competitors as a whole, the major competing carriers in each of these MSAs also are purchasing most (and typically the vast majority or all) of their DS1s and DS3s as special access rather than as UNEs. Verizon Reply at 61-62; Lew/Wimsatt/Garzillo Reply Decl. Exh. 10. The Commission's own data likewise show that UNEs represent a relatively small and declining form of competition.[14]

In sum, QSI's claim that UNE-based competition is necessary to constrain retail prices does not square with the facts. Intermodal competition is significant and growing for mass-market and enterprise customers alike. In addition, CLECs provide significant additional competition, particularly for enterprise customers, but do so using their own facilities or a combination of their own facilities with special access purchased from Verizon.

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[14] *See* Ind. Anal. & Tech. Div., Wireline Competition Bureau, *Local Telephone Competition: Status As of June 30, 2006* at Table 3 (Jan. 2007) (CLEC lines served using UNEs declined from 56 percent of CLEC lines in June 2005, to 42 percent of CLEC lines in June 2006).

D. QSI Provides Insufficient Detail of Its Methodology; The Limited Information It Does Provide Exposes Multiple Flaws

As demonstrated above, QSI's claim that forbearance will lead to higher prices is based on its erroneous assumption that competition in the six MSAs is insufficient to constrain price. As Verizon has demonstrated, the facts show otherwise, *see* Verizon Nov. 16 Letter at 1-11, and there is no basis to believe that forbearance will cause any price increases, let alone increases of the magnitude that QSI predicts. In any event, QSI fails to provide supporting data or even the most basic details of how it calculated price increases in the six MSAs, and its study should be rejected on that basis alone. Moreover, the limited information QSI does provide about its methodology shows that its analysis is flawed.

First, QSI fails to provide one of the two key pieces of data it used to calculate its results — the number of homes and businesses it assumed were in each MSA and that would be subject to rate increases.[15] It is therefore impossible to replicate QSI's analysis and test its validity. QSI appears to have assumed that all customers in the MSAs would be subject to price increases, even though many households and businesses already are served by a competitive facilities-based provider and would not face price increases even under QSI's own theories.

Second, with respect to the second piece of QSI's calculation — the estimated annual increase in rates — the data it supplies are incomplete and inconsistent. QSI "collected Verizon's current UNE and special access recurring rates for key network elements, *i.e.*, local loops and transport" and then "calculated the difference between UNE-based and special-access based rates for various network element combinations under which end-user markets in the study are typically served." QSI Study at 23. On page 12, QSI purports to provide the difference between the UNE and special access prices for a two-wire analog loop, which it claims is $10.93 in Boston, $15.86 in New York, $9.92 in Philadelphia, $16.87 in Pittsburgh, $12.61 in Providence, and $11.13 in Virginia Beach. On page 26, QSI provides the "annual increase per household" for "residential voice and broadband Internet," which presumably is supposed to be the difference in these monthly rates times twelve months. But the totals QSI provides on page 26 do not match that calculation, and QSI provides no other explanation as to how these totals were derived. Moreover, QSI provides no corresponding chart for enterprise customers, and thus no MSA-by-MSA quantification of its estimated price increases for these customers.

Third, QSI purports to calculate increases in both wholesale and retail rates, but does not provide a breakdown between the two for any market, or for any MSA, and does

[15] QSI claims (at 22 n.45) that it "derived the volume information" for mass-market voice, enterprise, and broadband "by pooling various data sources, including the ILEC and CLEC line count data from the FCC's most recent Local Competition Report, ARMIS 43-08 Reports, the FCC Report High-Speed Serivces for Internet Access, publicly available wire center line count data from the FCC's high-cost fund support calculations, MSA-level population and household counts from the Census Bureau, and county-level population and personal income data from the Regional Economic Information System of the Bureau of Economic Analysis."

not provide any explanation at all of how it estimated retail price increases. QSI merely states (at 23) that it "reasonably assumes that the price increases in retail markets will be smaller than the price increases in the wholesale market, and will be accompanied by decreases in demand." Given that QSI does not provide its estimate of wholesale rate increases, or any information or explanation about demand, this statement is meaningless.

Fourth, in calculating the difference between special access and TELRIC rates, QSI relies on special access rates that are highly inflated, thereby exaggerating the gap that is the basis for its estimate. QSI claims (at 11) that it "accounted for a number of complicating factors such as the rate variance across rate/density zones; term discounts; distance/mileage sensitive rates and the unavailability of high-capacity UNE loop and transport elements in certain wire centers as a result of the *TRRO*." But the only special access rates revealed in its paper — those in the charts on pages 12-13 — do not reflect the special access rates that customers actually pay. The attached chart compares the rates used by QSI with the rates that a major CLEC actually pays; it demonstrates that the special access rates on which QSI relies are inflated by 43-78 percent for DS1 loops, by 83-86 percent for DS1 transport, and by 63-65 percent for DS3 transport. *See* Attachment.

Finally, QSI's analysis with respect to mass-market voice and broadband services — which represent about two-thirds of QSI's claimed $2.4 billion in price increases — is based on the price difference between a UNE loop and a two-wire analog loop purchased as special access. But special access is not a mass-market service, and there is no basis to assume that Verizon's commercial price for mass-market loops would be the same as the special access price. The loops provided to business customers typically have additional features — and added costs — compared to those provided to mass-market customers.

If you have any questions, please let me know.

Sincerely,

Joseph Jackson

cc: Nick Alexander
Marcus Maher
Dana Shaffer
Don Stockdale

REDACTED – FOR PUBLIC INSPECTION