



Qwest
1801 California Street, 10th Floor
Denver, Colorado 80202
Phone 303-383-6653
Facsimile 303-896-1107

Daphne E. Butler
Corporate Counsel

VIA COURIER

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Federal Communications Commission
Office of the Secretary

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

ORIGINAL

Re: *In the Matter of Petitions of Qwest Corporation for Forbearance Pursuant to 47 U.S.C. § 160(c) in the Denver, Minneapolis-St. Paul, Phoenix and Seattle Metropolitan Statistical Areas, WC Docket No. 07-97*

Dear Ms. Dortch:

Various commenters have filed data recently with the Federal Communications Commission ("Commission") purporting to demonstrate why competitive losses by Qwest Corporation ("Qwest") to wireless services should be ignored as the Commission analyzes the facts in Qwest's four pending forbearance petitions.¹ There is a common theme that runs through these *ex parte* letters: each one argues that the Commission should ignore, or at least severely discount, the large and ever-increasing number of customers who have "cut-the-cord" as it reviews Qwest's petitions. This is nonsense. The Commission, in its Commercial Mobile Radio Services ("CMRS") report, has consistently referenced findings from the biannual National Health Interview Survey ("NHIS") as a basis for the number of U.S. households that have foregone landline telephone service in favor of wireless service. The NHIS survey has shown a remarkably consistent upward trend in "cut-the-cord" behavior over a number of years. In fact, the most recent NHIS report, released on May 13, 2008 states that "nearly one out of every six American homes (15.8%) had only wireless telephones during the second half of 2007."² The survey notes that the percentage has increased steadily:

¹ See, e.g., *ex parte* of June 23, 2008 from Cox Communications ("Cox June 23 letter"), *ex parte* of June 25, 2008 from Kelley, Drye and Warren ("Kelley Drye June 25 letter"), and *ex parte* of June 26, 2008 from Willkie, Farr and Gallagher on behalf of Cbeyond Inc., Integra Telecom, One Communication and Time Warner Telecom Inc. ("Joint CLEC June 26 letter").

² Wireless Substitution: Early Release of Estimates from the National Health Interview Survey, July-December 2007," ("NHIS Survey"), rel. May 13, 2008 at 1. Also, it is noteworthy that the NHIS "cut-the-cord" data was current as of December 2007. Presuming the clear upward "cut-

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The percentage of adults living in wireless-only households has been steadily increasing. During the last 6 months of 2007, more than one out of every seven adults lived in wireless-only households. One year before that (that is, during the last 6 months of 2006), fewer than one out of every eight adults lived in wireless-only households. And 2 years before that (that is, during the last 6 months of 2004), only 1 out of every 18 adults lived in wireless-only households.³

The NHIS study also states that: “In addition, nearly one out of every eight American homes (13.1%) received all or almost all calls on wireless telephones despite having a landline in the home.”⁴ The NHIS study refers to these households as “wireless mostly.”

Curiously, in its June 23 letter, at page 2, Cox suggests that Qwest’s reliance on these national data are “in error,” because the NHIS data reflects “cut-the-cord” data for the western U.S. that is “almost a full percent less than the figure Qwest uses.” It then suggests that the Commission “should use the most geographically relevant estimates.” However, while emphasizing the differences in cord cutting between geographic regions, Cox fails to note the differences observed between households in urban and rural areas. With regards to “wireless mostly” households, the NHIS study states:

Adults living in metropolitan areas (14.7%) were more likely to be living in wireless-mostly households than were adults living in more rural areas.⁵

Thus, if the NHIS data are to be “parsed,” as suggested by Cox, the most relevant geographic breakdown would be to identify the household behavior in metropolitan areas, since Qwest’s four forbearance petitions are limited to the largest metropolitan areas in Qwest’s operating region. The “cut-the-cord” percentage should actually be higher than the national average Qwest referenced, which encompasses rural, suburban and metropolitan regions across the country. The Commission should not accept Cox’s invitation to selectively “parse” the NHIS data simply to drive down the “cut-the-cord” percentage.

the-cord” trend identified in the NHIS data remains consistent, as it has for a period of years, it is likely that the actual “cut-the-cord” percentage in mid-2008 is now in the range of 18%.

³ *Id.* at 2.

⁴ *Id.* at 1.

⁵ *Id.* at 3. The NHIS survey does not identify “cord cutter” households between urban and rural areas. However, since there are a higher percentage of “wireless mostly” households in urban areas, it is safe to assume that there are also more “cord cutters” in urban areas.

Similarly, the Kelley Drye June 25 letter asks the Commission to “parse” the NHIS data by: 1) removing results associated with adults in the 18-24 age group from the survey results, and 2) using the “lower bound” of the survey data rather than the actual averages. This is simply another attempt to lower the “cut-the-cord” percentage by trimming away factors that drive the averages found in the NHIS survey. First, the NHIS data measures all households with only wireless telephone service, and there is no basis for eliminating real subsets of the market. If, for example, a 21 year-old is living in an apartment with only wireless service, there is absolutely no reason to exclude that respondent from the NHIS survey data.⁶ In that instance, a “cut-the-cord” action has been taken, resulting in a landline loss to the incumbent telephone service provider for that area. Second, there is no basis for using the “lower bound” of the NHIS Survey findings. The fact is that the NHIS is a survey-based study, and all surveys have a “confidence interval” which addresses variability in the results. This means that, for example, a “cut-the-cord” percentage expressed as an average of 15.8% for the U.S. could actually understate or overstate the actual “cut-the-cord” behavior of all Americans, since the survey was taken from a subset of all Americans. When analyzing survey data that is developed using standard statistical techniques, there is no rational basis for choosing the number that represents the lower end of the “confidence interval.” Kelley Drye neglects to mention the key point, *i.e.*, that the NHIS data shows a consistent upward trend over time. The Commission did not allow itself to be led into inappropriately manipulating the NHIS Survey data in its *Verizon Six MSA Order*, and it should reject such manipulation now.

Finally, the Joint CLEC June 26 letter takes an even more creative but misguided tack. At page 3, the Joint CLECs contend the Commission must “exclude cut-the-cord customers of the other ILEC-affiliated wireless carriers operating in Qwest’s region (namely Verizon Wireless and AT&T Mobility) from the competitors’ market share calculations in the Denver, Minneapolis, Phoenix and Seattle MSAs.” In other words, the Joint CLECs would have the Commission act as if Qwest is not losing any access lines to either Verizon Wireless or AT&T Mobility, even though these are the two largest wireless carriers in the U.S. and in Qwest’s four MSAs at issue.⁷ The Joint CLECs provide absolutely no basis for this remarkable proposal,

⁶ Interestingly, other segments of the adult population also reflect much higher “cut-the-cord” characteristics than the average. For instance, adults in the 25-29 year age range are reported to be “cutting-the-cord” at a rate of 30.9%, adults living in poverty show a “cut-the-cord” percentage of 27.4%, Hispanic adults show a “cut-the-cord” rate of 19.3%. (*Id.* at 3). Any of these population segments could be characterized as being “different than the average U.S. household,” but Kelley Drye chose not to attempt to remove them from the averages, as opposed to their removal of adults in the 18-24 age group.

⁷ It is noteworthy that the Joint CLECs, at page 3, also argue that Qwest Wireless customers should be counted on the Qwest side of the ledger when calculating “market shares.” Qwest does not argue with this point, and in fact, that is what Qwest has done in the “share” calculations provided to the Commission in this proceeding in *ex parte* filings in which it updated the access line data to a December 2007 vintage and provided a “share” calculation,

other than to provide the vague argument that, since Verizon and AT&T do not attempt to encourage their landline customers in their own regions to “cut-the-cord,” and their wireless pricing tends to be consistent across the country, Qwest’s customers would not be interested in cutting-the-cord in favor of wireless service offered by either of these carriers. This is spurious logic, at best. First, the Joint CLECs ignore the obvious differences between AT&T and Verizon -- both major wireless players -- and Qwest, which is merely a reseller of wireless services. The Joint CLECs ignore the fact that Verizon and AT&T-affiliated wireless carriers seek to minimize cord cutting by providing an incentive for their customers to purchase both wireline and wireless services via bundling. That is, customers who have a wireline phone with the incumbent get reduced prices, cash back, or other benefit for maintaining the wireline phone and adding other services. For example, Verizon Wireless offers customers taking Verizon Wireless in bundles the opportunity for unlimited calling between home and wireless phone(s), airtime free.⁸ Similarly, AT&T offers AT&T Unity plans for AT&T wireless customers with AT&T landline phones.⁹ In addition, AT&T offers \$50 cash back to residential customers who add wireless to their account.¹⁰ These benefits are not available to Qwest wireline customers, and thus do not prevent cannibalization of Qwest access lines, even though they serve to curb cannibalization of AT&T or Verizon access lines. The fact is, a significant percentage of Qwest wireline customers are “cutting the cord” and replacing their Qwest wireline service with a non-Qwest wireline phone.

Second, the Joint CLECs ignore the fact that every wireless carrier offers a wide range of service packages at various price points. Customers elect to purchase wireless services based on overall value, which is driven by perceived quality of the service, brand, available calling features and price. To suggest that Qwest’s customers are not attracted to either Verizon’s or AT&T’s wireless services on this basis is nonsense. Rather, once a Qwest customer does subscribe to wireless service of either of these providers, the decision point is then whether or not to continue to subscribe to Qwest landline service. As the NHIS survey found, there are a significant number of “wireless mostly” households that are prime candidates to disconnect a wireline phone that they use very little. It is this decision point that is driving the “cut-the-cord” behavior in Qwest’s four MSAs.

following the Commission’s methodology in the *Verizon 6 MSA Order*. See, e.g., Qwest’s *ex parte* filing of Feb. 21, 2008 for the Phoenix MSA in this proceeding.

⁸ <http://promo.verizon.com/wwbundle/?LOBCode=C&PromoTCode=MXG03&PromoSrcCode=V&POEId=VUI5P> (visited June 27, 2008).

⁹ <http://www.wireless.att.com/learn/why/unity/more-information.jsp> (visited June 27, 2008).

¹⁰ <http://www.att.com/gen/general?pid=7690> (visited June 27, 2008).

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Each of the commenters has a clear incentive to minimize and understate a clear and increasing trend in the telecommunications market: an ever-increasing number of customers are choosing to “cut-the-cord.” As it did in its analysis in its *Verizon 6 MSA Order*, the Commission should not be distracted by inappropriate attempts to “parse” the NHIS data -- which are unabashed attempts to “game the system” in favor of the commenters.

Respectfully submitted,

/s/ Daphne E. Butler

cc: via e-mail

Daniel Gonzalez daniel.gonzalez@fcc.gov
Amy Bender amy.bender@fcc.gov
Scott Bergmann scott.bergmann@fcc.gov
Scott Deutchman scott.deutchman@fcc.gov
John Hunter john.hunter@fcc.gov
Chris Moore chris.moore@fcc.gov
Dana Shaffer dana.shaffer@fcc.gov
Deena Shetler deena.shetler@fcc.gov
Albert Lewis albert.lewis@fcc.gov
Tim Stelzig tim.stelzig@fcc.gov
Julie Veach julie.veach@fcc.gov
Margaret Dailey margaret.dailey@fcc.gov
Jay Atkinson jay.atkinson@fcc.gov
Pamela Megna pam.megna@fcc.gov
Denise Coca denise.coca@fcc.gov
Adam Kirschenbaum adam.kirschenbaum@fcc.gov
Mark Brook mark.brook@fcc.gov