

CLEC facilities-based residential listings equals the number of CLEC facilities-based access lines.¹⁴⁸ As noted earlier in this Petition, Qwest believes that in order to assure accuracy in the facilities-based access line data, the Commission should request updated telephone line counts from Cox, as it did in the *Qwest 4 MSA proceeding*. The updated number may be substituted into the "Appendix B" calculations in Confidential Exhibit 14 of the Brigham Declaration.

IV. THE THIRD PART OF THE FORBEARANCE TEST IS SATISFIED BECAUSE THE REQUESTED RELIEF IS IN THE PUBLIC INTEREST

As the Commission found in the *Omaha Forbearance Order*, evidence of competition satisfies not only the first two prongs of the forbearance test, but also supports a finding that the third prong of the forbearance test is met, *i.e.*, it is in the public interest to eliminate the regulations in question.¹⁴⁹ In the *Omaha Forbearance Order* the Commission also identified two additional reasons why forbearance from the regulations at issue was in the public interest. Both reasons apply with equal force in the Phoenix MSA.

First, as the Commission found in Omaha, the costs of the unbundling obligations that Qwest faces in the Phoenix MSA outweigh the benefits. Both the Commission and the D.C. Circuit have recognized the harm to the public interest and to competition from excessive unbundling. 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

¹⁴⁸ The directory listings include listings for all residential facilities-based lines and may include some listings for residential lines served via UNE-L. However, the number of residential listings associated with UNE-L lines is likely to be very small, since CLECs that purchase UNE-L generally focus on serving only business customers. Thus, the listings data may slightly overestimate the full facilities-based lines. As noted in Qwest's Petition, the Commission may derive a more accurate count by requesting access line data from Cox and other facilities-based providers.

¹⁴⁹ See *Omaha Forbearance Order*, 20 FCC Rcd at 19437 ¶ 47, 19453 ¶ 75.

facilities and deploy new technology.”¹⁵⁰ 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.”¹⁵¹ Given the extensive facilities-based competition that already exists in the Phoenix MSA, 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.¹⁵² Forbearance will give Qwest, 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.

Eliminating unbundling regulation will also “further the public interest by increasing regulatory parity” among telecommunications providers in the Phoenix MSA. These regulations were imposed at a time when Qwest’s narrowband circuit-switched network was a dominant technology, but this is far from the case today. Qwest is now losing mass market and enterprise lines and customers to wireless and broadband competitors. As the Commission noted, it is “in the public interest to place intermodal competitors on an equal regulatory footing by ending unequal regulation of services provided over different technological platforms.”¹⁵³ In the face of such competition, asymmetrical regulation imposes artificial price constraints that delay and impede full and fair competition among providers and harms consumers.¹⁵⁴

¹⁵⁰ *In the Matter of 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, 16984 ¶ 3 (2003) (subsequent history omitted).

¹⁵¹ *United States Telecom Ass’n v. FCC*, 290 F.3d 415, 427 (D.C. Cir. 2002).

¹⁵² *See Omaha Forbearance Order*, 20 FCC Rcd at 19454 ¶ 77.

¹⁵³ *Id.* at 19454-55 ¶ 78.

¹⁵⁴ *See, e.g., In the Matters of Appropriate Framework for Broadband Access to the Internet over Wireline Facilities*, Report and Order and Notice of Proposed Rulemaking, 20 FCC Rcd 14853, 14878 ¶ 45, 14890-91 ¶ 71, 14895-96 ¶ 79 and n.241 (2005), *appeal denied sub nom. Time Warner Telecom v. FCC*, 507 F.3d 205 (and cons. cases) (3rd Cir. 2007).

Second, as the Commission also found in Omaha, eliminating dominant carrier regulations that apply to interstate switched access services is consistent with the public interest where vigorous local competition has emerged.¹⁵⁵ As demonstrated above, cable voice services in the Phoenix MSA are more widely available than they were in Omaha, and other types of competition are even more widespread than they were in December 2005 when the Commission issued the *Omaha Forbearance Order*. Moreover, with respect to interstate switched access services, competitive wireless services are particularly significant because customers can use their wireless phones for long distance calls even where they do not abandon their wireline phone entirely. In fact, large fractions of long distance calls and minutes have already migrated to wireless.¹⁵⁶

As the Commission found in Omaha, eliminating dominant carrier regulation for interstate switched access services also will promote the public interest by eliminating the unnecessary costs such regulations impose. In particular, “[i]n these environments that are competitive for end users, applying these dominant carrier regulations to Qwest limits its ability to respond to competitive forces and, therefore, its ability quickly to offer consumers new pricing plans or service packages.”¹⁵⁷

The Commission has similarly recognized in other contexts that certain “regulations associated with dominant carrier classification can also have undesirable effects on competition.”¹⁵⁸ For example, the Commission has recognized that tariffing requirements

¹⁵⁵ See *Omaha Forbearance Order*, 20 FCC Rcd at 19437 ¶ 47.

¹⁵⁶ Brigham Declaration ¶ 37.

¹⁵⁷ *Id.*

¹⁵⁸ *In the Matter of Regulatory Treatment of LEC Provision of Interexchange Services Originating in the LEC's Local Exchange Area and Policy and Rules Concerning the Interstate, Interexchange Marketplace*, Second Report and Order in CC Docket No. 96-149 and Third

“impose significant administrative burdens on the Commission and the BOC[s],” and “adversely affect competition.”¹⁵⁹ Such regulations reduce the incentive and ability to discount prices in response to competition and to make efficient price changes in response to changes in demand and cost. Likewise, the Commission’s price cap regulations limit Qwest’s ability to respond to market conditions and competition. Unlike other providers in the Phoenix MSA, to whom price cap regulation does not apply, Qwest is restricted from responding to competition with deaveraged rates and cannot respond to competitors’ bundled service offerings. Competitors also can use these regulations to their advantage, both to undercut each others’ pricing or to maintain artificially high prices.

For these reasons, dominant carrier regulation of the switched-access market is not only unnecessary to ensure just, reasonable, and not unjustly or unreasonably discriminatory rates, and to protect consumers, but it also impedes Qwest’s ability to compete,¹⁶⁰ dampens competition,¹⁶¹ and is thus harmful to the public interest.

Report and Order in CC Docket No. 96-61, 12 FCC Rcd 15756, 15808 ¶ 90 (1997) (“*LEC Classification Order*”), *on recon.*, 12 FCC Rcd 8730 (1997), *Order*, 13 FCC Rcd 6427 (1998), *on further recon.*, 14 FCC Rcd 10771 (1999); *see also Sunset Order*, 22 FCC Rcd at 5246 ¶ 78.

¹⁵⁹ *LEC Classification Order*, 21 FCC Rcd at 15807 ¶ 89.

¹⁶⁰ *See Sunset Order*, 22 FCC Rcd at 5246 ¶ 78.

¹⁶¹ *See id.*

V. CONCLUSION

For the foregoing reasons, Qwest requests that in the Phoenix MSA the Commission forbear from loop and transport unbundling regulation, dominant carrier regulation, price cap regulation of switched access services and CEI/ONA requirements.

Respectfully submitted,

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March 24, 2009

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)
)
Petition of Qwest Corporation for)
Forbearance Pursuant to) WC Docket No. _____
47 U.S.C. § 160(c) in the)
Phoenix Metropolitan Statistical Area)

DECLARATION OF ROBERT H. BRIGHAM REGARDING THE STATUS OF
TELECOMMUNICATIONS COMPETITION IN THE PHOENIX, ARIZONA
METROPOLITAN STATISTICAL AREA

March 24, 2009

REDACTED – FOR PUBLIC INSPECTION

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I. INTRODUCTION

1. My name is Robert H. Brigham. My business address is 1801 California Street, 47th Floor, Denver, Colorado 80202, and I am currently employed by Qwest Corporation as a Staff Director in the Public Policy department. In my current position, I develop and present Qwest's advocacy before regulatory bodies concerning pricing, competition and regulatory issues. I have been employed by Qwest and its predecessor companies for over 32 years, holding various management positions in Marketing, Costs and Economic Analysis, Finance and Public Policy. I have testified before numerous state commissions in the Qwest region. I also co-authored (along with David Teitzel) the declaration that was filed on April 27, 2007 in the previous Qwest forbearance filings for Phoenix, Denver, Seattle and Minneapolis-St. Paul (WC Docket No. 07-97).

2. The purpose of my declaration is to document the competition Qwest faces in its service area footprint within the Phoenix-Mesa-Scottsdale Metropolitan Statistical Area ("Phoenix MSA"), which encompasses Maricopa and Pinal counties. The data, described in further detail below, demonstrates that Qwest is now subject to extensive *mass market* and *enterprise market* competition in this service area footprint, which consists of 64 wire centers. Qwest's request for relief is limited to its service area within these wire centers as depicted in Confidential Exhibit 1.¹ Qwest faces competition from a wide variety of intramodal and intermodal competitors, including (but not limited to) Competitive Local Exchange Carriers ("CLECs"), cable companies, wireless providers and Voice over Internet Protocol ("VoIP") providers. Some of these competitors offer services to customers via the purchase of wholesale services from Qwest (including unbundled network elements, Qwest Local Services Platform ("QLSP"), Special Access, and the

¹ These wire centers are listed in alphabetical order in Confidential Exhibit 2.

resale of Qwest's retail services) while many other competitors, including cable providers, wireless carriers and certain CLECs, offer services to customers over their own facilities.

3. According to the latest available U.S. Census data, as of June 2007 there were approximately 1.67 million households and 4.18 million people in the Phoenix MSA, up from 1.33 million and 3.25 million respectively for the year 2000.² Clearly, the Phoenix MSA has experienced a strong upward growth trend, with households up 25% and population up 28% over this timeframe, and it may be conservatively assumed that demand for telecommunications services in the Phoenix area has increased apace. In fact, according to the Bureau of Labor Statistics, average annual household spending on telephone services increased 26.8% between 2000 and 2007 in the western region of the U.S. (which includes Arizona) and increased 25.4% in urban areas (such as Phoenix) between 2000 and 2007.³ However, despite the growth in households, population and telecommunications demand, Table 1 shows that Qwest's retail access line base in the Phoenix MSA has fallen sharply since 2000,⁴ as residential and business customers have

² U.S. Census Data, See: <http://www.census.gov/popest/metro/tables/2007/CBSA-EST2007-05.xls>, <http://www.census.gov/popest/housing/tables/HU-EST2007-04-04.xls>, and <http://www.census.gov/popest/metro/tables/2007/CBSA-EST2007-01.xls>

³ Bureau of Labor Statistics, see <http://data.bls.gov/cgi-bin/dsrv?cx>

⁴ Qwest has performed an analysis which demonstrates that a very small fraction of the Qwest retail access line decline over this period can be attributed to the conversion of additional lines used for dial-up Internet access to Qwest DSL lines. Qwest analyzed all residential DSL installations from February 2000 through August 2008, and for each customer account, tracked whether the customer disconnected an additional line the month prior, the month after, or the same month as the DSL service was installed. If such a disconnection occurred, it may be assumed that the disconnected line was associated with the installation of DSL. For the Qwest wire centers in the Phoenix MSA, a total of ***begin confidential*** ****end confidential*** of additional line disconnects were identified as being attributable to DSL installations. However, since the vast majority of lines lost by Qwest are primary lines, the additional line disconnects attributed to DSL substitution represent only ***begin confidential *** **** end confidential*** of the total reduction in residential access lines identified in Table 1. The analysis demonstrates that the replacement of second lines with DSL is responsible for a very small percentage of the line losses experienced by Qwest.

taken advantage of the expanding array of competitive alternatives to Qwest's local exchange services.⁵

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

Table 1

Change in Qwest Retail Access Line Counts in the Phoenix MSA

<u>Retail Service</u>	<u>Dec. 2000</u>	<u>Dec. 2008</u>	<u>Difference</u>	<u>% Difference</u>
Residential				
Business				
Public				
Total				

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

4. My declaration and associated exhibits contain information obtained from publicly-available sources as well as internal Qwest databases, and the sources of data upon which I rely in this declaration are fully identified. I attest that all Qwest data in this declaration is accurate as of the filing date of Qwest's petition in this proceeding and that any information obtained from non-Qwest sources is shown precisely as it is reported by the source.

⁵ Residential, Business and Public access lines by wire center for the Phoenix MSA (December 2008) are provided in Confidential Exhibit 2.

II. COMPETITION IN THE MASS MARKETS

5. The Phoenix MSA is one of the most competitive telecommunications markets in the U.S., and the mix of competitive telecommunications alternatives continues to grow and evolve. Traditional competitors such as Cox Communications (“Cox”)—the major cable company in the Phoenix MSA—along with a number of CLECs continue to aggressively compete with Qwest. At the same time, intermodal forms of competition, such as wireless and Voice over Internet Protocol (“VoIP”), are rapidly gaining a significant share of the telecommunications market in the Phoenix MSA. This competition has provided consumers with a wide choice of telecommunications services from a wide variety of carriers, as described below.

6. It is noteworthy that CLECs are lightly regulated and intermodal competitors are typically subject to little or no regulation. Since most of these competitors are under no obligation to report customer in-service data,⁶ especially at the MSA level, a *precise* measurement of these competitor “shares” is not possible for Qwest to obtain.⁷ Nonetheless, as I describe later in my declaration, Qwest has used directory listings data, along with wholesale line data, to estimate the market share that has been achieved by Qwest’s competitors.

⁶ The regulatory status of local telephone service provided by VoIP technology is the subject of an open FCC proceeding (IP-Enabled Services, WC Docket No. 04-36, Notice of Proposed Rulemaking, 19 FCC Rcd 4863). Currently, telecom providers are not required to report VoIP-based access lines per FCC instructions for Form 477 (the reporting tool used by telecom providers to report in-service access line counts to the FCC). If the FCC concludes in its pending IP services proceeding that VoIP service is a telecommunications service, providers of these services may in the future be required to report access lines served via VoIP. However, until that time, providers utilizing VoIP to provide service are not required to report in-service data to the FCC.

⁷ In WC Docket No. 07-97 (the “*Qwest Four MSA Docket*”), the Commission requested and received confidential access line counts for the Phoenix MSA as of June 2008 from Cox Communication. In its Petition in this case, Qwest requests that the Commission obtain updated access line data from Cox. This data will allow the Commission to evaluate “share” at a more granular level.

A. Cable-based Competition.

7. Cable telephony has grown rapidly in the U.S. and in the Phoenix MSA. According to the National Cable and Telecommunications Association ("NCTA"), as of September 2008, there were 18.7 million cable phone subscribers in the U.S.⁸ Independent industry analysts identify ILEC access line losses to cable telephony providers as significant and continuing. For example, the Associated Press reported:

Phone companies have been feeling the heat from cable companies for years, as those traditional TV services have expanded their own phone offerings and fought hard for broadband Internet subscribers. But in the quarter that just ended, the heat appears to have reached the intensity of a blowtorch, with the telephone companies losing out in both voice and broadband service. "Cable is taking share, and it is taking it in gulps," said telecom analyst Craig Moffett at Sanford Bernstein. Looking at most of the large cable companies and the largest telephone companies, he calculated that the cable side got 80 percent of new broadband subscribers in the second quarter. Usually, cable's share has been around 50 percent.⁹

8. Cox Communications ("Cox") is the predominant cable provider serving the Phoenix MSA, competing with Qwest via its extensive hybrid coaxial cable and fiber network, along with Cox-owned switches. Cox describes its operation in the Phoenix MSA as follows:

In the metro Phoenix, Cox serves approximately 2.5 million product subscribers. . . Cox's 18,000-mile hybrid fiber coaxial cable network throughout Phoenix and Southern Arizona provides homes and businesses with digital television, high speed Internet, home networking, high-definition television and digital telephone service over its own nationwide IP network, as well as integrated wireless services in partnership with Sprint.¹⁰

⁸ See: <http://www.ncta.com/StatsGroup/OperatingMetric.aspx>, visited 2-18-09.

⁹ *Phone Companies Losing Customers to Cable Services*, Associated Press, 8-17-08. See: <http://www.ohio.com/business/27065904.html>

¹⁰ See: <http://www.cox.com/arizona/press/1080115.asp>, visited 1-27-09.

Cox offers a broad range of telecommunications services to residential, small business and Enterprise business customers in the Phoenix MSA, and has enjoyed significant success in marketing its Digital Telephone service to these residential and business customers. Cox began offering telephone service in the Phoenix MSA in 1999,¹¹ and has grown its telephone subscriber base at rapid pace in Phoenix and in its other U.S. markets. Cox reported that it had over 250,000 digital telephone subscribers in the U.S. as of 2001,¹² and this base grew to one million in February 2004,¹³ 2.46 million in the first Quarter of 2008,¹⁴ and over 3 million in January 2009. This represents a digital phone line increase of 1,100% since 2001¹⁵ and an increase of 22% in just the previous nine months.

9. While in its early years Cox primarily provided phone service to residential customers, it has increasingly focused on expanding its reach to the businesses market:

Commercial services through Cox Business remained a key component of growth in 2008. Cox offers compelling alternatives for business-grade voice, data and video services for companies with operations in Cox's markets. In 2008, Cox Business grew customers by 19 percent and revenues by 16 percent; the company will realize \$1 billion in revenue from Cox Business in 2010.¹⁶

¹¹ See: <http://www.encyclopedia.com/doc/1G1-53244083.html>, visited 2-16-09.

¹² Cox Press release, 2-28-01, See: <http://phx.corporate-ir.net/phoenix.zhtml?c=76341&p=irol-newsArticle&t=Regular&id=154545&>

¹³ Cox Press Release, 2-12-04, See, <http://phx.corporate-ir.net/phoenix.zhtml?c=76341&p=irol-newsArticle&t=Regular&id=494488&>

¹⁴ Cox Press Release, 5-14-08, See: <http://phx.corporate-ir.net/phoenix.zhtml?c=76341&p=irol-newsArticle&t=Regular&id=1145176&>,.

¹⁵ Cox Press Release, 1-29-09, See: http://media.corporate-ir.net/media_files/irol/76/76341/release012709a.pdf

¹⁶ *Id.*

10. On October 27, 2008, Cox announced its plan to “add wireless offerings to its bundle of award-winning entertainment and communications services, such as digital cable, high-speed Internet and telephone in 2009” in Phoenix and elsewhere. Cox stated that it “will utilize the Nationwide Sprint Network to quickly enter the market in 2009” and that it is “concurrently building its own 3G wireless network for additional market launches in 2009.”¹⁷ Earlier in 2008, Cox had announced a wireless trial in Phoenix and San Diego, offering an integrated bundle of services that incorporates “Mobile Access” wireless service into the Cox service package.¹⁸ In fact, the Market Strategies Wireless Study that I will describe later in my deposition showed that Cox has already gained a 3% share of the Phoenix wireless market. Clearly, Cox is continuing to aggressively expand its focus, providing a full package of services to residential and business customers in direct competition with Qwest.

11. In June 2006, Cox completed its purchase of the CableAmerica cable system, which serves the communities of Mesa, Florence, Wickenburg, Queen Creek, Coolidge and Gila Bend within the Phoenix MSA, bringing Cox’s cable customer base in Phoenix and southern Arizona to “more than 1 million customers in 42 communities.”¹⁹ In the Phoenix MSA alone, Cox’s network passes approximately 1.5 million homes (including the CableAmerica properties),²⁰ comprising approximately 90% of the 1.67 million housing units identified in the U.S. Census data for the Phoenix MSA. On its website, Cox provides a map that shows its geographic coverage in the Phoenix Designated

¹⁷ Cox Press Release, 10-27-08, see: http://media.corporate-ir.net/media_files/irol/76/76341/release102708.pdf.

¹⁸ Cox Press Release, 2-13-07, see: <http://phx.corporate-ir.net/phoenix.zhtml?c=76341&p=irol-newsArticle&t=Regular&id=962949&>.

¹⁹ Cox Press Release, 6-8-06, see: <http://phx.corporate-ir.net/phoenix.zhtml?c=76341&p=irol-newsArticle&t=Regular&id=870537&>.

²⁰ Source: CentrisPlus, 2006.

Market Area (“DMA”).²¹ This map, included as Exhibit 3, is used to educate potential advertisers regarding the geographic reach of Cox’s coverage, and clearly shows that Cox’s DMA serving area encompasses virtually the entire Phoenix MSA.²² As of December 2008, Cox was serving a geographic area within the Phoenix MSA encompassing Qwest wire centers that account for approximately ***begin confidential*** ***end confidential*** of the Qwest retail residential lines and over ***begin confidential*** ***end confidential*** of the Qwest retail business lines in the MSA.²³

B. Wireless service Competition.

12. Competition from wireless providers is flourishing in the Phoenix MSA and in Arizona as a whole. According to the FCC’s Local Competition Report, as of December 2007 there were over 4.8 million wireless lines in Arizona, while there were only 3.1 million wirelines (both ILEC and CLEC).²⁴ In fact, wireless lines increased from 2,171,021 in December 2001 to 4,799,648 in December 2007; an increase of 121% in six years.²⁵ The FCC data shows that the wireless share of the total access line market has grown significantly over this timeframe:²⁶

²¹ See: http://www.coxmedia.com/markets.aspx?market=DA_792987, visited 2-18-09. The term “DMA” is commonly used in the media industry to define geographic coverage areas for advertising purposes.

²² This DMA map provides a reasonable approximation of Cox’s network facilities footprint, since Cox offers this map on its public website to potential advertisers as a representation of the geographic reach advertisers can expect to reach when using Cox to distribute advertising in the Phoenix DMA.

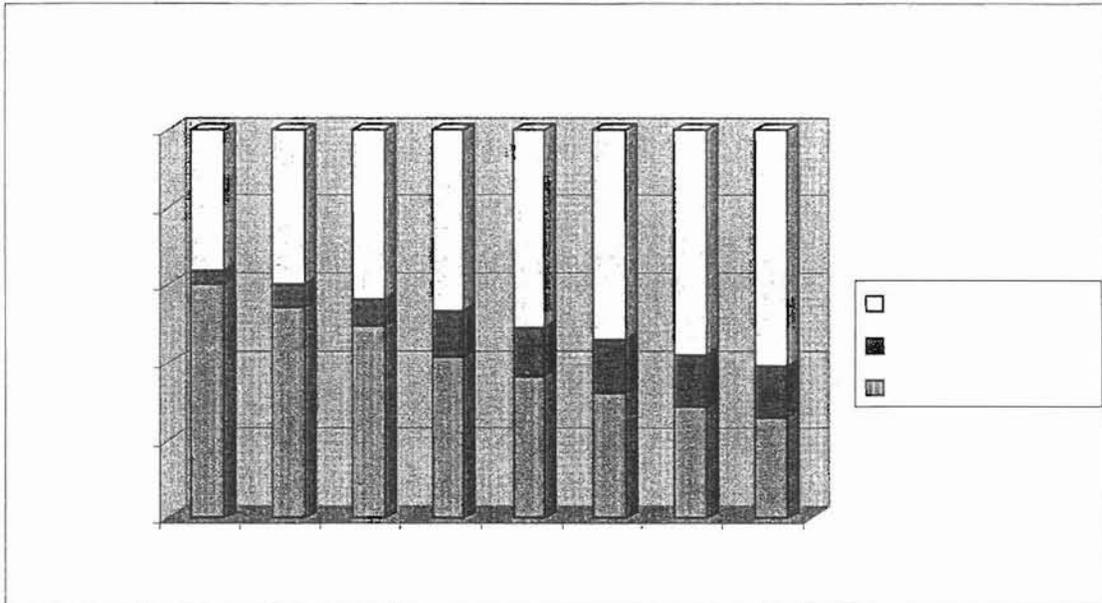
²³ To confirm the accuracy of the Cox DMA map for the greater Phoenix area, Qwest compared the Cox DMA map coverage area (Exhibit 3) with the list of communities Cox now serves in the Phoenix MSA as reported to the FCC. See: <http://www.fcc.gov/mb/engineering/liststate.html>. See also Exhibit 1.

²⁴ *Local Telephone Competition: Status as of December 31, 2007*; Industry Analysis and Technology Division, Wireline Competition Bureau, September 2008, Tables 7, 9, 10 & 14.

²⁵ *Id.*, table 14.

²⁶ *Id.*

Chart 1



While Arizona wireless lines have increased dramatically—159% between 2000 and 2007—Qwest residential access lines the Phoenix MSA have dropped ***begin confidential*** ***end confidential*** over the same time frame—from ***begin confidential*** ***end confidential*** in December 2000 to ***begin confidential*** ***end confidential*** in December 2007. Further, in 2008, Qwest residential access lines dropped an additional ***begin confidential*** ***end confidential*** to ***begin confidential*** ***end confidential***.

13. Virtually all residents of the Phoenix MSA have multiple wireless options. The decline in Qwest landlines, coupled with the dramatic increase in wireless connections demonstrates that Phoenix MSA customers increasingly view wireless phones as a substitute for wireline service, and that wireless phones are in fact replacing wireline

phones. Several major wireless service providers, including Alltel,²⁷ Verizon, AT&T, T-Mobile, Sprint and Cricket are now providing service in the Phoenix MSA, with at least one wireless carrier providing wireless service in every Qwest wire center.

14. A significant number of customers have “cut the cord” and no longer subscribe to wireline service. According to a survey conducted by the National Center for Health Statistics (“NCHS”), in the first 6 months of 2008, 17.5% of U.S. households did not have a traditional landline telephone, but did have at least one wireless telephone. The study reported:

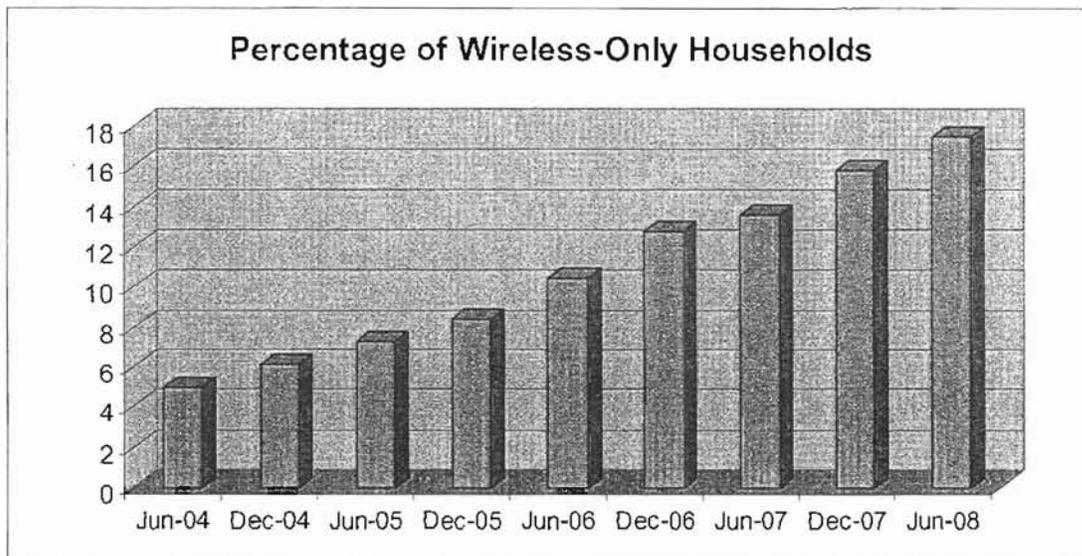
More than one out of every six American homes (17.5%) had only wireless telephones during the first half of 2008, an increase of 1.7 percentage points since the second half of 2007. In addition, more than one out of every eight American homes (13.3%) received all or almost all calls on wireless telephones despite having a landline telephone in the home. This report presents the most up-to-date estimates available from the federal government concerning the size and characteristics of these populations.²⁸

Thus, while 17.5% of U.S. households have already “cut the cord,” another 13.3 % of households are “wireless mostly” and use their wireless phone for nearly all calling. In total, these wireless only and “wireless mostly” households make up 30% of households. The chart below depicts how “wireless-only” households in the U.S. have increased according to the NCHS study:

Chart 2

²⁷ On January 9, 2009, the acquisition of Alltel Wireless by Verizon Wireless was completed. As of this writing, Alltel was still operating as a separate entity.

²⁸ *Centers for Disease Control and Prevention, National Center for Health Statistics, Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, January – June 2008*, released December 17, 2008, page 1. The NCHS “wireless only” data excludes any households that have removed an additional landline telephone line in favor of wireless service but still retain at least one landline telephone line in the household.



15. On March 11, 2009, the NCHS released a detailed analysis of its Wireless Substitution report—with state-specific data—for the January-December 2007 timeframe (the year prior to the data described above).²⁹ For the entire year 2007, the NCHS found that 14.7% of U.S. households were “wireless only,” while 18.9% of Arizona households were “wireless only.”³⁰ Thus, in 2007, the percentage of “wireless-only” households was over 28% greater in Arizona than in the U.S. as a whole. If we reasonably assume that the relationship of Arizona “wireless-only” households to U.S. “wireless-only” households has remained constant since 2007, the January-June 2008 “wireless-only” percentage in Arizona would be over 22% ($17.5\% \times 128\%$). While the Phoenix MSA is only part of Arizona, one can certainly conclude that the percentage of “wireless-only”

²⁹ The NCHS had previously found that in January-June 2007, 13.6% of households were “wireless only” and in July-December 2007, 15.8% of households were “wireless only.” The 14.7% “wireless-only” households reflects data for the entire year of 2007.

³⁰ *Centers for Disease Control and Prevention, National Center for Health Statistics, Wireless Substitution: State-level Estimates From the National Health Interview Survey, January-December 2007, Early Release of Estimates From the National Health Interview Survey, July - December 2007*, released March 11, 2009, page 5. In addition, the survey showed that Arizona was 14th out of 50 states (plus the District of Columbia) in the U.S. in wireless substitution; see page 3.

households is greater in Phoenix, as the NCHS has regularly found that “cord-cutting” is greater in urban areas like Phoenix than in rural areas.³¹

16. Recent independent research has found that the incidence of “cord cutting” has not peaked; in fact, it has continued to increase, especially as consumers seek to scale back spending in the face of the prevailing economic uncertainty. On September 17, 2008, Nielsen Mobile released a research study (included as Exhibit 4) showing that 20 million U.S. households, or 17% of total U.S. households, are “wireless substitutors—homes without landlines that rely solely on a mobile phone for their home telecommunications” and that “one in five U.S. households could be wireless-only by the end of 2008.”³² In discussing the factors driving this trend, Nielsen Mobile stated “In a tightening economy, every dollar counts, and consumers are more and more comfortable with the idea of ditching their landline connection.”³³ Further, of particular interest to this docket, Nielsen Mobile found:

The Phoenix, Arizona metro area is one example of a high wireless-substitution market. **In Q1 2008, the wireless substitution rate in Phoenix was 17.8%--1.3 percentage points higher than the national average.**³⁴ (emphasis added)

Not only is the national “cord cutting” trend continuing to escalate, but consumers in the greater Phoenix area are significantly more likely to engage in this behavior than customers nationally.

³¹ e.g., see: *Centers for Disease Control and Prevention, National Center for Health Statistics, Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, January-June 2008*, released December 17, 2008, page 8.

³² Nielsen Press Release, 9-16-08, See: <http://telephia.com/html/press%20releases/WirelessSubstitution.html>.

³³ *Id.*

³⁴ “Call My Cell: Wireless Substitution in the United States, September 2008,” Nielsen Mobile, September 17, 2008, page 6. This public-available white paper was referenced in Nielsen Mobile’s September 17, 2008 press release and is available at <http://nielsenmobile.com>. The full white paper is attached to this declaration as Exhibit 4.

17. To corroborate Nielsen Mobile's findings in the Phoenix MSA,³⁵ Qwest engaged Market Strategies, Inc. to conduct primary research to independently determine the current percentage of "wireless-only" households in the Phoenix MSA. Market Strategies conducted via telephone surveys of Phoenix MSA households during September and October 2008, and the survey provides results that are statistically reliable to +/- 5%. The Market Strategies data shows that *over 25% of households in the Phoenix MSA have "cut the cord" and no longer have landline telephone service.* A summary of the Market Strategies findings is attached to this declaration as Exhibit 5. This study, like the Nielsen study referenced above, shows that the percentage of wireless-only households in the Phoenix MSA is significantly greater than the percentage in the United States as a whole.³⁶ The study also shows that in households with both a wireless and wireline telephone, 51% of local calls and 66% of long distance calls are made with the wireless phone.

18. It is important to note that wireless competition and the resulting "cord-cutting" has a far more significant impact on Qwest than it does on Verizon or AT&T. While Verizon and AT&T own the two largest wireless networks in the United States, Qwest does not own a wireless network. For the past several years, Qwest has provided Qwest-branded wireless service in the Phoenix MSA through a resale agreement with Sprint, utilizing the Sprint wireless network. This agreement expires in 2009, and Qwest has signed an agreement with Verizon to offer Verizon Wireless service to Qwest customers, and include the service on the customer's Qwest bill. The service is branded as Verizon

³⁵ While Qwest has commissioned a "cord cutting" study for the Phoenix MSA, it does so specifically in response to the location-specific requirements outlined in the FCC's Order in WC Docket No. 07-97, released on July 25, 2008. Qwest believes that national wireless data, such as the data contained in the CDC's National Health Interview Survey—which the Commission relied on in its Verizon Six MSA forbearance order—is suitable for use in forbearance petitions.

³⁶ I have used this data in the "Appendix B" calculations described later in my declaration.

Wireless, and is designed to provide Qwest wireline customers with a wireless option as part of a Qwest service bundle.³⁷ When a customer disconnects his or her Qwest service and becomes a wireless-only customer, Qwest will lose the customer, even if he or she subscribes to Verizon Wireless. In sum, when a Qwest customer “cuts the cord,” he or she is leaving the Qwest network. Conversely, a Verizon or AT&T customer who cuts the cord” may simply be moving from the Verizon or AT&T landline network to the Verizon or AT&T wireless network.

19. The Market Strategies Study found that 8% of Phoenix MSA households received wireless service from Qwest as of Fall 2008.³⁸ However, this low share was based on interviews of customers conducted prior to the migration of all existing Qwest Wireless to Verizon wireless or another wireless option. When the migration is complete, there will be no Qwest Wireless customers, and Qwest will have a 0% share of the wireless market.

20. In the Phoenix MSA, wireless service is viewed as a viable local service alternative by a large number of customers—a fact made clear by the growing number of consumers who have already “cut the cord” as well as the “wireless mostly” customers who are considering “cutting the cord.” The existence of wireless alternatives constrains Qwest’s ability to raise prices for wireline basic exchange service above market levels because such an increase would likely cause many customers to replace their wireline service with a wireless phone. Thus, wireless is an effective price-constraining substitute for wireline service. In various regulatory forums, some parties have argued that wireless service should not be considered to be a substitute for wireline service because *all* customers may

³⁷ This arrangement is similar to the agreement Qwest has in place to offer DirecTV service as part of a bundle of services.

³⁸ See Exhibit 5.

not view it as a substitute. There is no doubt that some customers do not view wireless service to be a substitute for wireline service, and some of these customers may not want to give up their wireline phone under any circumstances. However, as long as there are enough customers willing to “cut the cord” (often called customers “at the margin”), this constrains Qwest’s prices. While wireless does not represent a substitute for *all* Phoenix MSA wireline customers, it is a substitute for many customers—a fact proven by the large number of households in the Phoenix MSA that have already “cut the cord” and have become wireless-only households.

21. Some parties have also argued that wireless service should not be considered to be a substitute for wireline service because it is not *identical* to wireline service. However, it is important to understand that wireless service does not need to be identical to wireline service in order for it to serve as an *effective substitute* for wireline services that constrains Qwest’s retail wireline prices. Wireless service cannot and will not ever be *identical* to wireline service, and there is no reason that it should be. There will *always* be some differences between wireline and wireless service in terms of quality of transmission, data capability, mobility, ergonomics, etc. For example, a wireless phone will always have more mobility than a wireline phone, and handsets are likely to be smaller. This does not mean that they are not substitutes. A simple non-telephone example may help to put this into perspective. One might argue that metropolitan bus service and subway service are not competitive substitutes for one another because they utilize different technologies, may charge different fares, run different routes to connect the same two points, take different amounts of time to connect the same two points and likely offer tangibly different levels of comfort and ease in the eyes of some commuters. While the bus and subway are clearly not perfect substitutes for all commuters, there can be no doubt that bus use would increase if the subway authority significantly increased

prices. Similarly, if the bus significantly raised fares, many would migrate to subway travel. The bottom line is that wireless does not have to be a perfect substitute, nor does it have to be a substitute for all customers, in order for it to constrain the pricing of Qwest services.

C. CLEC Competition.

22. In addition to Cox, a number of other non-cable CLECs are providing residential telecommunications services in the Phoenix MSA. For example, AT&T is currently offering two local telephone service plans to residential subscribers in the Phoenix MSA.³⁹ The “AT&T One Rate USA” plan includes local phone service and unlimited long distance in the U.S., and the “traditional” residential plan includes local service, with additional charges for long distance.⁴⁰ AT&T offers service to many customers via the purchase of Qwest Local Services Platform (“QLSP”) under a commercial contract which is posted on Qwest’s website.⁴¹ As Qwest has demonstrated in Omaha after the FCC granted forbearance for that market, commercial services such as QLSP will remain available to CLECs to enable services such as One Rate USA to be offered to residential customers in the Phoenix MSA.

³⁹ Both of these plans offer standard switched telephone services rather than internet-based VoIP services.

⁴⁰ See: <http://www.local.att.com/echannel/preorder/offeroverview.jsp;ChannelSession=MqnXLT3Njz!1071387475>, visited 2-19-09.

⁴¹ See: <http://www.qwest.com/wholesale/downloads/2008/080821/ATTTCGTCSystems-QLSP-14%20states-7-31-08.pdf>.

23. Similarly, MCI (which is now part of Verizon⁴²) offers its MCI Neighborhood packaged offerings in the greater Phoenix area. It offers several service packages including the “Neighborhood Unlimited” package that includes unlimited local and long distance calling and features, and the “Neighborhood 500” package that includes 500 minutes of monthly long distance calling and features⁴³ Like AT&T, MCI offers the services based on the purchase of QLSP from Qwest via a commercial contract agreement.

24. Other CLECs operate in the Phoenix MSA strictly as resellers of Qwest’s retail residential services. These providers purchase retail services from Qwest at a wholesale discount, resell the services to end users, and generally have no network facilities of their own. Resellers offering residential local exchange services in the Phoenix MSA include Arizona Dial Tone, USTel and DPI Teleconnect.

D. VoIP-based Competition.

25. It is useful to describe VoIP services as either “managed” or “over-the-top.” Generally, cable companies such as Cox offer VoIP-based services that are non-portable and that carry traffic over private managed networks, rather than the internet. For example, when a Cox customer makes a phone call, the call is transmitted over the Cox “managed” network, using Cox facilities, rather than the public internet. Many other companies offer “over-the-top” VoIP services, which often rely on a third-party

⁴² Verizon also offers its VoiceWing internet-based telephone service to any residential customer with a broadband internet connection for a monthly price of \$24.95, which includes unlimited local and long distance calling plus a range of calling features. See http://www22.verizon.com/residential/common/crawllist/productdisplay_withcartfunctionality.aspx?hc_id=49001&state=ny, visited 1-26-09.

⁴³ See: http://consumer.mci.com/TheNeighborhood/res_local_service/jsps/default.jsp, visited 1-26-09.

broadband connection, and transmit calls over the public internet. These companies offer “portable” VoIP services that can be used over any high speed internet connection. Since cable VoIP services were addressed above, this section of my declaration describes “over-the-top” VoIP services.⁴⁴

26. VoIP telephone service is now a viable alternative to Qwest’s traditional residential service in the Phoenix MSA. From a customer perspective, VoIP service functions in a manner similar to standard circuit switched telephony, and allows a customer to utilize a standard telephone set to originate and receive telephone calls using the same dialing patterns that are used for standard wireline telephone service.⁴⁵ To utilize VoIP services, a customer must have a high speed connection, such as Digital Subscriber Line (“DSL”), a cable modem or a high speed wireless connection.

27. While it is very difficult to obtain accurate subscribership information regarding VoIP services in the Phoenix MSA or any other geographical area, VoIP is clearly a rapidly growing communications technology that represents a competitive alternative to traditional landline-based telephone services. According to the Telecom Industry Association’s (“TIA’s”) *2008 Market Review & Forecast*, the U.S. VoIP residential market has now reached 15.9 million subscribers and is expected to reach 32.3 million subscribers by 2011.⁴⁶ This represents a remarkable level of growth, particularly when compared to the mere 150,000 U.S. VoIP residential subscribers TIA estimated as of the end of 2003.⁴⁷ Vonage, a leading VoIP provider that heavily markets its service in the

⁴⁴ For the balance of this discussion, “Over-the-top” VoIP service is defined simply as VoIP service.

⁴⁵ VoIP setup is simple—a standard telephone is simply plugged into a VoIP adaptor (provided by the VoIP carrier), which is connected to a broadband internet modem. From the standpoint of the customer, VoIP works just like traditional phone service, except that it provides additional features and functionality.

⁴⁶ See: <http://www.fiercevoip.com/node/2260/print>, visited 9-12-08.

⁴⁷ See: http://www.tiaonline.org/news_events/press_room/press_releases/2006/PR06-19.cfm, visited 9-12-08.