REDACTED EXHIBIT DLT-1TC

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of Qwest's Petition to be Regulated Under an Alternative Form of Regulation Pursuant to RCW 80.36.135	Docket No. UT-

DIRECT TESTIMONY OF

DAVID L. TEITZEL

ON BEHALF OF

QWEST CORPORATION

OCTOBER 20, 2006

REDACTED VERSION

REDACTED
CONFIDENTIAL PURSUANT TO WAC 480-07-160

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I. IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is David L. Teitzel. I am employed by Qwest Services Corporation ("QSC")[1] as Staff Director-Public Policy. My business address is 1600 7th Avenue, Room 3214, Seattle, Washington, 98191.

Q. PLEASE DESCRIBE YOUR EDUCATION, EMPLOYMENT BACKGROUND AND PREVIOUS EXPERIENCE TESTIFYING BEFORE THIS COMMISSION.

A. I received a Bachelor of Science degree from Washington State University in 1974. Since then, I have been continuously employed by Qwest and its predecessor companies. I have held a number of management positions in various departments, including Regulatory Affairs, Network, and Marketing. As a Marketing Product Manager, I was responsible for product management of Basic Exchange, Centrex, and IntraLATA Long Distance services. I have also served as a Market Manager for Qwest Dex. I was named to the Staff Director-Public Policy position in March 1998.

I have testified before this Commission on several occasions. In 1998, I provided testimony in Docket No. UT-980311(a) regarding Universal Service. In 1999, I appeared before the Commission in support of Qwest's Competitive Response program. In 2000, I testified before the Commission in Docket No. UT-000883 in support of Qwest's Petition for Competitive Classification of Business Services in Specified Wire Centers. In 2002, I testified on behalf of Qwest in Docket Nos. UT-003022/UT-003040, Qwest's petition for reentry into the interLATA long distance market. In 2003, I testified in Docket No. UT-030614 regarding Qwest's application

[1] QSC performs support functions, such as regulatory support, for other Qwest entities. This testimony is presented on behalf of Qwest Corporation ("Qwest").

for statewide competitive classification for analog business services. In 2004, I testified in Docket No. UT-033044 regarding mass market switching issues related to the FCC's Triennial Review Order. In addition, I have served as an expert witness in numerous dockets in Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah and Wyoming as well as dockets before the FCC.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to describe the multiple forms of telecommunications competition that are present in Washington and to show how that competition is impacting Qwest's customer base. In the highly competitive and constantly evolving telecommunications market in this state, the current regulatory framework under which Qwest operates is no longer an appropriate regulatory model, and the Alternative Form of Regulation ("AFOR") plan outlined in the testimony of Qwest witness Mark S. Reynolds is now an appropriate means of reducing regulation of Qwest in recognition of the dynamic competitive telecommunications environment in Washington.

III. THE EFFECTS OF COMPETITON ON QWEST'S RETAIL TELECOMMUNICATIONS SERVICE BASE

Q. PLEASE DESCRIBE THE EFFECTS OF THE VARIOUS FORMS OF TELECOMMUNICATIONS COMPETITION ON QWEST'S RETAIL SERVICES IN WASHINGTON.

A. In the current market, competitive pressures now provide appropriate checks on telecommunications pricing, quality of service and the availability of service to meet market demand, and as discussed in Mr. Reynolds' testimony, monopoly-based rate of return regulation of Qwest is clearly outmoded. Qwest's retail residential and business

services are now subject to full competition from traditional Competitive Local Exchange Carriers ("CLECs") as well as from "intermodal" forms of competition such as wireless and Voice over Internet Protocol ("VoIP") services. In fact, Qwest's switched retail access line base in Washington has been dramatically eroded by competition from 2,607,757 lines in December 2000 to 1,973,939 lines in December 2005, a reduction of over 24%[2] and this inexorable trend is continuing. In fact, through June 2006, Qwest's switched retail access line base in Washington had declined an additional *** REDACTED *** XXXXXXXXXXXXXXXXXXXXXXX *** END REDACTED *** as competition continued to intensify. As shown in Confidential Exhibit DLT-2, Qwest has lost significantly more access lines in certain wire centers than the statewide average of 24% would indicate. For example, retail competition has had a profound effect on Qwest's business access line base in many wire centers, with loss rates ranging from 30% to over 50% in wire centers such as Bellevue Glencourt, Des Moines, Kent O'Brien, Seattle, Campus, Spokane Riverside, Tacoma Fawcett and others. However, the competitive story does not stop with the larger Qwest wire centers. In smaller wire centers such as Centralia, Cle Elum, Moses Lake, Pomeroy, Silverdale, Yakima West and others, Qwest has also lost from 30% to in excess of 50% of its retail business access lines. In the residential market, similar trends can be seen. Not surprisingly, Qwest has experienced residential access line losses in its larger wire centers, such as Bellevue Sherwood, Seattle Campus, Seattle Lakeview, Spokane Chestnut, Tacoma Fawcett, Vancouver Oxford and others ranging from 30% to nearly 50%. What may be more surprising is that competition has also caused residential access line reductions ranging from 20% to nearly 40% in many smaller Qwest wire centers such as Aberdeen, Colby, Ephrata, Enumclaw, Moses Lake, Puyallup, Silverdale and Walla Walla. Clearly, competitive choices are broadly available

[2] FCC ARMIS Report 43-08, Operating Data Report, Table 3.

virtually throughout Qwest's service territory in the state and customers are actively availing themselves of those choices.

It is important to note that this reduction in Qwest's access line base does not account for telecommunications market growth over this period: Qwest has also lost the opportunity to serve new customers in Washington when the customer elects to subscribe to the service of a competitor without having been a Qwest customer in the first instance. In fact, according to the U.S. Census Bureau, the population of Washington increased from 5,894,000 in 2000 to 6,288,000 in 2005, an increase of 6.7%.[3] Through December 2005, the number of CLEC access lines in service in Washington grew to 514,149, an increase of 114% from December 2000.[4] Clearly, CLEC competition, as well as ever-expanding competition from intermodal services such as VoIP and wireless, is driving a significant reduction in Qwest's retail access line base.

Q. IS THERE A MEANS, USING PUBLICLY-AVAILABLE DATA, TO SEE THE EFFECTS OF INTERMODAL COMPETITION IN THE TELECOMMUNICATIONS MARKET IN WASHINGTON?

A. Yes. Clearly, the telecommunications market is well into a period of "convergence," where wireless and broadband internet-based services are causing declines in the number of traditional landline telephone lines in the state. The FCC releases information twice per year showing the number of landline telephone lines, CLEC lines, mobile wireless subscribers and high speed broadband lines in each state in the U.S. Its most recent reports (the Local Telephone Competition report and the High-

[3] http://quickfacts.census.gov/qfd/states/53000.html.

[4] FCC Local Telephone Competition Report, July 2006, Table 9.

Speed Services for Internet Access report) were released in July 2006 and reflect in-service quantities through December 2005 for these service categories. If each of these categories is combined to form a picture of the overall "telecommunications market" - which is appropriate since Qwest competes in each of these service categories - and each in-service line in each category is counted as a "communications connection," an overall view of the changing composition of the Washington telecommunications market can be developed. These calculations, derived directly from the public data in the FCC's reports for the state of Washington, are shown in the table below:

Washington In-Service Quantities: 12/00 vs. 12/05				
	In-Service Quantities: 12/2000	Connection Share: 12/2000	In-Service Quantities: 12/2005	Connection Share: 12/2005
ILEC Lines	3,784,183	58%	3,062,790	34%
CLEC Lines	240,514	4%	514,149	6%
Mobile Wireless Subscribers	2,286,082	35%	4,177,196	47%
High Speed Lines	195,628	3%	1,219,875	14%
Total	6,506,407	100%	8,974,010	100%

The FCC's data clearly shows the dramatic growth of intermodal telecommunications services, the steep decline in ILEC access lines and the growth in the CLEC connections share in the state. The traditional ILEC access line base now represents approximately one third of the overall number of communications connections in the Washington telecommunications market.

Q. HAVE OTHER STATE COMMISSIONS EXAMINED THE STATUS OF TELECOMMUNICATIONS COMPETITION AS IT RELATES TO THE NEED FOR RELAXED REGULATION OF THE RETAIL SERVICES OF INCUMBENT TELEPHONE COMPANIES?

A. Yes. Recently, other state Commissions have examined the price-constraining effects of competition in the retail telecommunications markets and have concluded that

competition for local retail telecommunications services has evolved to the point at which it is now fully appropriate to relax regulation of the incumbent telephone companies to ensure that the incumbents and their competitors have an equal opportunity to compete. For example, on August 24, 2006, the California Public Utilities Commission ("CPUC"), in recognition of the current scope of competition by landline, wireless and VoIP providers, released an order in which it eliminated retail price regulation for all business and residential services provided by AT&T, Verizon, SureWest and Frontier except residential stand-alone access line rates, which are capped until January 1, 2009.

In another recent example, the New York Public Service Commission ("PSC") issued an order on April 11, 2006 finding that the combination of intramodal competition (e.g.: telecommunications competition by wireline telephone companies, such as CLECs) and intermodal competition (e.g.: telecommunications competition by wireless carriers, cable television carriers, VoIP providers, WiFi providers, etc.) has advanced to the point at which the retail residential and business telephone services of both Verizon New York and Rochester Telephone should be freed of price regulation (save for a "soft cap," allowing residential local exchange line prices to increase by no more than $2.00 per year up to a maximum of $23.00 per month per line) and that service quality requirements should be significantly reduced and streamlined.

These examples are emblematic of the trend toward dramatically reduced retail telecommunications regulation across the country. I discuss these recent orders in greater detail later in this testimony.

In Washington, competition is entrenched and is intensifying, and any barriers to market entry and exit have been demolished. There is no putting "the genie back into

the bottle." In this environment, the forces of competition will act to constrain prices and will incent the service providers in this market to offer the range of high quality services customers demand, and traditional rate of return regulation is no longer an appropriate regulatory model. Rather, the provisions in the Alternative Form of Regulation ("AFOR") plan discussed in the testimony of Qwest witness Mark S. Reynolds provide an appropriate regulatory framework for Qwest - and competitive flexibility commensurate with that enjoyed by Qwest's competitors - in this rapidly changing marketplace.

IV. CLEC COMPETITION

Q. DO YOU HAVE EVIDENCE OF SERVICES CURRENTLY OFFERED BY CLECS IN WASHINGTON?

A. Yes. I have assembled a representative sampling, based on an extensive review of available tariffs, price lists, websites and promotional materials, of telephone services provided in Washington by various CLECs including AT&T, Comcast, Eschelon, Global Crossing, Integra, Granite Telecommunications, Rainier Connect, MCI/Verizon, McLeodUSA, TelWest, Time Warner, Trinsic, UNICOM and XO Communications, a subset of CLECs now competing with Qwest in the state. The results of this sampling are shown in non-confidential Exhibit DLT-3.[5] Clearly, a wide array of substitutable local exchange services is now available from numerous CLECs. For example, Qwest's stand-alone residential flat local exchange service in Washington - without any calling features or long distance charges - is provided at a monthly rate of $12.50, while Qwest's basic stand-alone business flat local exchange monthly rate is $26.89 (excluding the $5.84 End User Common Line charge).

[5] The information in Exhibit DLT-3 shows CLEC name, name of service reviewed, service description, price for the service, target market for the service, area in which the service is available and data sources reviewed.

Following is a sampling of current CLEC pricing found in Exhibit DLT-3 for CLEC residential and business local exchange services which are directly competitive with Qwest's services in Washington:

	Residential Access Line	Business Access Line
AT&T	$16.95	$24.00
Comcast	$12.25	n/a
MCI/Verizon	$20.99	$23.00
McLeodUSA	$18.95	$31.95
TelWest	$29.99	$39.99
Trinsic	(package only)	$24.00

The table above represents only a small sampling of stand-alone local exchange service pricing of several of the CLECs competing in Qwest's service territory. As shown in Exhibit DLT-3, various CLECs also offer packaged residential and business services in the state, typically consisting of a line, features and a particular amount of long distance usage. Generally, the CLECs have established price points that are very competitive with Qwest's rates, and often offer an even greater range of features than are available in Qwest's packages. As another point of pricing comparison, Qwest's Choice Home residential package, which includes an access line and a set of popular calling features, is available at $29.99 per month. Comparable residential packages are available from, among others, AT&T ($25.95/month), MCI ($26.89/month), McLeod ($30.95/month) and Trinsic ($39.99/month). Again, it is clear that the CLECs strive to price their services at levels very competitive with Qwest's rates for comparable services and that multiple CLEC alternatives to Qwest's services now exist, in addition to competitive alternatives represented by wireless and VoIP services discussed in my following testimony. Each of these services, as well as additional packages available from these and other CLECs, is shown in Exhibit DLT-3.

Q. DO YOU HAVE EVIDENCE THAT CLECS ARE USING THEIR OWN SWITCHES AND/OR LOOP FACILITIES TO PROVIDE TELEPHONE SERVICES IN WASHINGTON?

A. Yes. When CLECs use their own switches or loop facilities to provide local telephone service in Qwest's territory, the CLECs provide their customers' names, addresses and telephone numbers to Qwest to ensure proper directory listings appearance in the white pages sections of the telephone directory, since directory providers obtain listings data from Qwest for all providers within Qwest's service territory. Because Qwest provides switching functionality for CLECs using resale or finished wholesale services, such as Qwest Platform Plus ("QPP"), Qwest separately tracks white pages listings information for these types of services and can distinguish listings data for facilities-based CLECs from listings data for CLECs that rely upon Qwest's local switching. This confidential information is reported separately by "residential" and "business" categories to indicate the directory section in which the listings should appear.

To estimate the number of access lines served by facilities-based CLECs, I requested a report of white pages residential and business listings associated with all facilities-based CLECs[6] reporting such listings within Qwest's service territory in the state as of June 2006. This data shows that, as of June 20, 2006, facilities-based CLECs had *** BEGIN REDACTED *** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXX *** END REDACTED *** in Qwest's service territory in Washington. It is important to note at this juncture that these listings counts exclude any white pages listings associated with intermodal services, such as VoIP or wireless, and relate only

[6] "Facilities-based CLECs" are those using CLEC-owned switches in combination with either CLEC-owned loops or unbundled loops purchased from Qwest to deliver retail local exchange service to customers. CLECs using resale or Qwest Platform Plus (a finished wholesale service consisting of all network elements required to deliver switched local exchange telephone service and provided by Qwest to CLECs under commercial contract terms) are not considered "facilities-based CLECs" in this analysis.

to services provided by facilities-based CLECs. Since customers do not elect to have all access lines listed, the number of directory listings understates the actual number of access lines in service. However, Qwest has found that about 75% of its own customers' residential access lines are listed and about 36% of its customers' business lines are listed. Extrapolating facilities-based CLEC lines in service using these line/listings ratios suggests that there are approximately *** BEGIN REDACTED *** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX *** END REDACTED *** in June 2006 being served by CLECs utilizing their own switches and CLEC-owned loop facilities and/or unbundled loops purchased from Qwest. In other words, CLECs have invested in Washington in local switching and loop facilities to the extent that over half of the 514,000 CLEC access lines in the state are now being served by facilities-based CLECs.

Q. IN THE FCC'S TRIENNIAL REVIEW ORDER ON REMAND ("TRRO"), THE FCC FOUND THAT THE INCUMBENT TELEPHONE COMPANIES ARE NO LONGER OBLIGATED TO OFFER WHOLESALE LOCAL SWITCHING TO CLECS AS AN UNBUNDLED NETWORK ELEMENT. HOW HAS THIS CHANGE IMPACTED CLEC OPERATIONS IN WASHINGTON?

A. Subject to the FCC's mandate, CLECs in Washington that had historically been utilizing the wholesale Unbundled Network Element-Platform ("UNE-P") service, which consisted essentially of local switching and a local loop, were required to transition from UNE-P service to another means of local exchange service delivery, including use of CLEC-owned switches or leasing switching capacity from another provider. However, Qwest introduced a replacement wholesale service, entitled Qwest Platform Plus ("QPP"), for CLECs wishing to continue to utilize Qwest's switching and local loop network to provide local exchange services to their customers. As of

June 2006, QPP is being used by over 30 CLECs to provide well over 100,000 local exchange access lines to their retail customers in Washington. Clearly, QPP (in addition to resale of Qwest retail services) continues to be another viable means by which CLECs can compete with Qwest in any or all of Qwest's exchanges in the state.

Q. HAVE CERTAIN CLECS ALTERED THEIR STRATEGIES FOR SERVING CUSTOMERS BY SHIFTING THEIR SERVICE DELIVERY PLATFORMS TO NON-TRADITIONAL TECHNOLOGIES?

A. Yes. For example, Comcast was actively competing as a CLEC against Qwest through the end of 2005 via traditional circuit-switched telephony, using its coaxial cable network as a means of delivering telephone service to home and businesses in Qwest's most densely-populated service territory. Since that time, Comcast has shifted its telephony service delivery platform to one utilizing Voice over Internet Protocol ("VoIP") technology, and is enjoying spectacular growth rates in 2006 in its customer base for Comcast digital voice telephone service. This technological shift by Comcast - and other cable television providers in Washington - is causing profound reductions in Qwest's access line base, and I fully discuss these VoIP services, as well as similar services offered by a number of other stand-alone VoIP service providers, such as Vonage, Sunrocket, Packet8 and others, in the VoIP section in my following testimony.

Q. BEYOND THE TELEPHONY SERVICES OF MAJOR ENTITIES SUCH AS COMCAST, HAVE SMALLER CABLE PROVIDERS DEPLOYED TELECOMMUNICATIONS SERVICES IN COMPETITION WITH QWEST IN NON-METROPOLITAN MARKETS?

A. Yes. For example, Rainier Cable ("Rainier") has provided residential and business telephone service for the past several years via its cable network and switch in the

Graham, Spanaway and South Tacoma areas. Rainier's residential telephone service is priced at $12.50 per month as a stand-alone access line, and Rainier offers a package of access line plus four features at $25.49 per month. In addition, Rainier has recently partnered with Tacoma's city-owned "Click Network" to serve business customers in downtown Tacoma.[7] In using its own network as well as by partnering with the Click Network, Rainier is able to bypass Qwest's distribution network. In 2001, Rainier acquired Local Access Communications, a telecom services provider in Centralia and Chehalis, and constructed fiber optic lines through the business corridors of those cities to compete directly with Qwest for business customers there.[8]

In another such example, as discussed in my following testimony regarding Voice over Internet Protocol ("VoIP") competition, Charter Communications launched digital voice telephone service via its cable broadband network in Yakima, Walla Walla and the Tri Cities in August 2006. Clearly, cable service providers are aggressively focusing on leveraging their network investments in the state toward expanding into telecommunications markets not only in the major population centers, but in smaller communities in Washington.

Q. WHAT SIGNIFICANT EVENTS HAVE RECENTLY OCCURRED THAT WILL AFFECT THE LEVEL OF CLEC COMPETITION IN 2006 AND BEYOND?

A. Two extraordinarily large mergers, SBC with AT&T[9] and Verizon with MCI, were announced in 2005 and have been largely consummated, and these mergers will impact

[7] http://www.rainierconnect.com

[8] http://home.rainierconnect.com/about-history.php

[9] Additionally, the AT&T/BellSouth merger is now pending regulatory approval.

the CLEC industry in a major way. Since each of these entities is now providing services in Washington, the merged entities will be able to leverage their considerable synergies to become even more powerful telecommunications competitors in the state in providing intramodal and intermodal services within Qwest's service territory.

V. WIRELESS SERVICE COMPETITION

Q. DO WIRELESS SERVICES NOW REPRESENT A SIGNIFICANT FORM OF TELECOMMUNICATIONS COMPETITION IN WASHINGTON?

A. Yes. Wireless phones are now widely accepted by business and residential consumers alike for voice telephony. In addition, wireless providers are now augmenting their services with data applications such as dial-up wireless Internet access, text messaging and image transmission to bring additional functionality to their services and to attract new customers. The customer shift toward wireless substitution in Washington can be seen by reviewing facts provided by the FCC in its most recent Local Telephone Competition Report.[10] From December 2000 to December 2005, the FCC's data shows that Incumbent telephone company access lines in Washington decreased from 3,784,183 to 3,062,790 a reduction of 721,393, or 20%.[11] As of December 2005, the FCC shows 514,149 CLEC access lines in the state.[12] On a net basis (Incumbent and CLEC lines combined), there were 3,576,393 wireline access lines in Washington as of December 2005. In contrast, wireless subscriber counts in Washington grew from 2,286,082 to 4,177,196 between December 2000 and December 2005, an increase of 1,891,114, or 83%, and wireless subscribers in Washington now well exceed the

[10] Local Telephone Competition: Status as of December 31, 2005, *Industry Analysis and Technology Division, Wireline Competition Bureau,* July 2006.

[11] *Id, Table 10.*

[12] *Id., Table 9.*

combined total of ILEC and CLEC wireline access lines in the state.[13] Clearly, wireless services are outpacing traditional wireline services in fulfilling many Washingtonians' telecommunications needs.

Q. HAS THE FCC RELEASED ANY ADDITIONAL DATA SHOWING THE INCREASING TREND IN SUBSTITUTION OF WIRELESS SERVICE FOR TRADITIONAL WIRELINE SERVICES?

A. Yes. In its most recent Commercial Mobile Radio Service ("CMRS") competition report,[14] the FCC provides facts with regard to the percentage of households that have "cut the cord" (disconnected wireline telephone service and rely exclusively on wireless service for their voice telecommunications needs). The FCC states:

> While exact percentages are difficult to determine, wireless substitution has grown significantly in recent years. According to the 2005 National Health Interview Survey (NHIS), 7.8 percent of adults lived in households with only wireless phones in the second half of 2005, up from 5.5 percent in the second half of 2004, and 3.5 percent in the second half of 2003. Similarly, based on a survey conducted in the fourth quarter of 2005, one analyst found that about 8 percent of U.S. households that subscribe to cell phone service had given up their landline phones, up from 5 percent in 2004 and 4 percent in 2003. The analyst observed, "[h]ouseholds are ditching home wired phones faster because cell phone service is getting cheaper, wireless coverage is improving and fewer people need their land lines for access to the Internet."[15]

The chart below is an excerpt from the CDC's NHIS report,[16] relied on by the FCC, showing this study's findings with regard to the trend in the rate of substitution of wireless service for traditional landline service:

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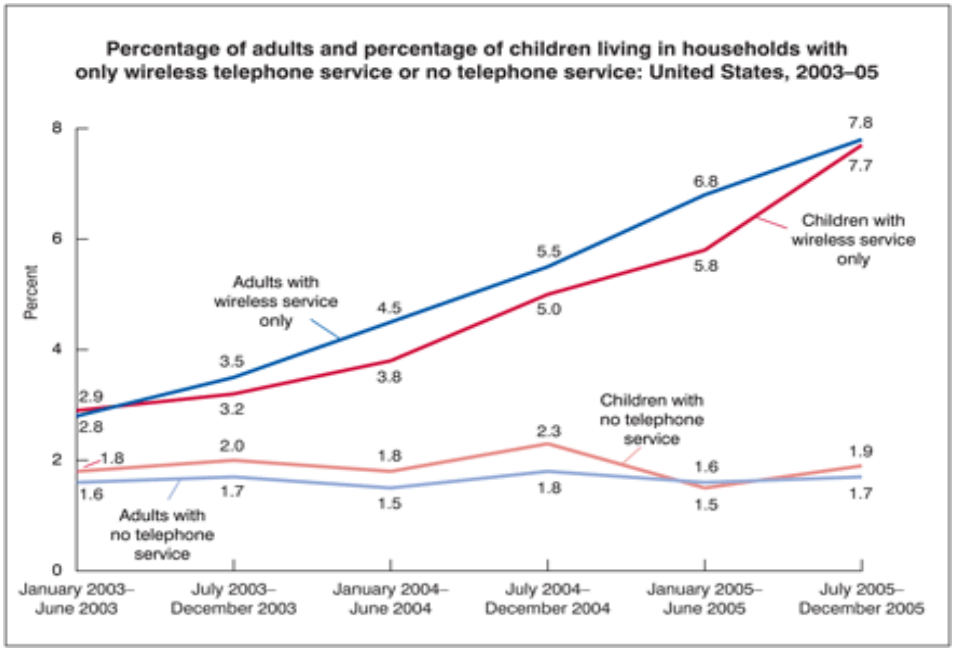
[13] *Id., Table 14.*

[14] Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services, Eleventh Report, September 29, 2006.

[15] *Id*, p. 89, ¶205.

[16] 2005 CDC National Health Interview Survey, May 2006.



The CDC's data, as referenced by the FCC, indicates a linear increase in the proportion of wireline subscribers who have "cut the cord," and there is no sign that this trend is abating. However, this data tells only part of the story. In many instances, subscribers remove a second landline in favor of wireless service and/or shift a significant amount of telephone usage to wireless service. In each of these instances, demand for Qwest wireline telephone service is reduced. The FCC states:

> Even when not "cutting the cord" completely, consumers increasingly are choosing wireless service over traditional wireline service, particularly for certain uses. For example, according to one analyst, customers in nearly a third of American households make at least half of their long-distance calls at home from their cell phones rather than from their landlines. In the early 2006 survey of cell phone users described above, an additional 42 percent of cell phone users said that they also had a landline phone, but that they used their cell phones "most."[17]

[17] *Id.*, p. 90, ¶206.

It is clear from these facts that a large, and increasing, segment of the telecommunications market views wireless service as a substitute - not simply a complement - to traditional wireline telephone service.

Q. DOES OTHER EVIDENCE EXIST SUPPORTING THE FCC'S CONCLUSIONS THAT WIRELESS SERVICES ARE SUBSTITUTES FOR TRADITIONAL WIRELINE SERVICE APPLICATIONS?

A. Yes. Other independent experts have studied the phenomenon of wireless substitution and echo the FCC's conclusions. For example, the Yankee Group reports that "more than 36% of local calls and 60% of long distance calls have been replaced by wireless."[18] Additionally, at the Regional Oversight Committee ("ROC") meeting in September 2004, attended by regulators from Qwest's 14 in-Region states, Western Wireless' CEO John Stanton reported "increasing numbers of consumers have cut the cord or are primarily using their wireless phone for their telecommunication needs," and estimated the proportion of consumers engaging in such substitution now exceeds 5% and is expected to increase to 30% by 2008.[19] Independent research firm Instat/MDR concurs with Mr. Stanton, as shown in a February 2004 CNET News.com article, which states: "by 2008, nearly a third of all U.S. wireless subscribers won't have a landline phone in their home, according to a forecast released Wednesday by high-tech market research firm Instat/MDR. That's a dramatic increase in what's known as cord cutting."[20] In short, there is no evidence that the rate of substitution of wireless service for traditional wireline service is abating. Rather, all evidence is that such substitution will continue to increase at a rapid rate.

[18] *The Success of Wireline/Wireless Strategies Hinges on Delivering Consumer Value*, P. 7, The Yankee Group, October 2004.

[19] Western Wireless ROC presentation, September 2004.

[20] *"Cord Cutting" Frays Phone Revenues*, CNET News.com, February 25, 2004.

Q. WHAT WIRELESS CARRIERS ARE NOW ACTIVE IN PROVIDING SERVICES IN QWEST'S SERVICE TERRITORY IN WASHINGTON?

A. Competitive wireless service is now available in Qwest's service territory in Washington from various major carriers such as Sprint PCS, T-Mobile, Verizon, Cingular, Cricket and Alltel.[21] Virtually every Qwest customer within Qwest's service territory in the state is within the wireless coverage area of at least one of these providers.

Q. DO YOU HAVE CURRENT EVIDENCE SHOWING THE SERVICES OFFERED BY THESE PROVIDERS ARE ATTRACTIVE ALTERNATIVES TO QWEST'S LOCAL EXCHANGE SERVICES?

A. Yes. Wireless services now provide functionality nearly identical to wireline service, from the perspective that both provide switched voice communication capability, access to directory assistance, access to popular calling features (such as call waiting, three-way calling, caller I.D., voice messaging, etc), access to operator services, number portability (e.g.: customers may now port a wireline telephone number to a wireless carrier and vice versa) and access to E911 service. In addition, many wireless services now feature Internet-access capabilities that were previously available only via dial-up landline or broadband internet connections. Beyond these similarities, wireless services provide tangible benefits to elderly or disabled persons not available with Qwest's wireline service: wireless service is highly portable and the small wireless telephones can easily be carried by an elderly person in a shirt pocket or the pocket of a housecoat. If such a person were to fall and be physically unable to reach a

[21] Other small wireless carriers, such as Inland Cellular, Unicel and Cellular One also serve various areas of Washington (*see* http://mountainwireless.com/cellnm).

wireline telephone, the extra convenience of a wireless telephone readily at hand to summon emergency help could avert dire consequences.

From a price perspective, various options are available from the Washington wireless carriers designed to meet the diverse needs of customers. In some instances, the customer may have a need for only standard telephone service, without any features, for use in occasionally contacting family members or for emergencies. The price for Qwest's standard flat residential telephone service in Washington (including the $5.84 single line EUCL charge) is $18.34 per month, and the addition of only two popular features such as Caller I.D. With Privacy (priced at $10.95 per month) and Call Waiting (priced at $3.50 per month) brings the net monthly service price to $32.79 per month. Any long distance and/or monthly rates for other calling features are in addition to this amount. Currently, T-Mobile offers its "Basic Plus Plan" in Washington, which includes 300 "anytime" minutes and unlimited weekend/evening minutes, plus Call Waiting, Caller ID and Conference Calling, at $29.99 per month.[22] Sprint/Nextel offers its "Fair and Flexible Plan," which includes 200 "anytime" minutes, unlimited night/weekend calling, Voice Mail, Caller ID and Nextel "walkie talkie" access, at $29.99/month.[23] Cricket offers an "Unlimited Basic" plan without calling features in the greater Spokane areas at $30.00 per month, which includes unlimited local calling and free mobile-to-mobile calling.[24] It is noteworthy that Cricket is the most aggressive wireless carrier in marketing its service as a direct replacement for traditional landline telephone service. In fact, in a March 14, 2005 press release, Cricket proclaimed that "52 percent of its Cricket customers have cut the cord and no

[22] http://www.t-mobile.com/shop/Plans , visited 9/14/06.

[23] http://nextelonline.nextel.com, visited 9/14/06.

[24] http://www.mycricket.com/plans/3/Cricket-%2430-Unlimited-Basic.html, visited 9/14/06.

longer have traditional landline service at home, which compares to the industry average of six percent" and "the percentage of Cricket customers who have cut the cord has continued to rise since Cricket's inception in 1999 and is up from 43 percent in 2004."[25] Even for the customer who wants only basic telephone access without associated features, these examples show that reasonably-priced wireless alternatives to Qwest's traditional landline services exist in Washington.

Q. ARE WIRELESS SERVICE OPTIONS AVAILABLE FOR CUSTOMERS WHO DEMAND CALLING FEATURES IN ADDITION TO THE ABILITY TO PLACE AND RECEIVE LOCAL TELEPHONE CALLS?

A. Yes. Certain customers have a preference for a packaged service consisting of local calling and a fixed range of calling features. In Washington, Qwest offers its Choice Home residential package at $35.83 (including the $5.84 single line EUCL charge) designed for this type of customer. T-Mobile's "Basic Plus" plan, which includes 300 anytime minutes, free long distance, unlimited weekend minutes and call waiting, caller ID, 3 way calling and voice messaging, is available in Washington at $29.99 per month.[26] Cricket offers its "Unlimited Access" service for $45.00 per month, which includes unlimited local calling, Call Waiting, Caller ID, 3-Way calling and Voice Messaging as well as the benefit of mobility.[27] Alltel offers its Greater Freedom Plan at $29.99 per month, which includes 300 anytime minutes, Call Waiting, Caller I.D., 3-

[25] http://phx.corporate-ir.net/phoenix.zhtml?c=95536&p=irol-newsArticle&ID=684758&highlight=

[26] www.T-Mobile.com, visited 9/14/06. Additionally, T-Mobile is now conducting a trial of a home-based router that will enable the user to make flat-rated cell phone calls from home as an apparent strategy to encourage a greater number of customers to "cut the cord." An August 10, 2006 Business Week Online article states: "On August 10, T-Mobile USA started a hush-hush trial of a service that could turn telecom on its head. In the trial, the nation's fourth-largest wireless service provider will equip customers in states such as Oregon with special routers to be placed in their homes. The devices will enable users to make calls from home via a standard T-Mobile cell phone for a flat monthly rate, according to message board postings seeking volunteers for the trial." ("T-Mobile's Trial Balloon", Business Week Online, August 14, 2006).

[27] www.mycricket.com, visited 9/14/06.

Way Calling and Voice Messaging. Each of these plans, as well as representative wireless offerings of other wireless carriers in Washington, is shown in Exhibit DLT-4. While there is a wide range of additional calling plans available from the wireless providers currently serving Washington, this small sampling of plans shows that packaged wireless plans that are directly competitive with Qwest's Choice Home package are now readily available.

Q. DO YOU HAVE EVIDENCE THAT OTHER FORMS OF WIRELESS SERVICES ARE NOW BEING USED AS SUBSTITUTES FOR TRADITIONAL WIRELINE TELEPHONE SERVICE IN WASHINGTON?

A. Yes. Wireless broadband ("WiFi") services are being actively deployed in many communities within Qwest's service territory in Washington. For example, the entire 100 square block area of downtown Spokane is now served by the Spokane Hot Zone, offering free WiFi access to users within that area and is supported by Spokane merchants as a means of attracting customers to the core downtown area. I discuss this in greater detail in the following section of my testimony.

Q. IS IT YOUR CONTENTION THAT WIRELESS SERVICE CAN CURRENTLY BE CONSIDERED A DIRECT SUBSTITUTE FOR QWEST WIRELINE SERVICES IN EVERY APPLICATION?

A. No. Qwest does not maintain that wireless service is viewed by every Washington customer as a complete substitute for traditional wireline service. A certain number of customers will never switch from wireline service to wireless service no matter how attractive wireless service becomes. However, it is clear, when current facts regarding wireless service functionality (for voice as well as data/internet applications), price and convenience are examined, wireless service is now a viable substitute for Qwest's

wireline services for many Washingtonians and that the rate of such substitution will continue to increase. Clearly, this form of competition is real, continues to grow in intensity and represents a form of price constraining competition in the Washington telecommunications market.

VI. VOICE OVER INTERNET PROTOCOL ("VOIP") COMPETITION

Q. IS VOIP TELEPHONE SERVICE NOW A VIABLE ALTERNATIVE TO QWEST'S TRADITIONAL LANDLINE SERVICES IN WASHINGTON?

A. Yes. This service, which typically provides unlimited local and long distance service plus an array of calling features, is now readily available to any residence or business customer with broadband internet access[28] and, as discussed later in my testimony, a range of providers are now actively offering this service to customers in Washington. As a preliminary matter, some contend the fact that a broadband connection is needed to enable VoIP service causes VoIP service to be an economically unattractive alternative to Qwest's local exchange services. However, this precept implies that a customer only purchases broadband service to facilitate VoIP. In fact, Qwest does not contend that customers purchase broadband services strictly to facilitate VoIP. Rather, customers purchase broadband services primarily for internet access and entertainment purposes. For these customers, there is no incremental cost for broadband when they elect to add VoIP service and the cost of broadband is therefore not a factor in their VoIP purchase decision.

Q. DO YOU HAVE EVIDENCE OF THE GROWTH OF BROADBAND INTERNET ACCESS SERVICE IN WASHINGTON?

[28] Broadband internet access is now available from a number of sources, including cable modem service, digital subscriber line, wireless broadband and satellite.

A. Yes. Broadband access lines in Washington have grown at an astounding rate from 195,628 in December 2000 to 1,219,875 in December 2005, an increase of over 523%.[29] The FCC found that "99% of the country's population lives in the 99% of zip codes where a provider reports having at least one high-speed service subscriber,"[30] and only 1% of the zip codes in Washington were shown in the FCC's report as having no broadband service provider available as of December 2005.[31] In other words, broadband service is now widely available and Washington customers have embraced this service in large and rapidly increasing numbers. Each of these customers represents a current or potential VoIP subscriber.

Recent research from independent experts shows the dramatic growth in broadband internet access subscribership. For instance, Pew/Internet released research findings in May 2006 in which they reported "as of March 2006, 42% of all American adults had a high speed internet connection at home - in March 2005, 30% of all adults had high speed internet at home" and "the 40% increase in in-home broadband adoption from March 2005 to March 2006 is double the 20% rate of increase that occurred from March 2004 to March 2005."[32] This ever-increasing rate of broadband internet adoption is continually expanding the pool of potential VoIP subscribers.

Q. WHICH PROVIDERS ARE NOW OFFERING VOIP SERVICES IN WASHINGTON?

A. Currently, there are at least eleven VoIP providers (excluding Qwest) serving

[29] *High Speed Services for Internet Access: Status as of December 31, 2005*, Industry Analysis and Technology Division, Wireline Competition Bureau, July 2006, table 10.

[30] *Id.*, P. 4.

[31] *Id*, Table 17.

[32] *Home Broadband Adoption 2006*, Pew/Internet, May 28, 2006.

Washington including Comcast, Charter, Vonage, Lingo/Primus, AT&T, MCI, Verizon, SunRocket, Packet8, OneConnect and Skype. Several of these providers, such as Comcast, Vonage, Lingo/Primus, AT&T, MCI, OneConnect and Packet8 offer service options for both the residential and business markets while others, such as Verizon, Charter and Sunrocket, focus primarily on the residential market.

Vonage, which is probably the best recognized independent residential VoIP provider, recently announced that its customer base has quickly grown to over 2 million subscribers in the U.S.[33] in little over two years. Clearly, customers are now embracing this relatively new telecommunications service as a direct substitute for traditional landline telephone service.

Q. ARE VOIP PROVIDERS NOW ACTIVELY OFFERING TELEPHONE SERVICES TO THE BUSINESS MARKET?

A. Yes. As shown in Exhibit DLT-5, a number of VoIP providers are now offering telephone service to business customers. For example, Vonage offers its Small Business Basic service at $39.99, which includes a standard package of calling features plus 1,500 minutes per month of long distance calling. Lingo/Primus offers its "unlimited" package, which includes standard calling features and unlimited long distance calling, at $49.95 per month. Packet8 offers a similar service, entitled "Business 2000" at a price of $39.95 per month. These and other comparable business VoIP plans now available in Washington are highlighted in Exhibit DLT-5.

Q. PLEASE DESCRIBE THE AREAS IN WHICH CABLE TELEPHONY PROVIDERS ARE COMPETING DIRECTLY WITH QWEST.

[33] http://pr.vonage.com/releasedetail.cfm?ReleaseID=209928

A. The vast majority of Qwest's service territory in Washington is now served by cable telephony providers, which are utilizing VoIP-based services, to compete with Qwest's retail telephone services. Comcast, the largest cable MSO in Washington, serves Qwest's largest markets, including the greater Seattle/Tacoma area, Spokane, Vancouver and Bellingham as well as many smaller markets such as Bremerton, Issaquah, Olympia and Shoreline. Charter Communications, another large cable television provider, announced in August 2006 that it has launched digital telephone service in Yakima, Walla Walla and the Tri Cities via VoIP technology.[34]

Q. PLEASE DESCRIBE THE SCOPE OF COMCAST'S NETWORK IN WASHINGTON.

A. Comcast's network directly passes 1.6 million homes in Washington, and Comcast now provides at least one of its services (e.g.: cable television, cable modem service or telephone service) to 1.1 million subscribers (69% of its potential customer base).[35] Comcast has provided public information that gives some insights into its current and targeted penetration rates for telephone service. Comcast now has approximately 98,000 Spokane-area customers, and according to Len Rozek, a Comcast Senior Vice President, Comcast "expects to get about 36,000 customers for its telephone service."[36] In other words, Comcast's target penetration rate for telephone service in its Spokane market is approximately 38%. If Comcast is successful in achieving that same penetration rate in its customer base now subscribing to at least one Comcast service throughout its service footprint in Washington (which is primarily within areas Qwest serves), that penetration would translate to approximately 400,000 telephone service

[34] *New Telephone Service Options for Consumers,* Yakima Herald-Republic, 8/14/06.

[35] Seattle Times, 9/23/05.

[36] *Comcast Telephone Service Draws Interest,* Spokesman Review, 3/24/06.

customers in the state, a very significant number by any measure. Comcast is actively ramping up its infrastructure to prepare for this growth. In an August 8, 2006 article in PRNewswire-FirstCall, Comcast announced that it will lease a new office building in Lynnwood that will house more than 500 customer service representatives, which will bring the total number of Comcast service representatives in the state to nearly 1,000.[37]

Q. PLEASE PROVIDE AN OVERVIEW OF THE VOICE TELECOMMUNICATIONS SERVICES NOW OFFERED BY COMCAST.

A. Comcast currently offers its "digital voice" service, which is provided via VoIP technology, to residential customers served via the Comcast network at a standard price of $39.95 for customers already subscribing to Comcast cable television and high speed internet service. For customers with either Comcast cable television service or high speed internet service, Comcast prices its digital voice service at $44.95 per month. If the customer wishes to subscribe only to Comcast digital voice service, Comcast's monthly rate for the service is $54.95. Included with its digital voice service is unlimited local and long distance calling plus 12 standard calling features.[38]

Comcast has aggressively offered discounted pricing for its digital voice telephone service to attract new customers. For example, it recently offered a promotional price of $24.99 per month until 2007 for its service, a discount of $15.00 from its standard price.[39] Comcast's digital voice service has been targeted primarily to residential customers thus far. However, on August 7, 2006, Comcast announced the appointment of Mr. William Stemper as president of Comcast Business Services. In announcing

[37] http://www.cabletv.com/comast-cable/411-comcast-open-new-customer-service.html.

[38] http://www.comcast.com, visited 9/14/06.

[39] http://www.comcast.com/BuyFlow/default.ashx , visited 6/1/06.

Mr. Stemper's appointment, Dave Watson, Executive Vice President of Operations for Comcast stated:

> I'm thrilled that he will lead Comcast's continued efforts as we leverage our unparalleled network to deliver video, voice and data services for the business marketplace.[40]

Clearly, Comcast now has leadership in place that is focused on leveraging its network investments to deliver voice services that will compete directly with Qwest's retail business telecommunications services.

Q. HAS CHARTER COMMUNICATIONS, ANOTHER CABLE TELEVISION PROVIDER, RECENTLY LAUNCHED VOIP TELEPHONE SERVICE IN WASHINGTON?

A. Yes. Charter launched its VoIP telephone service initiative in Yakima, Walla Walla and the Tri Cities - each of which is within Qwest's service territory - in August 2006.[41] The Charter service, which is limited to residential customers at this point, is priced at $29.99 per month and includes unlimited long distance calling and Voice Messaging.[42]

Q. ARE OTHER, NON-WIRELINE, COMPANIES ALSO OFFERING INTERNET-BASED SERVICES THAT ARE DIRECT SUBSTITUTES FOR QWEST'S SERVICES?

A. Yes. For example, Clearwire, a Kirkland, Washington-based company established by wireless pioneer Craig McCaw in 2003, has launched a wireless broadband service in "27 markets and plans to launch soon in a variety of cities, including Everett, Seattle

[40] http://www.cmcsk.com/phoenix.zhtml?c=147565&p=irol-newsArticle&ID=892959&highlight=

[41] *New Telephone Service Options for Consumers,* Yakima Herald-Republic, August 14, 2006.

[42] https://www.charter.com/g2b/productlist.aspx

and Tacoma."[43] In addition, both Intel and Motorola have jointly invested in excess of $900 million in Clearwire to support its plans to deploy a national WiMax wireless broadband network.[44] Clearwire now actively provides residential and business VoIP services to its subscribers in several Washington markets, including Bellingham and the Tri Cities (including Pasco, a Qwest-served community).[45] The ClearValue VoIP package (which includes unlimited local and long distance calling plus Voice Mail, Call Screening, Call Forwarding and Caller ID) is priced at $34.99 per month for both residential and business customers (service is priced for the first three months from the date upon which service is installed at $19.99 per month).[46]

The Clearwire service is clearly another technology, beyond cable modem and other broadband services, that is currently available to Washington customers and represents a means of completely bypassing Qwest's network in delivering internet, data and voice services.

Q. HAVE OTHER PROVIDERS ALSO ANNOUNCED PLANS TO LAUNCH WIRELESS BROADBAND NETWORKS THAT WILL BYPASS THE NETWORKS OF LANDLINE-BASED TELECOMMUNICATIONS SERVICE PROVIDERS?

A. Yes. For example, Sprint/Nextel very recently announced that it has partnered with Intel, Motorola and Samsung "to roll out a nationwide wireless-broadband network using WiMax technology, a standard that delivers high-speed Internet access on a

43 http://seattletimes.nwsource.com/cgi-bin/PrintStory.pl?document_id=2003107487&slug=clearwire06&date=20060706

44 *Id.*

45 http://www.clearwire.com/store/service_plans_res.php

46 *Id.*

much broader scale than WiFi."[47] The Sprint/Nextel deployment of this broadband network will commence in 2007, and will represent yet another alternative to DSL and cable modem landline-based internet broadband services, and another means to support VoIP telephony applications.[48] Again, this technology is entirely deregulated and is a direct substitute for services offered by Qwest in Washington.

Q. PLEASE EXPLAIN "WIFI" SERVICE AND PROVIDE CURRENT EXAMPLES OF WHERE THIS SERVICE IS AVAILABLE AS A MEANS FOR CUSTOMERS TO OBTAIN WIRELESS BROADBAND INTERNET ACCESS.

A. "WiFi" is an acronym for the term "wireless fidelity" and uses radio technology that enables users to wirelessly access the internet, at transmission speeds of 1 megabit or greater, within WiFi coverage areas (which are commonly known as "hotspots"). There are now literally hundreds of WiFi hotspots in existence in Washington. In the Seattle metropolitan area alone, there were at least 797 hotspots in mid-2005, according to a Seattle Post Intelligencer article published in June 2005.[49] The City of Spokane has developed a WiFi network, free to any user within the coverage area, which provides wireless broadband internet access within a 100 block area in downtown Spokane.[50] Similarly, a non-profit group established a network of WiFi hotspots entitled "Seattle Wireless" to provide free wireless broadband internet access throughout the metro Seattle area.[51] Importantly, VoIP service is readily available to

47 http://seattletimes.nwsource.com/cgi-bin/PrintStory.pl?document_id=2003184922&slug=clearwire09&date=20060809

48 *Id.*

49 Hooked-up Seattle Tops National "Unwired" List, Seattle Post Intelligencer, 6/7/05.

50 http://www.spokanehotzone.com/faqs.html

51 http://seattlewireless.net/FrontPage

any user within such a WiFi coverage area as a means of entirely bypassing Qwest's network.

Q. DO YOU HAVE EVIDENCE OF THE PROJECTED GROWTH RATE OF VOIP TELEPHONY SERVICES?

A. Yes. While VoIP providers such as Vonage are currently reporting impressive subscriber totals, industry experts forecast exponential VoIP growth. For example, Frost and Sullivan found that VoIP market revenue totaled $295.1 million in 2004 and expect it to reach $4,076.7 million in 2010, **an increase of over 1,200%**.[52] Additionally, the Yankee Group reported on October 12, 2005:

> As the US consumer broadband internet market passes a significant household penetration threshold, the addressable market for broadband content and applications is strengthening. More than one-third of US households – or more than half of all online US households – now subscribe to a high-speed internet service.[53]

Clearly, independent market analysts believe that VoIP service has tremendous growth potential and that a significant proportion of the population is now capable of utilizing this service.

Q. HAVE OTHER INDEPENDENT RESEARCH ENTITIES EXAMINED GROWTH TRENDS IN THE VOIP MARKET AND QUANTIFIED THE MARKET POTENTIAL FOR THIS TECHNOLOGY?

A. Yes. For example, IDC analyzed trends in the VoIP market, and predicts that the number of residential VoIP subscribers will grow to 27 million by the end of 2009. They state:

[52] Real World Network, Trend and Forecasts, *North American Residential VoIP Market to Increase Growth*, July 19, 2005.

[53] Yankee Group DecisionNote Market Analysis, October 12, 2005.

> Residential voice over Internet Protocol (VOIP) has clearly come into its own in the U.S. as major telecommunications carriers begin to roll out VOIP service offerings to give themselves a competitive edge. Fueled in part by consumers looking to add value to their telephony service, IDC expects that the number of U.S. subscribers to residential VOIP services will grow from 3 million in 2005 to 27 million by the end of 2009.[54]

The U.S. Dept. of Commerce Census Bureau forecasts the total number of U.S. households in 2009 to be 113.6 million. In other words, IDC's findings suggest that roughly 24% of the households in the country are expected to be VoIP subscribers by 2009. It is clear that leading industry analysts predict seismic changes in the structure of the competitive telecom market in the country away from traditional wireline telephone services.

Q. CAN YOU PROVIDE EXAMPLES OF THE RANGE OF VOIP OFFERINGS CURRENTLY AVAILABLE IN WASHINGTON THAT REPRESENT ALTERNATIVES TO QWEST'S WIRELINE SERVICES?

A. Yes. VoIP services available in Washington are feature-rich and typically include unlimited long distance calling in the standard service price. For example, Vonage offers a "Basic 500" plan which includes 500 local or toll minutes per month and a package of features including call waiting, caller ID, 3 way calling and voice messaging for $14.99 per month.[55] Vonage also has a "Premium Unlimited" package with unlimited local and long distance calling, as well as the same features included in the Basic 500 plan, for $24.99 per month. In comparison, Qwest's stand-alone basic residential service rate (including the $5.84 EUCL charge) is $18.34 per month (including no features as compared to Vonage's VoIP service which includes a variety of features at no additional charge), while the Qwest residential Choice Home

[54] http://www.idc.com/getdoc.jsp?containerId=prUS00106805

[55] http://www.vonage.com, visited 9/05/06.

(including EUCL) rate is $32.83 per month, and long distance calling is an additional charge for both of these Qwest service options. Similar to Vonage, SunRocket offers a feature-rich residential VoIP service with unlimited local and long distance calling at $24.95 per month (a prepaid $199 annual payment option is also offered for this service, which is equivalent to $17.00 per month), and Sunrocket also offers a "Limited Monthly Edition" of its service which includes 200 monthly minutes of local and/or long distance calling plus ten features for $9.95 per month (with the first three months free).[56] Lingo/Primus offers a comparable unlimited residential VoIP plan at $21.95, MCI offers its VoIP Neighborhood Unlimited plan for $49.99 and Verizon offers its Voicewing Unlimited plan at $24.95 per month. Details of these and other VoIP plans now available in Washington are contained in Exhibit DLT-4.

Additionally, a number of VoIP providers, including Vonage, Lingo/Primus, Packet8, One Connect, Clearwire and others now offer business VoIP services in competition with Qwest retail business services. These business VoIP plans are also shown in Exhibit DLT-4.

Q. IN THE PAST, LACK OF ACCESS TO 911 EMERGENCY SERVICE PROVIDERS WAS IDENTIFIED AS A REASON THAT VOIP SERVICE MAY NOT BE CONSIDERED TO BE A DIRECT SUBSTITUTE FOR TRADITIONAL WIRELINE SERVICE. DOES THIS REMAIN TRUE IN THE CURRENT MARKET?

A. No. In fact, the primary issue regarding VoIP E911 currently being addressed by the industry is the problem of "nomadic" E911 in instances where customers transport their VoIP equipment to a location other than the location to which the equipment is

[56] http://www.sunrocket.com, visited 9/05/06.

registered and attempt to place an E911 call from the remote location.[57] Unless the VoIP provider is notified that the customer has changed locations, the E911 call will show the name and address of the location at which the VoIP equipment was originally registered. For example, if customer Jane Smith registers her VoIP equipment at 123 Main Street in Spokane, subsequently takes her VoIP equipment with her on a business trip to Chicago and places an E911 call on that equipment from Chicago without notifying her VoIP service provider, the E911 operator will recognize the call as originating at 123 Main Street in Spokane. However, if the customer is not "nomadic" and simply uses his or her VoIP equipment at a fixed location as a landline replacement (and has properly notified the VoIP provider of the address of the fixed location), 911 calls from that fixed location, in most instances, are recognized by the E911 operator with the telephone number, name and address of the party at that location.

VoIP providers continue to work to address the problem of automatic caller identification in nomadic VoIP applications. In a recent article in USA Today, AT&T discussed a solution it has devised to address the problem of nomadic VoIP, as follows:

> AT&T's nomadic solution, called Heartbeat, uses its internet network to track the location of users. Here's how it works: when VoIP customers power down, AT&T's network will automatically suspend VoIP service. Once the phone adapter is plugged back in, AT&T will ask the user to verify his or her location. For customers who indicate they haven't moved, service will be instantly restored. If they have moved, they'll be directed to an 800 number or web page to register the new location.[58]

[57] The FCC ordered all VoIP providers to make their VoIP services fully 911-capable by November 28, 2005, particularly in instances where the customer is "nomadic."

[58] *AT&T Solves VoIP's 911 Issue*, USA Today, October 12, 2005.

Again, so long as the VoIP subscriber properly registers his or her location with the VoIP provider, the E911 operator will automatically receive the 911 caller's name, telephone number and street address for the location from which the call was made.

Q. HAVE YOU TAKEN ANY ACTIONS TO VERIFY THAT E911 SERVICE PERSONNEL ARE ABLE TO RECOGNIZE THE 911 CALLER'S TELEPHONE NUMBER, NAME AND ADDRESS WHEN A CALL IS PLACED TO 911 FROM A VOIP-SERVED TELEPHONE?

A. Yes. I personally subscribed to SunRocket VoIP service here in Washington in June 2005 and maintained that service until October 2005 as a means of testing VoIP service functionality in a residential application. Upon initiating service, I was directed by SunRocket to enter my name, telephone number and address into SunRocket's customer service website to ensure 911 emergency calls are accurately handled. After doing so, I placed a 911 test call and verified with the 911 service operator that my name, telephone number and street address appeared correctly on the 911 provider's equipment.

From the perspective of establishing VoIP telephone service, there is no dispute that extra steps are required of the customer to ensure E911 functionality. However, once these easy to follow steps are completed (and as long as the customer uses the VoIP service in the primary location at which it is registered), the customer can be assured of E911 functionality equivalent to that provided with standard wireline telephone service. To the extent E911 VoIP functionality has been considered a barrier to customer adoption of VoIP service, that barrier has been largely demolished and will be entirely removed by the end of 2006.

Q. IS THE AVAILABILITY OF VOIP SERVICES IN WASHINGTON CURRENTLY LIMITED TO CUSTOMERS WITH DSL, CABLE MODEM OR WIRELESS BROADBAND INTERNET ACCESS?

A. No. In fact, I participated as a witness in the Arizona Corporation Commission's generic investigation into telecommunications competition in Arizona on February 4, 2005 (Docket No. T-00000I-04-0749). I was present when Brooke Schulz, Senior Vice President for Vonage, addressed the Commission. She testified:

> We actually have evidence of customers in Arizona using our service over satellite broadband.[59]

It appears, based on Ms. Schulz's assertion during this proceeding, that subscribers are now able to utilize satellite broadband connections to avail themselves of VoIP services. In this instance, Qwest's local switching and loop facilities are bypassed entirely. Clearly, the VoIP market continues to rapidly evolve as a competitive telecommunications option for an increasingly large customer base, including customers located in the few rural areas of Washington where landline-based broadband services may not yet be readily available.

VII. OTHER STATE COMMISSION FINDINGS REGARDING THE STATUS OF COMPETITION

Q. WHY IS IT IMPORTANT FOR THIS COMMISSION TO BE AWARE OF RECENT STATE COMMISSION ORDERS IN OTHER STATES WITH RESPECT TO THE EFFECTS OF COMPETITION UPON THE INCUMBENT TELEPHONE COMPANIES?

A. It is important that this Commission be aware of how other state Commissions have defined competition in the retail telecommunications markets. After reviewing the competitive facts, other state Commission have concluded not only that retail services

[59] Transcript of hearing, pp. 22-36.

provided by the Incumbent telephone companies are now subject to competition from CLECs, but also that intermodal competition in the form of wireless and VoIP services are now substitutes for traditional landline services.

Q. WHAT STATE COMMISSION ORDERS HAVE BEEN RECENTLY RELEASED EXAMINING COMPETITON IN THE RETAIL LOCAL EXCHANGE TELECOMMUNICATIONS MARKETS IN DETERMINING THAT RELAXED REGULATION IS APPROPRIATE THROUGHOUT THE SERVICE AREAS OF THE INCUMBENT TELEPHONE COMPANIES?

A. There have been two very recent state Commission orders released in 2006 that have implemented relaxed regulation of the incumbent telephone companies in view of the range of telecommunications competition that now exists. These orders address telephone services in New York and California.

Q. WHAT ARE SOME OF THE KEY CONCLUSIONS OF THE NEW YORK ORDER THAT ARE RELEVANT TO THIS PROCEEDING?

A. After an extensive examination of telecommunications competition in the state, the New York Public Service Commission ("NYPSC") issued an order on April 11, 2006[60] finding that intramodal and intermodal competition is now sufficient to justify classifying as competitive, without price restrictions, all of Verizon New York and Frontier Telephone of Rochester retail services except stand-alone residential basic service. For residential basic service, the NYPSC established a cap of $23.00 and allowed increases of no more than $2.00 to the monthly rates during the first year and $2.00 in the following year.[61] With regard to metrics of service quality, the NYPSC

[60] Case 05-C-0616

[61] *Id.,* pp. 59, 60.

acknowledged that competitive forces should now be sufficient to ensure high quality of service, and established a separate rulemaking to define relaxed metrics that provide parity of measurement of all telecommunications providers, both intramodal and intermodal.[62]

In particular, the NYPSC made several specific findings that are of direct relevance to the competitive environment in Washington discussed in my testimony, including:

> Given the significant and growing level of intermodal competition in urban and suburban areas, we believe the incumbents' reduced market power and the resultant loss of customers and revenues obligates us to lighten our regulatory requirements on those carriers if they are to remain viable telephone service providers in the future.[63]
>
> We conclude, after a survey of the various alternatives to wireline service that are now available, that the residential market for non-basic service is adequately competitive, **rejecting claims that for various reasons, such as the assertion that cellular service is not totally substitutable or that Voice over Internet Protocol (VoIP) is not generally available,** incumbent telephone companies still have market power.[64] (emphasis added).
>
> Based on the availability of these platforms, customers could choose a number of different service providers currently marketing services in New York. In general, these services fall into three categories: facilities-based digital phone service (i.e., cable phone), application based phone service (e.g., Vonage) and wireless service. We find that these services are widely available in New York and that from the perspective of customer demand they are sufficiently close substitutes for traditional wireline local service.[65]
>
> Verizon and Frontier of Rochester in particular are experiencing real losses in market share and revenues as a result of this dynamic market competition. Given the substantial network investment of facilities-based competitors, we expect that they will tenaciously defend their market shares. It is therefore clear

[62] *Id.,* pp. 89-91.

[63] *Id., p. 5.*

[64] *Id., p. 6.*

[65] *Id., p. 33.*

> that the various forms of intermodal competition are undermining the incumbents' ability to set rates in excess of relevant costs.[66]
>
> Measurements of competitors' historic market shares as considered in HHI calculations are of limited significance and provide limited guidance in determining the ability of the intermodal competitive market to constrain monopoly behavior. This market, suitably monitored, can be considered adequately competitive to support the actions we are taking.[67]
>
> In conclusion, we find that the telecommunications market in New York State is, in aggregate, adequately competitive. Perfect competition, which is the ideal, is not needed; the market need only be adequately competitive. Given the inefficiencies inherent in economic regulation, a market need not be perfect, or even near-perfect, to produce better outcomes for consumers than traditional regulation, given the well-documented inefficiencies of the latter, and its shortcomings in an increasingly competitive market.[68]
>
> In this new and evolving competitive environment, companies should compete on the basis of satisfying customer needs and expectations. In such circumstances, we expect local exchange companies to work aggressively to respond to customer expectations. Their incentive to maintain appropriate levels of service quality no longer need be primarily driven by fear of regulatory action because the market penalty for failure to retain and improve their business - the loss of their customers - is much more severe.[69]

The above citations are a reasonable sampling of the NYPSC's conclusion that intramodal and intermodal competition is now significant in Verizon and Frontier's service territories in New York, to such a degree that the Commission found that a dramatic relaxation of regulation for these companies is warranted. As discussed in my testimony, the competitive market conditions in Washington closely resemble the competitive factors upon which the NYPSC based its decision.

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66 *Id., p. 36.*

67 *Id.,* p. 39.

68 *Id.,* p. 42.

69 *Id., p. 89.*

Q. CAN YOU PROVIDE A BRIEF SUMMARY OF THE KEY FINDINGS OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION ("CPUC") IN ITS RECENT RULEMAKING REGARDING LOCAL EXCHANGE TELECOMMUNICATIONS COMPETITION AND RELAXED STATEWIDE REGULATION OF THE INCUMBENT TELEPHONE COMPANIES IN THAT STATE?

A. Yes. The CPUC's rulemaking order was effective August 24, 2006 and was a broad examination of competition and regulation in the service territories of local exchange carriers, including AT&T, Verizon, SureWest and Frontier.[70] Similar to the findings of the NYPSC summarized in my previous response, the CPUC found that, in view of the status of intramodal and intermodal competition, it should forbear from regulation of all retail residential and business telecommunications services offered by these carriers, with the sole exception of specific residential local exchange service rates, which were frozen at current levels until January 1, 2009 - after which this price cap is eliminated - pending a review in a separate proceeding of the relationship between the availability of essential "lifeline" services to universal service funding.[71] Key findings from the CPUC's order that are directly relevant to this proceeding include:

> The telecommunications market "now includes multiple wireless carriers; competitive local exchange carriers (CLECs); cable television companies that have added Voice over Internet Protocol (VoIP) telecommunications products to yield at "triple play" of voice, video and data offerings; and pure-play VoIP providers, such as Vonage or Packet8, that will each add a voice communications service to any broadband connection."[72]
>
> We reduce and eliminate many of the vestiges of rate-of-return regulation, such as "accounting adjustments" and other rules that cause regulatory accounts to diverge from financial accounts.

[70] Rulemaking 05-04-005, pp. 97-99.

[71] *Id., p. 97.*

[72] *Id., p 6.*

These regulatory adjustments no longer serve a ratemaking purpose. We instead, therefore, base our requirements on Generally Accepted Accounting Principles (GAAP) accounting standards and FCC accounting rules, and consequently streamline our audit practices. We eliminate the price cap index, price cap filings, earnings "sharing," and gain-on-sale distributions, all of which are no longer appropriate in the competitive voice communications market.[73]

Our review of the extensive record in this proceeding convinces us that Verizon, SBC, SureWest and Frontier lack the ability to limit the supply of telecommunications services in voice communications markets, and therefore lack the market power needed to sustain prices above the levels that a competitive market would produce. We find that this result holds throughout their service territories and for both business and residential services.[74]

We agree that the build out of wireless carriers' networks since this Commission's last major telecommunications regulatory review eighteen years ago has made wireless technologies a close substitute for landline services. This evidence is a significant factor in this decision.[75]

We find that the arguments of other parties that contend there is little competition and that the incumbent carriers retain market power are unpersuasive. These contrary arguments are not supported by the weight of the substantial record evidence, including the evidence that these parties themselves marshaled.[76]

We find that the testimony of Aron, Verizon's witness, convincingly demonstrated that VoIP has tremendous growth potential, due to the explosive growth rate of 416% in the California broadband market between 2000 and 2004 to 4.69 million broadband lines. The summary statement that specifically predicts that "over the next five years, we project the Bells will lose at least as many lines to VoIP as they have lost to UNE-P over the previous five years - but those lost to VoIP will generate zero revenue for the Bells and, therefore, have far worse margin implications" comports with our view of this market.[77]

We do not need to demonstrate the loss of significant market share to competitors by the incumbent carriers. In all markets,

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73 *Id., p.6.*

74 *Id.,* p. 44.

75 *Id.,* p. 44.

76 *Id.,* p. 45.

77 *Id.* p. 47.

> competition takes place "at the margins," and competition results from the ability of firms at the margins to increase their production to take advantage of market opportunities. Although a loss of market share demonstrates low market power, market share loss is not necessary to demonstrate a loss of market power.[78]
>
> Price controls placed only on market participants using one type of technology, but not on other competitors using different technologies, are clearly neither technologically nor competitively neutral.[79]
>
> Pricing power of ILECs is sufficiently checked by a number of competitive forces. These forces include the realistic threat of entry by carriers in any market using the UNE-L and the widespread competition offered by wireless, cable and VoIP providers.

These findings by the CPUC are based on competitive information very similar to that provided in my above testimony. The competitive telecommunications model is evolving in Washington in ways very similar to those acknowledged by the CPUC in California and by the NYPSC in New York.

Q. CAN YOU PROVIDE A BRIEF COMPARISON OF TELECOMMUNICATIONS MARKET FACTS IN NEW YORK AND CALIFORNIA AGAINST SIMILAR FACTS IN WASHINGTON?

A. Yes. While direct comparisons of the facts reviewed by the NYPSC and CPUC to Washington facts are difficult due to differences in data vintages used, variations in market definitions, etc., there are useful - and somewhat surprising - comparisons that can be made. I use the term "surprising" since the Washington competitive facts show metrics remarkably similar to those in New York and California, as follows:

[78] *Id.,* p. 48.

[79] *Id.,* p. 55.

	New York: Verizon	California: SBC/AT&T	Washington: Qwest
% Switched Access Line Loss: 2000-2005	25%[80]	21%[81]	24%[82]
% Decline in Switched Access MOU: 2001-2004	30.5%[83]	25.3%[84]	29.5%[85]
CLEC Market Share Statewide: 12/2005	31%[86]	13%[87]	14%[88]
Wireless Subscribers Exceed Combined ILEC and CLEC Lines in the State?	Yes[89]	Yes[90]	Yes[91]
% of Total Population With Cell Phones (Statewide): 12/2005	70%[92]	66%[93]	66%[94]
% Households With DSL or Cable Modem: 12/2004	33%[95]	35%[96]	32%[97]
% Increase in Broadband Lines: 2000-2004	365%[98]	415%[99]	355%[100]

[80] NYPSC Staff White Paper in Case No. 05-C-0616: *Proceeding on Motion of the Commission to Examine Issues Related to the Transition to Intermodal Competition in the Provision of Telecommunications Services*, 9/21/05, p. 4 ("New York White Paper".) This white paper represents an analysis of competition in New York by the NYPSC Staff and contains the competitive facts relied upon by the NYPSC in its deregulation order with respect to Verizon New York and Frontier Communications.

[81] ARMIS 43-08, Table 3.

[82] *Id.*

[83] New York White Paper, Table 2, p. 36.

[84] ARMIS 43-01, Table 2.

[85] *Id.*

[86] FCC Local Telephone Competition: Status as of December 31, 2005 ("Local Competition Report"), Table 7.

[87] *Id.*

[88] *Id.*

[89] Local Competition Report, Tables 7 and 14.

[90] *Id.*

[91] *Id.*

[92] Local Competition Report, Table 14; U.S. Census Bureau State and County Quick Facts, 2005.

[93] *Id.*

[94] *Id.*

[95] FCC High Speed Services for Internet Access Report: 12/2005, Table 10; ; U.S. Census Bureau State and County Quick Facts, 2005

[96] California Public Utilities Commission Rulemaking 05-04005: *Revision of Regulation for Telecommunications Utilities* ("California Order"), P. 39.

[97] FCC High Speed Services for Internet Access Report: 12/2005, Table 10; ; U.S. Census Bureau State and County Quick Facts, 2005

[98] FCC High Speed Services for Internet Access Report: 12/2005, Table 10;

[99] California Order, p. 47.

[100] FCC High Speed Services for Internet Access Report: 12/2005, Table 10;

As discussed earlier in my testimony, the NYPSC and CPUC examined these and other competitive factors and concluded that the telecommunications markets in their respective states were sufficiently competitive, in view of the available intramodal and intermodal communications options now in existence, that regulation of the incumbent telephone companies should be significantly relaxed. Clearly, the scope of competition in Washington is very comparable to the level of competition that existed in New York and California when the Commissions there made their decisions in favor of regulatory relief. It is now time for this Commission to make a similar decision.

VIII. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The competitive telecommunications market has undergone a paradigm shift, and Qwest is now facing broad competition in Washington not only from traditional wireline CLEC competitors but also from "intermodal" competitors such as wireless and Voice over Internet Protocol ("VoIP") providers. These competitors are driving continuing erosion in Qwest's access line base. The composition of the competitive Washington telecommunications market is dynamic, and customer preferences are clearly shifting away from traditional landline services toward wireless and internet-based services that have attractive and ever-evolving telecommunications applications. In a continuing trend, Qwest's competitors are decreasingly reliant upon Qwest's network to deliver local exchange services, and are increasingly able to deliver telecommunications services to customers via non-traditional means, such as wireless, VoIP and cable telephony. Other state Commissions have observed this same competitive evolution and have found that all of these forms of competition represent substitutes for the incumbent telephone companies' retail residential and business

services. In view of the clear and compelling level of intramodal and intermodal competition that now exists in Washington, I strongly support the AFOR plan discussed in the testimony of Mr. Reynolds as an appropriate replacement for traditional rate of return regulation of Qwest.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.