

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

DOCKET UT-(new)

THE CENTURLINK COMPANIES – QWEST
CORPORATION; CENTURYTEL OF WASHINGTON;
CENTURYTEL OF INTERISLAND; CENTURYTEL
OF COWICHE; AND UNITED TELEPHONE
COMPANY OF THE NORTHWEST

To be Regulated Under an Alternative Form of
Regulation Pursuant to RCW 80.36.135.

DIRECT TESTIMONY

OF

JOHN M. FELZ

ON BEHALF OF

CENTURLINK

APRIL 1, 2013

REDACTED

CONFIDENTIAL per WAC 480-07-160

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I. IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION WITH CENTURLINK.

A. My name is John M. Felz. My business address is 5454 West 110th Street, Overland Park, Kansas, and I am currently employed by CenturyLink as Director – State Regulatory Operations.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, WORK EXPERIENCE AND PRESENT RESPONSIBILITIES.

A. I received my Bachelor's degree in Accounting from Rockhurst University in Kansas City, Missouri in 1979. In 1989, I earned a Master's Degree in Business Administration with an emphasis in Finance from Rockhurst University. I began my career with Sprint as an internal auditor in 1979 and assumed increasing levels of responsibility in that department, including positions as Senior Auditor, Audit Manager and Assistant Director. From 1986 to 1988, I was Revenue Accounting Manager for Sprint's Midwest Group of local telephone companies with responsibility for billing approximately 500,000 customers in six states. In 1988, I was named to the position of Financial Budget Manager and had responsibility for preparing and managing the budget for Sprint's Midwest Group of local telephone companies. From 1991 to 1996, in the position of Revenue Planning Manager, I was responsible for regulatory and tariff issues for Sprint's local telephone operations in Kansas. From 1996 to 1998, I held the position of Senior Manager - Wholesale Markets with responsibility for negotiating and implementing interconnection agreements with competitive local exchange carriers and wireless providers. From January 1998 through

1 May 2006, I held the position of Director – State Regulatory for Sprint and provided state
2 regulatory support for Sprint’s local, long distance and wireless operations in several
3 assigned states. In May 2006, I assumed the position of Director – State Regulatory for
4 Embarq, a new company formed by the spin-off of Sprint’s local telephone operations. In
5 2009, Embarq was acquired by CenturyLink and I was named to my current position as
6 Director - State Regulatory Operations. In this position, I have responsibility for
7 development and implementation of regulatory policies for CenturyLink’s operations in a
8 number of states, including Washington.

9
10 **II. PURPOSE OF TESTIMONY**

11
12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A. The purpose of my testimony is to provide the data and analysis necessary to demonstrate
14 that the Washington telecommunications market in CenturyLink’s service area in
15 Washington is subject to pervasive competition from a variety of technologies and
16 platforms. In light of this highly competitive environment, CenturyLink seeks Commission
17 approval to enter into an Alternative Form of Regulation (“AFOR”) plan, outlined in the
18 testimony of CenturyLink witness Mark S. Reynolds.

19
20 **III. COMPETITION IN THE WASHINGTON LOCAL EXCHANGE MARKET**

21 **A. SUMMARY**

1 **Q. WHAT TYPES OF PROVIDERS COMPETE WITH CENTURYLINK IN THE**
2 **WASHINGTON LOCAL EXCHANGE VOICE MARKET?**

3 A. As described below, the telecommunications market in Washington is exceptionally
4 competitive, and the mix of competitive telecommunications alternatives continues to grow
5 and evolve. Traditional competitors such as Comcast (the major cable company serving
6 much of CenturyLink's Washington territory), along with a number of CLECs (such as
7 Integra, AT&T, Verizon, tw telecom, Windstream, XO Communications, Level 3,
8 Cbeyond, and many smaller CLECs) continue to aggressively compete with CenturyLink.
9 At the same time, intermodal voice services from wireless companies such as AT&T,
10 Verizon, Sprint and T-Mobile, and Voice over Internet Protocol ("VoIP") services from
11 companies like Vonage and Google are rapidly gaining a significant share of the
12 telecommunications market in the state. Washington consumers and businesses have
13 numerous alternatives to meet their local voice calling and broadband needs. The
14 Washington telecommunications market is becoming more competitive every day, and
15 there is no reason to conclude that this explosion of competitive alternatives will subside as
16 new technologies are developed and customer preferences evolve. CenturyLink's market
17 power is constrained by competition today, and will continue to be constrained by
18 increasing competition in the future.

19
20 Some of these competitors offer services to customers via the purchase of wholesale
21 services from CenturyLink (including unbundled network elements, CenturyLink Local
22 Services Platform ("CLSP"), Special Access, and the resale of CenturyLink's retail
23 services) while many other competitors, including cable providers, wireless carriers and
24 certain CLECs, offer services to customers over their own facilities. CenturyLink's
25 wireline services also face competition from non-voice services such as email, texting,

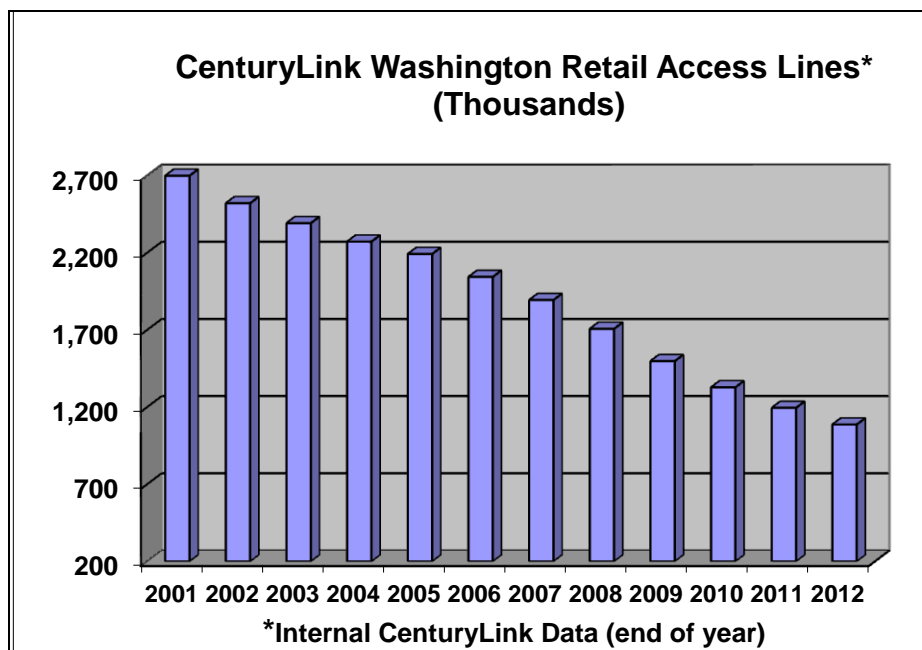
1 internet communication and social networking sites. These services provide users with the
2 ability to communicate instantly across a wide variety of platforms and customer
3 equipment.

4

5 **Q. PLEASE DESCRIBE THE IMPACT OF THIS COMPETITION ON**
6 **CENTURYLINK ACCESS LINES IN WASHINGTON.**

7 A. As competition for voice communications services has increased, CenturyLink has
8 experienced a *significant decline in access line volumes*. Between December 2001 and
9 December 2012, CenturyLink retail access lines in Washington declined 60%, from
10 2,698,545 to 1,086,969.¹ CenturyLink has experienced these declines across its entire
11 service territory in Washington.²

12



13

¹ Residential retail access lines have dropped 64% and business retail access lines have dropped 48% over this time frame.

² See Confidential Exhibit JMF-2 for a comparison of retail access lines between December 2001 and December 2012 by CenturyLink wire center.

1 While CenturyLink has experienced a steady decline in residential and business access
2 lines over the past decade, U.S. Census data shows that both households and the number of
3 people in Washington have increased. For example, between 2001 and 2012, Washington
4 population increased from 5,987,973 to 6,897,012, an increase of 15.2%.³ Many of these
5 customers continue to use telephone service from some provider, but they are not using
6 CenturyLink.

7
8 As Washington has experienced a significant growth trend, demand for voice
9 communications services in Washington has increased apace. FCC data shows that in the
10 western U.S. (as well as nationally), household expenditures for telephone service have
11 increased steadily each year since 2001,⁴ even as CenturyLink revenues have declined.
12 However, despite the large upward trend in households, population, and telephone service
13 expenditures by the public, CenturyLink's retail residential access line base in Washington
14 has fallen sharply since 2001. These divergent trendlines show that consumers are
15 increasingly taking advantage of the expanding array of competitive alternatives to
16 CenturyLink's wireline voice telephone services. As CenturyLink's access lines decline,
17 consumers are increasingly meeting their telecommunications needs via services provided
18 by cable telephony providers, wireless providers, Voice over Internet Protocol ("VoIP")
19 providers and CLECs.

20

³ US Census Bureau; See: <http://quickfacts.census.gov/qfd/states/35000.html> and
<http://www.census.gov/popest/states/tables/NST-EST2012-01.xls>

⁴ See: *Reference Book of Rates, Price indices, and Household Expenditures for Telephone Service Industry*, FCC
Analysis & Technology Division, Wireline Competition Bureau, 2008, Table 2.1. See:
http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-284934A1.pdf

1 **Q. CAN YOU ESTIMATE HOW COMPETITION IN WASHINGTON HAS**
2 **IMPACTED CENTURYLINK'S SHARE OF THE LOCAL VOICE TELEPHONE**
3 **MARKET IN WASHINGTON?**

4 A. Yes. While CenturyLink does not have access to the confidential access line and other data
5 from its competitors, we have estimated our voice market share and the share of our
6 competitors based on FCC data and survey data compiled by consulting firm *Centris*.⁵

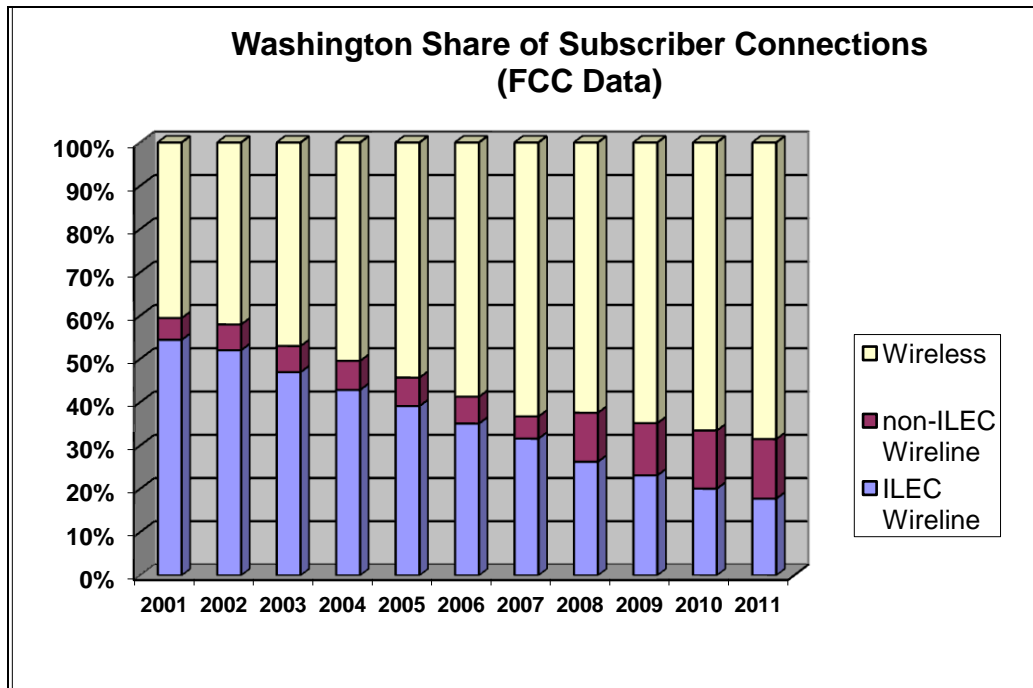
7
8 **Q. PLEASE DESCRIBE THE FCC'S VOICE MARKET DATA FOR WASHINGTON.**

9 A. The FCC compiles voice connection data reported by ILECs, CLECs and wireless
10 providers every six months, and presents this data in its *Local Competition Report*. This
11 report clearly demonstrates that CenturyLink and other ILECs' share of the voice market in
12 Washington has declined significantly over the past decade as customers have moved to
13 cable, wireless, CLEC and VoIP options. Based on the latest FCC report (using December
14 2011 data), the ILEC share of Washington voice telecommunications connections
15 (including residence and business lines) is now only 17.7% as compared to 13.8% for non-
16 ILECs (including *reporting* VoIP providers) and 68.5% for wireless providers.⁶ The trends
17 in the migration of customers from CenturyLink and other ILEC providers to other wireline
18 and wireless providers over the past ten years is demonstrated by the following chart:

19

⁵ *Centris* is a marketing science firm that provides services to CenturyLink and other companies. On its web site, *Centris* states: "Our ongoing survey programs, local market models and advanced analytic skills supplement the research departments of many of the world's leading communication and entertainment companies." *Centris* focuses on the voice, video and data markets. See: <http://www.centris.com/home.html>.

⁶ *Local Telephone Competition: Status as of December 31, 2011*; Industry Analysis and Technology Division, Wireline Competition Bureau, January 2013, tables 9 & 18.



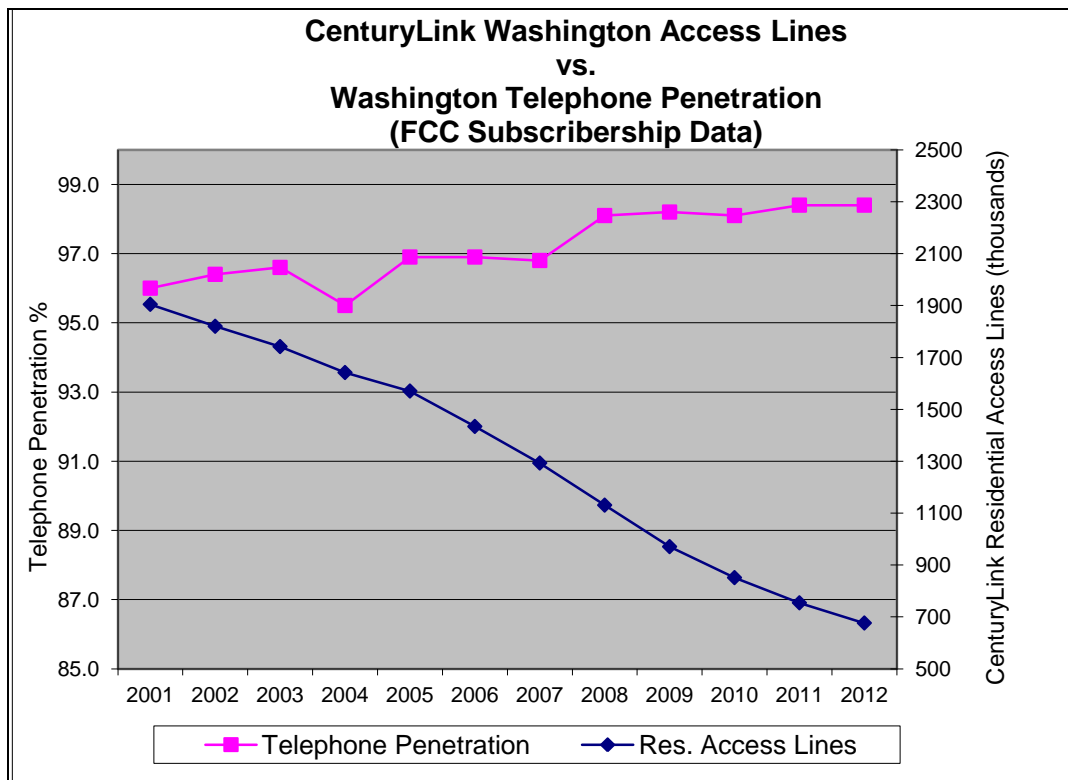
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The fact that consumers have multiple local service options, including cable telephony, wireless services and VoIP-based services—and have been utilizing these options at an increasing rate—is also revealed by the FCC subscribership penetration data. When the FCC evaluates telephone subscribership (and develops penetration percentages), it considers all local exchange options, including wireless, cable and VoIP—since these are real voice telephone options available to consumers.⁷ As delineated in the chart below, in the past decade the Washington telephone subscriber penetration rate has remained relatively steady, and in fact has recently risen over the last four years. Increasing population and stable or increasing penetration rates demonstrates that the Washington

⁷ The FCC's Current Population Survey ("CPS"), which is used to develop telephone penetration data, asks the following question: "Does this house, apartment, or mobile home have telephone service from which you can both make and receive calls? Please include cell phones, regular phones, and any other type of telephone." And, if the answer to the first question is "no," this is followed up with, "Is there a telephone elsewhere on which people in this household can be called?" If the answer to the first question is "yes," the household is counted as having a telephone "in unit." If the answer to either the first or second question is "yes," the household is counted as having a telephone "available." *Telephone Subscribership In The United States (Data through July 2011)*, Industry Analysis and Technology Division, Wireline Competition Bureau, Federal Communications Commission, Released: December, 2011, pp. 2-3, See: http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-311523A1.pdf

1 market for telephone services is growing; yet CenturyLink continues to lose subscribers
2 and access lines. These facts demonstrate that customers have the choice to move to a
3 competitive option for telephone service. The following chart shows CenturyLink's
4 decline in Washington *residential* access lines along with the FCC's Washington
5 penetration rate since 2001:⁸

6



7

8

9 This chart clearly demonstrates that Washington consumers have been purchasing cable
10 telephony, wireless or VoIP-based services as a substitute for CenturyLink services.

11

12 **Q. HAS CENTURYLINK ESTIMATED ITS SHARE OF THE CONSUMER VOICE**
13 **MARKET IN WASHINGTON?**

⁸ *Id.*, Table 3.

1 A. Yes. CenturyLink retained the consulting firm *Centris* to estimate voice market share for
2 CenturyLink and its competitors in the consumer market across its entire service territory in
3 Washington.

4
5 **Q. PLEASE DESCRIBE CENTURYLINK'S CONSUMER MARKET SHARE DATA**
6 **FOR WASHINGTON.**

7 A. The *Centris* data is based on occupied households within the CenturyLink serving area in
8 Washington, and shows the share of these households that purchase voice service from
9 CenturyLink, cable companies, other VoIP providers and CLECs. *Centris* also identifies
10 occupied households without any voice service. *Centris* summarizes its methodology as
11 follows:

12
13 Centris provides a data collection, data integration, modeling and reporting
14 platform for computing estimates of market size, market share and associated
15 metrics at local levels of geography. A number of these metrics are estimated by
16 provider: (1) This platform combines extensive market research with industry
17 analysis to ensure that the *Centris* estimates line up with published business
18 intelligence, company reports and other market and industry analyses; (2) The
19 process uses multiple layers of geography to provide projections of behavior by
20 provider and location; (3) For all product areas, *Centris* starts with assigning
21 occupied households to the CenturyLink footprint and then overlays cable
22 boundaries to provide the ability to look at market share by competitor. (4)
23 Absolute subscriber numbers and detailed flow share analysis are readily
24 available. For voice, *Centris* uses over a million LIDB (Line Information
25 Database) lookups to determine phone provider by local geography. Next
26 *Centris* uses CenturyLink subscribers, surveys and other data to set state and
27 footprint level constraints. Then *Centris* models voice demand (ILEC, CLEC,
28 cable voice, wireless only, VoIP).

29
30 The testimony which follows discloses data that *Centris* developed using the methods
31 described above; it does not rely on carrier confidential information from the CenturyLink
32 companies or from the other carriers.

1 The data demonstrate that the CenturyLink share of the consumer voice market has been
2 declining over the past several quarters, and that as of the third quarter of 2012,
3 CenturyLink provided voice service to *only* 33.6% of the occupied households in its
4 Washington serving area:

	Consumer Market Share	
	Connections (000)	Share
8 Century Link	688	33.6%
9 Cable Telephony	579	28.3%
10 Other VoIP	27	01.3%
11 CLECs	45	02.2%
12 Wireless Only	651	31.8%
13 Other – no voice	58	02.9%
14 Total Households	2,048	100.0%

15
16 It is important to note that the “wireless only” share includes only households that do not
17 have wireline services at all; thus, the many CenturyLink households with both a wireline
18 and wireless phone are included in the CenturyLink wireline share.⁹ Significantly,
19 Comcast provides voice service to a large number of households in CenturyLink’s service
20 territory, and their presence in CenturyLink’s markets comprises most of the cable share
21 identified in the table above. I will discuss Comcast in more detail later in my testimony.

⁹ The CenturyLink share estimated in the *Centris* study is higher than the ILEC share estimated with the FCC data primarily because the *Centris* study counts CenturyLink households that have both a wireline phone and a wireless phone as a wireline household. The FCC share is based on an analysis that counts each wireline and wireless connection separately, regardless of whether or not the household has both wireline and wireless service. Thus, if a household has a wireline phone and a wireless phone, the FCC analysis would count one wireline connection and one wireless connection, rather than simply one wireline connection. In addition, there may be some differences in the characteristics of CenturyLink and other ILEC areas.

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Note that the CLEC and VoIP shares in the *Centris* consumer share study are small. The CLEC share is small because (1) it does not include the cable providers such as Comcast, who are stated separately, and (2) most of the traditional CLECs operating in Washington are focused on marketing services to business customers rather than the consumer market. The VoIP share is small because it does not include cable providers such as Comcast who may provide managed VoIP services.¹⁰

Q. HAS CENTRIS IDENTIFIED RECENT TRENDS IN THE CONSUMER VOICE MARKET IN WASHINGTON?

A. Yes. Recent trends in the *Centris* consumer study are delineated in Confidential Exhibit JMF-3. This exhibit provides CenturyLink share data for several quarters, and also shows the share for each cable provider. This exhibit demonstrates the trend of declining CenturyLink share, along with increasing cable and wireless-only share.

Q. WHAT DO YOU CONCLUDE REGARDING THE CONSUMER MARKET?

A. *Over two-thirds* of the consumer households in the CenturyLink serving area in Washington are not utilizing CenturyLink for voice services. This is clearly a very competitive market where alternative providers are successfully offering functionally equivalent or substitute services that have allowed these providers to gain significant market share at the expense of CenturyLink. In this environment, CenturyLink has very limited market power.

¹⁰ Managed VoIP services utilize private networks, and do not traverse the public internet.

1 **Q. HAS CENTRIS IDENTIFIED ANY MARKET SHARE DATA FOR THE SMALL**
2 **AND MEDIUM BUSINESS (“SMB”) VOICE MARKET IN WASHINGTON?**

3 A. Yes. *Centris* has estimated the share of the Washington *wireline* small and medium
4 business voice market for CenturyLink and its competitors in the legacy Qwest areas.¹¹
5 However, importantly, this study does not show the impact of wireless competition in the
6 SMB market, and therefore does not include a full analysis of the entire SMB voice market.
7 The study shows that for the fourth quarter of 2012, the CenturyLink share of the small
8 business *wireline* voice market in the Qwest service area was 57.1%, and the CenturyLink
9 share of the medium business wireline market in the Qwest service area was 41.5%.¹²
10 While this data provides a picture of the wireline SMB market, it is entirely reasonable to
11 assume that many small businesses also utilize wireless service in their businesses.
12 Therefore, these wireline market shares, if unadjusted for wireless, overstate CenturyLink’s
13 share of total voice connections in the SMB market in the Qwest areas.

14
15 The major wireline competitors in these markets are Comcast, Integra, XO and Level 3. I
16 will discuss these competitors later in my testimony. Confidential Exhibit JMF-4 includes
17 the *Centris* wireline market share data for the small and medium-sized business markets in
18 CenturyLink’s Qwest markets.

19
20 **Q. ACCORDING TO THE CENTRIS DATA, THE CENTURYLINK SMB MARKET**
21 **SHARE IS LARGER THAN THE SHARE IN THE CONSUMER MARKET. DOES**
22 **THAT MEAN THAT THE SMB MARKET IS NOT COMPETITIVE?**

¹¹ *Centris* market share information for the SMB market is not currently available for the CenturyTel or United service areas in Washington.

¹² Small business is defined as firms spending <\$1,500 / month (ex-wireless) and Mid Markets are firms spending between \$1,500 and \$5,000/ month (ex-wireless)

1 A. No. First, the *Centris* data calculates CenturyLink’s market share in the SMB market
2 differently than in the consumer market, and the two metrics are not comparable. As
3 described above, the *Centris* SMB data does not include the impact of wireless services in
4 the SMB market as it does in the consumer market share analysis. Second, most of the
5 traditional CLECs operating in Washington are solely focused on marketing services to
6 business customers rather than the consumer market. Thus, the number of competitors is
7 greater in the SMB market than in the consumer market and the SMB market segment is
8 very competitive given the availability of alternative providers to customers, and
9 CenturyLink has already lost a significant share to competitors such as Comcast, Integra,
10 tw telecom, Level 3, XO and Windstream. Numerous CLECs offer functionally equivalent
11 or substitute services and compete vigorously with CenturyLink in this segment, and
12 CenturyLink’s market power therefore is constrained. I will describe some of these
13 competing providers below.

14

15 **Q. HAS CENTURYLINK CONDUCTED A MARKET SHARE ANALYSIS FOR THE**
16 **LARGE BUSINESS VOICE MARKET IN WASHINGTON?**

17 A. CenturyLink has not conducted a market share analysis of the large business market that is
18 *specific* to Washington. However, the large business (Enterprise) market should be viewed
19 within a larger context, since many large business customers operate in multiple states,
20 sometimes with nationwide telecommunications contracts. An enterprise customer may
21 purchase hundreds of thousands of dollars of telecommunications services each month
22 nationwide, but only a few dozen dollars’ worth in Washington under the same or
23 coordinated contracts. Thus, the “relevant market” for enterprise services is nationwide,
24 not confined to Washington. National research firm IDC has found that in 2012, [BEGIN
25 **CONFIDENTIAL]** [REDACTED]

26 [REDACTED]

1 [REDACTED],
2 [REDACTED]
3 [REDACTED] [END
4 **CONFIDENTIAL]**

5
6 **Q. WHAT DO YOU CONCLUDE REGARDING THE ENTERPRISE MARKET?**

7 A. The large business or Enterprise voice market is an extremely competitive market segment.
8 The Enterprise market is still dominated by Verizon and AT&T, and CenturyLink is clearly
9 not dominant in this market. Enterprise and large Governmental customers have the
10 alternative to purchase services from AT&T, Verizon, CenturyLink and other carriers who
11 are increasingly focused on the large business market, such as Comcast, tw telecom, XO,
12 Windstream, Level 3 and others. Large Enterprise and Government Customers (such as the
13 Department of Defense) are very sophisticated, and have the purchasing power to drive the
14 market, since they can commit to quantities and terms on such a large scale that they
15 request and receive significant discounts from tariffed rates that are negotiated on an
16 individual contract basis (“ICB”). Some large customers dictate the terms of proposals so
17 stringently that only a few providers can meet their requirements. But this provides
18 evidence that these Enterprise and Government customers, not CenturyLink, have market
19 power.

20
21 I will now describe the competitive market in Washington in more detail.

¹³ Information derived from market share study commissioned by CenturyLink and completed by IDC; Enterprise and L-Qwest SMB Market Share Reports, Summary 2Q’12 Over 2Q’11, September 12, 2012.

1 **A. WIRELINE COMPETITION**
2

3 **1. Cable Telephony**

4 **Q. PLEASE DESCRIBE TELEPHONE COMPETITION FROM CABLE COMPANIES**
5 **IN WASHINGTON.**

6 A. Cable companies provide phone service (along with video and high speed internet)
7 throughout CenturyLink's Washington serving territory. Comcast is the major cable
8 company, offering digital telephone and broadband service to customers in many parts of
9 the state, including the Seattle, Tacoma, Bellevue, Spokane, and Bremerton areas. Other
10 cable companies operating in Washington that provide telephone service include Charter
11 and Wave Broadband. As shown in Confidential Exhibit JMF-5, cable telephony service is
12 available to customers in 189 of CenturyLink's 228 wire centers¹⁴ in Washington and these
13 wire centers account for approximately 98% of CenturyLink's Washington access lines.¹⁵
14 Thus, cable telephone service is now available to a large majority of CenturyLink's
15 customers in Washington.

16
17 **Q. HOW DO CABLE COMPANIES PROVIDE VOICE SERVICE IN WASHINGTON?**

18 A. Cable companies provide telephone service over their own coaxial/fiber facilities, and
19 sometimes partner with wholesale providers such as Level 3 to offer a complete array of
20 local telephone services. The voice services provided via cable telephony include local
21 calling, long distance calling and calling features, and are functionally equivalent to the
22 services that are offered by CenturyLink. Some cable providers use VoIP-based
23 technology, but these are managed services that do not utilize the public internet. Since

¹⁴ Based on data from *Centris*.

¹⁵ While cable providers serve at least some customers in these communities, each company may not offer services to all of the areas served by CenturyLink QC in each wire center.

1 cable telephony providers utilize their own networks and facilities, they do not rely on
2 CenturyLink wholesale network elements in the provision of their telephone services.

3
4 The cable companies listed in Confidential Exhibit JMF-5 offer a broad range of
5 telecommunications services to residential and business customers in Washington, as
6 described below. These offerings demonstrate that cable service providers see the
7 provision of telephone service as a key ingredient in their strategy to expand their customer
8 bases and improve revenue streams by driving up the number of customers purchasing
9 multiple services in addition to cable television service.

10
11 **Q. HOW DOES COMCAST COMPETE WITH CENTURYLINK IN WASHINGTON?**

12 A. Comcast is the major cable company operating in Washington and now offers digital
13 telephone service to customers in nearly all of its cable serving area, which includes most
14 of the major cities and towns served by CenturyLink, including Seattle, Tacoma, Bellevue,
15 Spokane and Bremerton and many medium sized cities. As shown in Confidential Exhibit
16 JMF-5, Comcast offers “Digital Voice” phone service to customers in 101 of
17 CenturyLink’s 228 wire centers in Washington today, and these wire centers account for
18 over 78% of CenturyLink’s access lines in the state as of December 31, 2012. Nationally,
19 Comcast now makes digital voice available to 53 million homes and businesses and
20 provides voice services to 10 million subscribers for a penetration rate of 18.9%.¹⁶
21 According to Comcast, “We offer voice service plans, using an interconnected Voice over
22 Internet Protocol (“VoIP”) technology, that provide either usage-based or unlimited local
23 and domestic long-distance calling, includ[ing] the option for a variety of international
24 calling plans, voice mail, caller ID, call waiting and other features, including the ability to

¹⁶ Comcast 2012 Annual Report (10K), page 44. See:
<http://files.shareholder.com/downloads/CMCSA/2372812231x0xS1193125-13-67658/1166691/filing.pdf>

1 access and manage voice mail and other account information online and through our
2 mobile applications using smartphones and tablets."¹⁷

3

4 **Q. ARE COMCAST’S RESIDENTIAL OFFERINGS COMPARABLE TO THE**
5 **SERVICES OFFERED BY CENTURYLINK IN WASHINGTON?**

6 A. Yes. Like Comcast, CenturyLink offers packages that include features and long distance
7 calling. CenturyLink’s Home Phone package, priced at \$35 per month, includes local
8 service with unlimited calling plus eleven features. The customer may specify features or
9 order the recommended package that includes Caller ID, Call Waiting ID, Voice Mail,
10 Three Way Calling, Last Call Return, Call Rejection, Call Forwarding, Easy Access, No
11 Solicitation, Call Following (Remote Access Call Forwarding), and Selective Call
12 Forwarding.¹⁸ The CenturyLink Home Phone Unlimited plan offers unlimited local and
13 long distance calling plus the eleven features for \$44.95 per month.

14

15 In Washington, Comcast markets its digital voice phone service to residential customers
16 along with cable TV and broadband internet access in Triple Play bundles that it provides
17 for \$99 per month for the first 12 months.¹⁹ Comcast also offers its voice service on a
18 standalone basis as “XFINITY® Voice” for \$19.99 per month for 6 months. Comcast’s
19 digital voice services are advertised as providing unlimited nationwide calling and
20 numerous calling features, including Caller ID and Voicemail.²⁰ This package is designed
21 to compete with CenturyLink’s Home Phone package that includes a basic line and

¹⁷ *Id.*, page 4.

¹⁸ See: https://shop.centurylink.com/MasterWebPortal/freeRange/shop/ShopNC_viewNCBundlesPage?Phone=true

¹⁹ See: http://www.comcastoffers.com/Triple-Play/?exp=xp1_pilot

²⁰ See: http://www.comcastoffers.com/Voice/?exp=xp1_pilot

1 numerous features for \$35 per month. CenturyLink offers a version of Home Phone that
2 includes unlimited nationwide calling for an additional charge of \$10 per month.

3
4 Comcast also offers services to businesses of all sizes via its “Comcast Business Class”
5 offerings, which are prominently marketed on the Comcast web site. Comcast markets
6 internet and voice services in packages starting at \$99 per month, as well as standalone
7 unlimited nationwide voice services starting at \$44.95 per month.²¹ Comcast continues to
8 significantly increase its presence in the business market, offering “cable services to small
9 (up to 20 employees) and medium-sized (up to 500 employees) businesses (“business
10 services”).” Comcast also states: “In addition to the features provided to our residential
11 cable services customers, our services for business customers include a website hosting
12 service, an interactive tool that allows customers to share, coordinate and store documents
13 online, hosted voice services using cloud network servers, a business directory listing, and
14 the added capacity for multiple phone lines that meet the needs of our business customers.
15 In 2012, we began increasing the number of services we offer to medium-sized business
16 customers, including adding advanced voice services and our metro Ethernet network
17 services. We also provide cellular backhaul services to mobile network operators, which
18 help our customers manage continued growth in demand for network bandwidth.”²²

19
20 **Q. DO COMCAST AND CENTURYLINK BOTH OFFER BUNDLES OF SERVICES**
21 **AT DISCOUNTED RATES?**

²¹ http://www.comcastoffers.com/Business/?exp=xp1_pilot

²² Comcast 2012 Annual Report (10K), page 4.

1 A. Yes. Both Comcast and CenturyLink offer discounts for customers that bundle telephone
2 service with high speed internet and video services. Comcast offers bundles of phone,
3 internet and video service for as low as \$89.90 per month for the first six months.²³
4 CenturyLink offers bundles of phone, internet and video (DirecTV) for as low as \$94.95
5 per month. Both companies offer additional bundles with added functions (e.g., faster
6 internet speeds, more video channels) at higher prices. Comcast and CenturyLink market
7 bundles to attract and retain customers, and such offerings are the hallmark of a
8 competitive market.

9

10 **Q. DOES COMCAST POST PRICES FOR ITS BUSINESS SERVICES ON ITS WEB**
11 **SITE?**

12 A. Comcast does post prices for some basic business voice plans on its web site, but in many
13 cases, Comcast, like CenturyLink, provides services to businesses on an ICB or contract
14 basis. However, Comcast is not required to file its ICB contracts or pricing with the
15 Commission. Therefore, unlike in the consumer market, it is difficult to directly compare
16 prices on a public basis.

17

18 **Q. HAS COMCAST GAINED A SIGNIFICANT SHARE OF THE BUSINESS**
19 **MARKET IN THE QWEST AREAS IN WASHINGTON?**

20 A. Yes. According to the *Centris* data, *when considering just wireline services*, Comcast has
21 realized significant shares of both the small business and the mid-size business markets in
22 the Qwest areas in Washington, as shown in Confidential Exhibit JMF-4. Comcast is also
23 actively marketing services in the Enterprise (large business) market, although CenturyLink
24 does not have data available to define Comcast's share of this market.

²³ http://www.comcastoffers.com/Triple-Play/?exp=xp1_pilot

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Q. IS COMCAST LIKELY TO GROW SIGNIFICANTLY IN WASHINGTON IN THE FUTURE?

A. Yes. Comcast has expanded the availability of digital phone service in Washington markedly, and as noted above, nearly all Comcast customers in Comcast’s service area can now order Comcast Digital Voice service. It is significant that Comcast has seen exponential growth in its digital voice offering nationally. As noted above, according to its 2012 year-end report, Comcast now serves 10 million digital voice customers in the United States—up from 1.9 million in 2006 and 4.4 million in 2007—a growth rate of more than 400% in five years. In 2009 Comcast announced that it was the third largest phone company in the U.S. serving residential customers:

Comcast, the nation’s leading provider of entertainment, information and communication products and services, today announced that consumers switching to Comcast’s Digital Voice service have made Comcast the third-largest residential phone service provider in the country. . . . Comcast Digital Voice® now serves 6.47 million customers, *which exceeds Qwest’s reported residential subscriber base*. The popularity of Comcast’s innovative offerings with consumers has enabled Comcast to add residential subscribers in each of the last twelve quarters.”²⁴ (emphasis added)

Comcast’s has increased its presence in the Washington telephone market rapidly, and the potential for future growth is even larger, since Comcast has the capacity *today* to serve many more customers in CenturyLink’s serving area. As CenturyLink’s access line counts have continued to decline, Comcast’s presence in the Washington telephone market has grown to a substantial number of subscribers as delineated in Confidential Attachment JMF-5.

²⁴ Comcast Press Release, March 11, 2009, see: <http://www.comcast.com/About/PressRelease/PressReleaseDetail.ashx?PRID=844>

1 **Q. WHAT OTHER CABLE COMPANIES COMPETE WITH CENTURYLINK IN**
2 **THE WASHINGTON VOICE MARKET?**

3 A. As described above, CenturyLink competes with Charter and some other smaller cable
4 companies in Washington. Confidential Exhibit JMF-5 shows the wire centers where these
5 providers compete with CenturyLink. Each of these companies offers voice services (along
6 with cable and high speed internet) to residence and business customers in the areas they
7 serve. Like Comcast, they offer packages and bundles that directly compete with
8 CenturyLink's offerings. For example, in the Yakima, Walla Walla, and Pasco areas,
9 Charter offers a package of unlimited voice service with 11 calling features, high speed
10 internet and cable TV service for \$29.99 each (\$89.97 combined) per month for the first
11 twelve months (with higher rates after).²⁵

12

13 **Q. WHAT DO YOU CONCLUDE REGARDING CABLE TELEPHONY**
14 **COMPETITION IN WASHINGTON?**

15 A. It is clear that the vast majority of the households in CenturyLink's Washington service
16 areas have been greatly impacted by the cable industry's push into the voice market. With
17 voice, cable TV and high speed internet, cable companies can offer a full bundle of services
18 using their own facilities. As demonstrated above, cable providers—especially Comcast—
19 have gained a significant and growing share of the voice market throughout Washington by
20 offering functionally equivalent or substitute services readily available at competitive rates,
21 terms and conditions.

22

²⁵ See: http://connect.charter.com/landing/pages/DLP_Shell.aspx?id=10A&intcmp=homehero_stopgapbenefits_0113/,
visited 3-17-2013.

1 **2. Other Competitive Local Exchange Providers (“CLECs”)**

2
3 **Q. WHAT OTHER WIRELINE PROVIDERS COMPETE WITH CENTURYLINK IN**
4 **THE WASHINGTON VOICE MARKET?**

5 A. According to data on the Commission’s web site, there are over 183 CLECs operating in
6 Washington.²⁶ While not all certificated providers currently offer voice services in the
7 state, in addition to Comcast and other cable providers, CenturyLink believes there are at
8 least 41 unaffiliated CLECs²⁷ actively competing with CenturyLink for customers in
9 Washington utilizing CenturyLink provided unbundled network elements (such as
10 unbundled loops), CenturyLink’s Local Services Platform (“CLSP”) or their own facilities.
11 These CLECs include Integra, AT&T, Verizon, tw telecom, Windstream, XO
12 Communications, Level 3, Cbeyond, and many smaller CLECs. In addition, there are at
13 least 140 CLECs utilizing resale of CenturyLink’s facilities to provide services to
14 customers in CenturyLink’s service area. *Most* of these CLECs are primarily focused on
15 serving business customers (although there are a number of resellers serving the residence
16 market).

17
18 I will now briefly describe a few of the many CLECs that compete with CenturyLink in
19 Washington.

20
21 **Q. PLEASE DESCRIBE HOW INTEGRA COMPETES WITH CENTURYLINK.**

22 A. Integra is a major player in the Washington business market. Integra is a facilities-based
23 CLEC providing a range of services to small, medium and Enterprise business customers,

²⁶See:http://www.utc.wa.gov/regulatedIndustries/utilities/telcom/Pages/competitiveLocalExchangeCarriers.aspx?Page=TRUE&p_Title=XYN%20Communications%2c%20LLC&p_ID=254&PageFirstRow=181&&View={E633D977-12A8-4CA6-8848-3C593B0BE651} as of 3/17/2013.

²⁷ This number counts a CLEC with multiple subsidiaries only once.

1 including voice services (basic business voice lines, long distance services, ISDN PRI, SIP
2 Solutions), high speed internet access, dynamic T-1 bundles, Ethernet services, MPLS
3 VPN, Private Line, Server Collocation, Managed PBX Services and Private line services.²⁸

4 According to Integra:

5 Integra is one of the largest facilities-based providers of communication and
6 networking services in the western United States. We connect businesses of all
7 sizes with advanced networking, communications and technology solutions in
8 35 metropolitan markets. Integra owns and operates an enterprise-class
9 network consisting of a 5,000-mile long-haul fiber-optic network, 3,000 miles
10 of metropolitan fiber and a nationwide IP/MPLS network. Our fiber network
11 connects directly to more than 2,200 enterprise buildings and data centers.
12 Through our expansive Ethernet-over-copper footprint, we can deliver high-
13 bandwidth services to more than 400,000 businesses.²⁹
14

15 **Q. HOW DOES TW TELECOM COMPETE WITH CENTURYLINK IN**
16 **WASHINGTON?**

17 A. tw telecom (which changed its name from Time Warner Telecom on July 1, 2008) is a
18 facilities-based CLEC operating in 75 markets encompassing 30 states.³⁰ tw telecom
19 provides services to all sizes of business, but is increasingly focused on the Enterprise
20 market. It provides voice services, Ethernet services, IP and managed services, security
21 services and transport and wavelength services.³¹ tw telecom describes itself as follows:

22 For nearly 20 years, tw telecom has delivered managed data, Internet and voice
23 networking solutions to businesses and large organizations throughout the U.S. As
24 one of the three largest providers of Business Ethernet in the nation, we connect more
25 than 18,000 commercial buildings to our national fiber network.³²

²⁸ See: <http://www.integratelecom.com/Pages/default.aspx>, visited 3-22-2013.

²⁹ See: <http://www.integratelecom.com/about/Pages/default.aspx>, visited 3-22-2013.

³⁰ See: <http://www.twtelecom.com/why-tw/>, visited 3-22-2013.

³¹ See: <http://www.twtelecom.com/telecom-solutions/voice-solutions/>, visited 3-22-2013.

³² See: <http://www.twtelecom.com/about-us/>, visited 3-22-2013.

1 In its announcement of 2012 financial results, tw telecom's Chairman, CEO and President,
2 Larissa Herda stated: "In 2012, we achieved strong comprehensive financial results while
3 rapidly deploying industry-leading Intelligent Network and advanced Ethernet capabilities.
4 In 2013, we're further advancing our long-term strategic vision which includes providing
5 customers with unprecedented control and visibility of their network that we believe will
6 accelerate the momentum in our business. We're implementing several growth initiatives
7 including investing in new technologies to drive ongoing innovative capabilities, expanding
8 our sales resources for greater distribution and further automating network functionality for
9 more dynamic customer connectivity. These initiatives are all focused on further driving
10 our revenue growth."
11

12 **Q. HOW DOES AT&T COMPETE WITH CENTURYLINK IN WASHINGTON**

13 A. AT&T is not an incumbent local exchange carrier in Washington, but it operates as a
14 CLEC and IXC, with a primary focus on serving business customers. AT&T, the largest
15 telecom company in the U.S., offers a wide range of telecommunications services to small,
16 medium and enterprise business customers, as well as governmental customers in
17 Washington. AT&T has significant fiber network facilities in Washington and provides
18 services using both its own facilities and via the purchase of wholesale services from
19 CenturyLink.
20

21 **Q. PLEASE DESCRIBE HOW VERIZON COMPETES WITH CENTURYLINK IN**
22 **WASHINGTON.**

23 A. Like AT&T, Verizon is not an incumbent local exchange carrier in Washington, but it
24 operates as a CLEC and IXC, with a primary focus on serving business customers. Verizon

1 is the second largest telecom company in the U.S. and offers a wide range of
2 telecommunications services to small, medium and enterprise business customers, as well
3 as governmental customers in Washington. Verizon, who purchased MCI several years
4 ago, also has a substantial fiber network in Washington.

5

6 **Q. PLEASE DESCRIBE HOW WINDSTREAM COMPETES WITH CENTURYLINK**
7 **IN WASHINGTON.**

8 A. Windstream recently purchased PAETEC (which had purchased McLeod several years
9 ago), and is actively competing with CenturyLink in selected markets in Washington.
10 Windstream's CLEC operations are focused on marketing Internet Protocol (“IP”) based
11 voice and data services to business customers, stating: “Our core offerings span data,
12 voice, network and cloud services; our value-added portfolio encompasses data center
13 services, telecommunications management solutions and equipment.”³³ Windstream offers
14 a “complete portfolio of advanced technology solutions.” It states:

15 Windstream Business enterprise solutions bring comprehensive IP-based voice and
16 data services, MPLS networking, data center, cloud computing and managed hosting
17 services and communication systems to business, government, finance, healthcare,
18 education, retail and other industries and organizations.

19 Windstream Business Voice Solutions offers advanced, enterprise-class business
20 phone services with traditional and next-generation business phone solutions
21 including digital channelized service (DCS), ISDN and Centrex key system, PBX-
22 type service.³⁴

³³ See: <http://www.windstreambusiness.com/services>, visited 3-28-2013.

³⁴ See: <http://www.windstreambusiness.com/enterprise>

1 Windstream also offers a wide array of solutions for small businesses include business
2 voice lines, features, voice mail, long distance, Internet and computer support and cloud
3 services.³⁵ Windstream/PAETEC does not post prices on its website.

4
5 **Q. HOW DOES XO COMMUNICATIONS COMPETE WITH CENTURYLINK IN**
6 **WASHINGTON?**

7 A. XO Communications is one of the nation’s largest service providers exclusively serving
8 businesses, government, carriers and service providers.³⁶ XO Communications is an active
9 participant in the Seattle, Tacoma and Spokane telecommunications markets in
10 Washington. XO Communications operates a “high capacity IP network with terabit-
11 capable routing core” and an “advanced transport network with terabit capacity deployed
12 nationwide.”³⁷ XO offers a full slate of business communications services, including VoIP
13 and SIP trunking, Hosted PBX services, traditional local and long distance voice, cloud
14 communications and conferencing. XO also offers network services including high speed
15 internet access, MPLS IP-VPN, Ethernet VPLS, Ethernet Access services, collocation and
16 fixed wireless. XO also offers Security Services and Hosted IT Services.³⁸

17
18 XO states that it has approximately one million miles of metro fiber, a 19,000-route mile
19 nationwide inter-city fiber network, 1,000 central office collocations, more than 3,300

³⁵ See: <http://www.windstreambusiness.com/small-business>

³⁶ See: <http://www.xo.com/services/Pages/overview.aspx>

³⁷ See: <http://www.xo.com/about/network/Pages/overview.aspx>

³⁸ See: <http://www.xo.com/services/Pages/overview.aspx>

1 fiber-fed buildings on-net, and a fully peered Tier 1 IP network with more than 100 private
2 and public peering relationships.³⁹

3

4 **Q. HOW DOES LEVEL 3 COMMUNICATIONS COMPETE WITH CENTURYLINK**
5 **IN WASHINGTON?**

6 A. Level 3 Communications is an international provider of IP-based communications and data
7 services to enterprise, content, government and wholesale customers. Level 3 offers an
8 array of voice communications services including collaboration services, enterprise voice
9 solutions utilizing TDM or SIP, and wholesale/carrier voice services.⁴⁰ Level 3 also offers
10 a range of data services and solutions including Internet services, content delivery network,
11 converged business network, private line services, rural access solutions, wavelength
12 service and virtual private network services.⁴¹

13

14 **Q. HOW DOES CBeyond COMPETE WITH CENTURYLINK IN WASHINGTON?**

15 A. Cbeyond is engaged in the provision of managed information technology and
16 communications services to small and medium sized businesses, offering service in 14 of
17 the top 25 major metropolitan areas, including Seattle. Cbeyond operates an MPLS-based
18 “enterprise-class network delivering a unified experience for voice, data and hosted
19 services.”⁴² Cbeyond provides voice services, utilizing analog, PRI or SIP protocols⁴³ as

³⁹ See: http://www.xo.com/SiteCollectionDocuments/XO_Communications_Fact_Sheet.pdf

⁴⁰ See: <http://www.level3.com/en/products-and-services/voice/>

⁴¹ See: <http://www.level3.com/en/products-and-services/data-and-internet/>

⁴² See: <http://cbeyond.com/services/network/mpls>

⁴³ See: <http://cbeyond.com/services/voice>

1 well as broadband Internet access. In addition, Cbeyond provides cloud services and
2 managed IT solutions.

3

4 **Q. WHAT DO YOU CONCLUDE REGARDING COMPETITION FROM CLECS?**

5 A. As described above, there are numerous CLECs competing with CenturyLink in
6 Washington, and CLEC services may be purchased by many of CenturyLink's Washington
7 customers. CLECs are able to make functionally equivalent or substitute services readily
8 available at competitive rates, terms and conditions for business and consumer customers.
9 CLECs can easily enter and exit the market, and can offer services by purchasing UNEs or
10 resold services from CenturyLink, or by building their own facilities.

11

12

B. WIRELESS COMPETITION

13

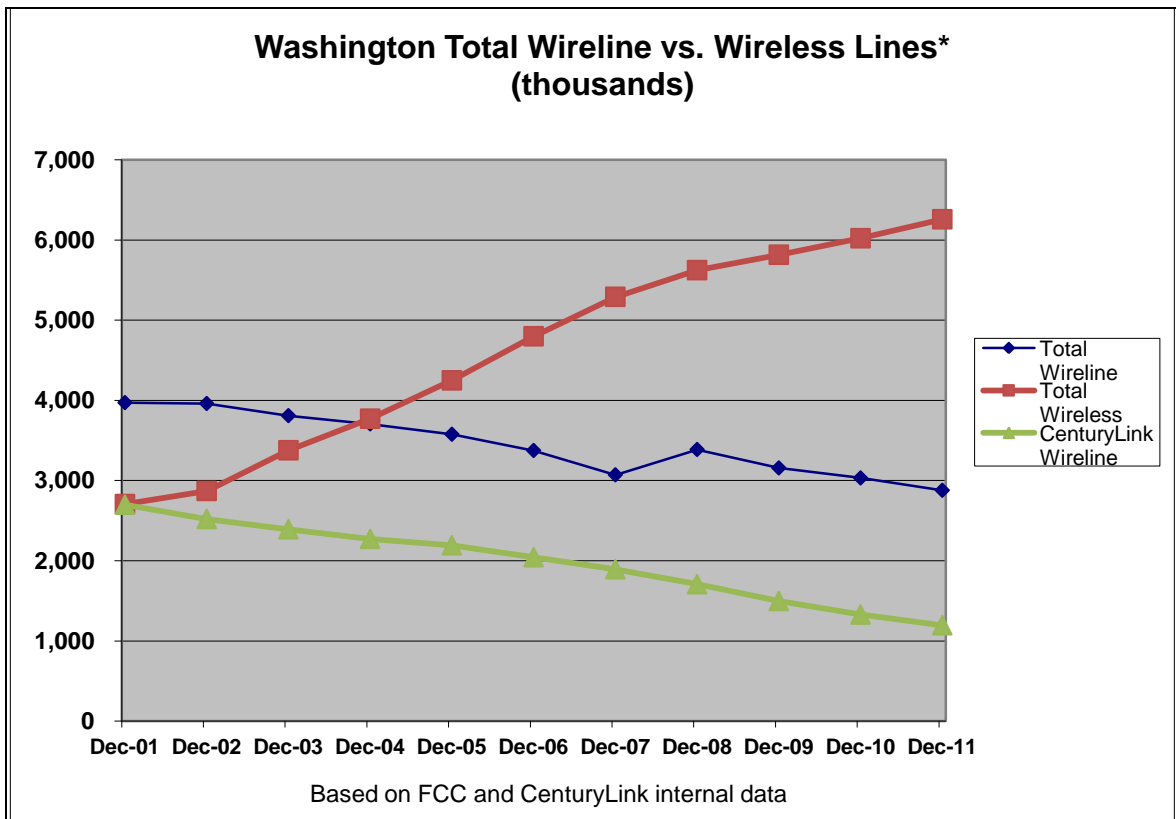
14 **Q. IS COMPETITION FROM WIRELESS PROVIDERS FLOURISHING IN**
15 **WASHINGTON?**

16 A. Yes. According to the FCC's Local Competition Report, as of December 31, 2011 there
17 were 6.259 million wireless subscribers in Washington, while there were only 2.878
18 million wirelines (both ILEC and non-ILEC).⁴⁴ In fact, wireless connections have
19 increased 231% in Washington from only 2.706 million in December 2001.⁴⁵ The FCC
20 data shows that the wireless share of the total voice connection market has grown
21 significantly over this timeframe, as described earlier in my testimony. While wireless
22 subscribers have increased dramatically, CenturyLink access lines (residence and business)

⁴⁴ *Local Telephone Competition: Status as of December 31, 2011*; Industry Analysis and Technology Division, Wireline Competition Bureau, January 2013, tables 9 & 18.

⁴⁵ *Local Telephone Competition: Status as of December 31, 2001*; Industry Analysis and Technology Division, Wireline Competition Bureau, July 2002, table 11.

1 in Washington dropped 60% over the same time frame—from 2,698,545 in December 2001
2 to 1,086,969 in December 2012. The following graph shows the relationship of wireless
3 connections, total wirelines and CenturyLink access lines in Washington:
4



5
6
7 Nearly all Washington consumers, except those in extremely remote areas, have wireless
8 options. In fact, the vast majority of CenturyLink customers have multiple wireless
9 options. Exhibit JMF-6 contains a map prepared by the FCC showing the number of
10 wireless providers throughout Washington. It is readily apparent that there are three or
11 more wireless carriers in significant portions of the areas served by CenturyLink. Exhibit
12 JMF-7 provides maps showing the areas served by CenturyLink, along with the areas
13 served by several major wireless carriers – AT&T, Verizon, Sprint, T-Mobile and

1 Cricket.⁴⁶ It may be observed that there are very few areas within CenturyLink wire center
2 boundaries where there is no wireless coverage, and this occurs only in the most sparsely
3 populated areas. Thus, very few Washingtonians actually live in the areas without wireless
4 service.

5

6 **Q. DOES CENTURYLINK PROVIDE WIRELESS SERVICE IN WASHINGTON?**

7 A. No. While CenturyLink does have an agreement with Verizon Wireless designed to
8 provide CenturyLink wireline customers with a wireless option as part of a CenturyLink
9 service bundle, the service is provided by and branded as Verizon Wireless.⁴⁷ When a
10 customer disconnects his or her CenturyLink service and becomes a wireless-only
11 customer, CenturyLink will lose the customer, even if he or she subscribes to Verizon
12 Wireless.

13

14 **Q. PLEASE DESCRIBE THE TYPES OF VOICE PRICING PLANS AVAILABLE**
15 **FROM THE MAJOR WIRELESS CARRIERS IN WASHINGTON.**

16 A. Wireless carriers today offer a number of voice plans that are competitive with
17 CenturyLink local exchange service, and these plans start at about \$30 per month,
18 including several features. For example:

19

- 20 ■ T-Mobile offers its Simple Choice unlimited talk and text plan plus 500 MB of data for
21 \$50 per month. For an additional \$10 per month, 2 MB of data service is provided
22 and for an additional \$20 per month unlimited data service is provided.⁴⁸

⁴⁶ Wireless coverage based on maps provided on carrier web sites.

⁴⁷ This arrangement is similar to the agreement CenturyLink has in place to offer DirecTV service as part of a bundle of services.

⁴⁸ <http://www.t-mobile.com/shop/plans/individual-plans.aspx>, visited 3-28-2013.

- 1 ▪ Sprint offers a multitude of voice options, including its “Basic” wireless plan with 200
2 “anytime” minutes, unlimited night and weekend calling and free nationwide long
3 distance for \$29.99 per month. Sprint offers a plan with 450 “anytime” minutes for
4 \$39.99 per month and an “unlimited” plan for \$109.99 per month, with no usage
5 restrictions.⁴⁹ Sprint also offers family plans, and many text messaging and broadband
6 data plans that utilize its 4G network.
- 7 ▪ AT&T Wireless offers a basic plan with 450 “anytime” minutes for \$39.99 per month
8 with 5,000 night and weekend minutes, no long distance charges, calling features, and
9 no roaming charges. AT&T offers several other plans, including its 900 minute plan
10 for \$59.99 per month, an unlimited voice plan for \$69.99 per month, and a senior plan
11 with 200 anytime minutes and 500 night and weekend minutes for only \$29.99 per
12 month. AT&T also offers many 4G data and text messaging options.⁵⁰
- 13 ▪ Verizon offers a basic “Nationwide talk” voice plan with 700 “any time” minutes,
14 calling features and no domestic long distance charges for \$40.00 per month. Verizon
15 also offers many other plans with unlimited voice calling and texting and various levels
16 of data usage beginning at \$80 per month.⁵¹

17 These and a variety of other wireless plans provide an alternative to CenturyLink wireline
18 service. Wireless carriers provide functionally equivalent or substitute services readily
19 available at competitive rates, terms and conditions, and there are a significant number of
20 alternative providers of the service in Washington. As described below, many customers
21 substitute wireless service for CenturyLink basic local exchange service.

⁴⁹ See: http://shop.sprint.com/mysprint/shop/plan/plan_wall.jsp?INTNAV=ATG:HE:Plans, visited 3-28-2013.

⁵⁰ See: <http://www.wireless.att.com/cell-phone-service/cell-phone-plans/individual-cell-phone-plans.jsp?requestid=70817>, visited 3-28-2013.

⁵¹ See: <http://www.verizonwireless.com/wcms/consumer/shop/shop-data-plans.html>, visited 3-28-2013.

1

2 **Q. HAVE A SIGNIFICANT NUMBER OF TELEPHONE CUSTOMERS “CUT THE**
3 **CORD,” RELYING SOLELY ON WIRELESS SERVICE TO MEET THEIR**
4 **VOICE TELECOMMUNICATIONS NEEDS?**

5 A. Yes. The decline in CenturyLink landlines, coupled with the dramatic increase in wireless
6 connections, demonstrates that an ever-increasing number of Washington customers view
7 wireless phones as a substitute for wireline service, and that wireless phones are replacing
8 wireline phones. In fact, a significant number of voice customers have already “cut the
9 cord,” relying solely on wireless service to meet their telecommunications needs, and this
10 trend is accelerating. According to a survey conducted by the National Center for Health
11 Statistics (“NCHS”), in the first six months of 2012, 35.8% of U.S. households did not
12 have a traditional landline telephone, but did have at least one wireless telephone. The
13 study states:

14

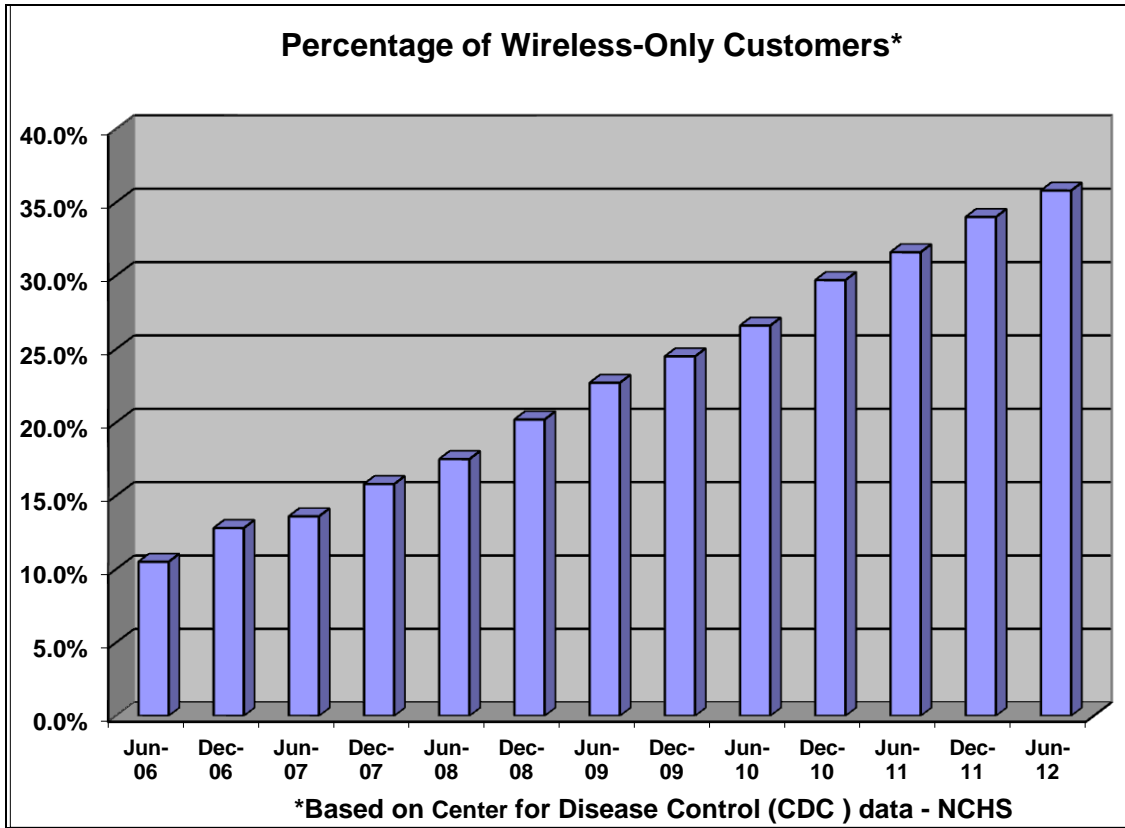
15 More than one-third of American homes (35.8%) had only wireless telephones
16 (also known as cellular telephones, cell phones, or mobile phones) during the
17 first half of 2012—an increase of 1.8 percentage points since the second half of
18 2011. In addition, nearly one of every six American homes (15.9%) received all
19 or almost all calls on wireless telephones despite also having a landline
20 telephone.⁵²

21 Thus, while 35.8% of households have already “cut the cord,” another 15.9% of households
22 are “wireless mostly” and use their wireless phone for nearly all calling. In total, these
23 wireless only and “wireless mostly” households make up over half (51.7%) of households.

⁵² *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 2012*, released December 2012, page 1. In the NCHS study, any households that has removed an additional landline telephone line in favor of wireless service but still retains at least one landline telephone line in the household is not considered “wireless only.”

1 The chart below depicts how wireless-only households in the U.S. have increased,
2 according to the NCHS study:

3



4

5

6 There is little doubt that this trend will continue in the future, especially given the large
7 amount of “wireless mostly” households that exist today. These customers are particularly
8 likely to “cut the cord” in the future.

9

10 **Q. DOES “CORD CUTTING” IN WASHINGTON FOLLOW THE TREND OF THE**
11 **NATION AS A WHOLE?**

12 A. Yes. On October 12, 2012, the NCHS released a detailed analysis of its Wireless
13 Substitution report—with state-specific data—for the 2010-2011 timeframe. For the

1 January to December 2011 time period, the NCHS found that 33.8% of adult Washington
2 households were “wireless only.”⁵³

3

4 **Q. DOES THE ABILITY TO SUBSTITUTE WIRELESS SERVICE FOR WIRELINE**
5 **SERVICE PLACE STRONG COMPETITIVE PRESSURE ON WIRELINE**
6 **SERVICE PRICES?**

7 A. Yes. In areas where wireless alternatives exist—which includes nearly all of
8 CenturyLink’s Washington service territory—it is viewed as a viable local service
9 alternative by a large number of customers. This fact is made clear by the growing number
10 of consumers who have already “cut the cord” as well as the “wireless mostly” customers
11 who are considering “cutting the cord.” The existence of wireless alternatives constrains
12 CenturyLink’s ability to raise prices for wireline basic exchange service above market
13 levels because such an increase would likely cause even more customers to replace their
14 wireline service with a wireless phone, thereby potentially reducing CenturyLink’s
15 profitability. Thus, wireless is an effective price-constraining substitute for wireline
16 service.

17

18 **Q. WHY WOULD “WIRELESS MOSTLY” HOUSEHOLDS BE PARTICULARLY**
19 **LIKELY TO “CUT THE CORD” IN THE FUTURE?**

20 A. “Wireless mostly” households are particularly likely to “cut the cord” in the future because
21 the customers already have a wireline phone and a wireless phone, but are using their
22 wireline phones less and less. Minimal wireline usage causes customers to question the
23 value of maintaining and paying for both a wireless and wireline phone, especially if

⁵³ *Centers for Disease Control and Prevention, National Center for Health Statistics, Wireless Substitution: State-level Estimates From the National Health Interview Survey, January 2007–June 2010, released April 20.2011, Table 3.*

1 wireline rates increase. Ultimately, a “wireless mostly” customer may decide to “cut the
2 cord;” a scenario that is obviously occurring regularly as evidenced by the NCHS data.
3 The behavior of these customers helps to constrain a wireline company like CenturyLink
4 from raising rates above the appropriate market level.

5
6 **Q. FOR WIRELESS TO SERVE AS A PRICE-CONSTRAINING SUBSTITUTE FOR**
7 **WIRELINE SERVICES, MUST ALL CUSTOMERS VIEW IT AS A SUBSTITUTE?**

8 A. No. In various regulatory forums, some parties have argued that wireless service should
9 not be considered to be a substitute for wireline service because *all* customers may not
10 view it as a substitute. There is no doubt that some customers do not view wireless service
11 to be a substitute for wireline service, and some of these customers may not want to give up
12 their wireline phone under any circumstances. However, as long as there are enough
13 customers willing to “cut the cord” (often called customers “at the margin”), this constrains
14 CenturyLink’s prices. While wireless does not represent a substitute for *all* wireline
15 customers, it is a *functionally equivalent substitute* for many if not most customers—a fact
16 proven by the large number of households that have already “cut the cord” and have
17 become wireless-only.

18
19 **Q. FOR WIRELESS TO SERVE AS A PRICE-CONSTRAINING SUBSTITUTE FOR**
20 **WIRELINE SERVICES, DOES IT NEED TO BE IDENTICAL TO WIRELINE**
21 **SERVICE?**

22 A. No. Some parties have also argued that wireless service should not be considered to be a
23 functionally equivalent substitute for wireline voice service because it is not *identical* to
24 wireline service. They argue that since it is not identical, it is not *functionally equivalent*
25 and should not be considered as a competitive substitute. Such arguments distort the
26 language of the relevant statutes, but also misstate how the market works. Wireless service

1 does not need to be *identical* to wireline service in order for it to be *functionally equivalent*
2 or serve as an *effective substitute* for wireline services that constrains CenturyLink's retail
3 wireline prices. There will *always* be some differences between wireline and wireless
4 service in terms of quality of transmission, data capability, mobility, ergonomics, etc. For
5 example, a wireless phone will always have more mobility than a wireline phone, and
6 handsets are likely to be smaller. This does not mean that they are not substitutes for voice
7 services. A simple non-telephone example may help to put this into perspective. One
8 might argue that metropolitan bus service and subway service are not competitive
9 substitutes for one another because they utilize different technologies, may charge different
10 fares, run different routes to connect the same two points, take different amounts of time to
11 connect the same two points and likely offer tangibly different levels of comfort and ease in
12 the perception of some commuters. While the bus and subway are clearly not perfect
13 substitutes for all commuters, there can be no doubt that bus use would increase if the
14 subway significantly increased its prices. Similarly, if the bus significantly raised fares,
15 many would migrate to subway travel.

16
17 The bottom line is that wireless does not have to be identical to wireline service, nor does it
18 have to be a substitute for all customers, in order for it to constrain CenturyLink's pricing
19 of local exchange service and to limit CenturyLink's market power. Wireless providers
20 today are making functionally equivalent or substitute services readily available at
21 competitive rates, terms and conditions and CenturyLink's market power is limited.

1 **C. VOICE OVER INTERNET PROTOCOL COMPETITION**

2
3 **Q. PLEASE DESCRIBE VOICE OVER INTERNET PROTOCOL (“VoIP”)**
4 **SERVICES.**

5 A. It is useful to describe VoIP services as either “managed” or “over-the-top.” Generally,
6 cable companies offer “managed” VoIP-based services that are non-portable and that carry
7 traffic over private managed networks, rather than the internet. Many other companies
8 such as Vonage, Google and MagicJack offer “over-the-top” VoIP services, which rely on
9 a third-party broadband connection, and transmit calls over the public internet. These
10 companies often offer “portable” VoIP services that can be used over any high speed
11 internet connection. Since cable VoIP services were addressed above, I will describe
12 “over-the-top” VoIP services in this section.

13
14 From a customer perspective, VoIP service functions in a manner similar to standard circuit
15 switched telephony, and allows a customer to utilize a standard telephone set to originate
16 and receive telephone calls using the same dialing patterns that are used for standard
17 wireline telephone service.⁵⁴ To utilize VoIP services, a customer must have a high speed
18 connection, such as Digital Subscriber Line (“DSL”), a high-speed wireless connection,
19 satellite broadband, or a cable modem. The FCC describes VoIP as follows:
20 Interconnected VoIP service “(1) [e]nables real-time, two-way voice communications; (2)
21 [r]equires a broadband connection from the user’s location; (3) [r]equires IP-compatible
22 customer premises equipment (CPE); and (4) [p]ermits users generally to receive calls that

⁵⁴ 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.

1 originate on the public switched telephone network and to terminate calls to the public
2 switched telephone network.”⁵⁵

3

4 **Q. DO VOIP-BASED SERVICES REPRESENT A VIABLE ALTERNATIVE TO**
5 **TRADITIONAL VOICE SERVICES?**

6 A. Yes. VoIP telephone service is a rapidly growing communications technology that clearly
7 represents a competitive alternative to traditional landline-based telephone services in
8 Washington. In fact, in a 2009 Order regarding IP-enabled services, the FCC recognized
9 that VoIP-based services are increasingly replacing traditional wireline services:

10

11 Consumers increasingly use interconnected VoIP service as a replacement for
12 traditional voice service, and as interconnected VoIP service improves and
13 proliferates, consumers’ expectations for this type of service trend toward their
14 expectations for other telephone services.⁵⁶

15 The FCC has also noted in its NPRM regarding Intercarrier Compensation and Universal
16 Service, that “the emergence of VoIP provides another alternative to traditional wireline
17 phone service”⁵⁷ and that “consumer demand for VoIP services continues to increase.”⁵⁸
18 More recently, in its Report and Order and Further Notice of Proposed Rulemaking in this
19 docket, the FCC found that “Interconnected VoIP services, among other things, allow
20 customers to make real-time voice calls to, and receive calls from, the PSTN, and

⁵⁵ *In the Matter of Connect America Fund A National Broadband Plan for Our Future Establishing Just and Reasonable Rates for Local Exchange Carriers High-Cost Universal Service Support Developing an Unified Intercarrier Compensation Regime Federal-State Joint Board on Universal Service Lifeline and Link-Up*, WC Docket No. 10-90, GN Docket No. 09-51. WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, Notice of proposed rulemaking and further notice of proposed Rulemaking, FCC 11-13, released February 9, 2011 (“*ICC/USF NPRM*”), footnote 923.

⁵⁶ *Report and Order*, In the Matter of IP-Enabled Services, Federal Communications Commission, WC Docket No. 04-36, Released: May 13, 2009, ¶ 2.

⁵⁷ *ICC/USF NPRM*, ¶ 503

⁵⁸ *Id.* ¶610

1 increasingly appear to be viewed by consumers as substitutes for traditional voice
2 telephone services.”⁵⁹ In addition, as described earlier, the FCC includes VoIP-based
3 telephone service when it is developing telephone subscribership data, and the FCC now
4 includes VoIP-based services in its *Local Competition Report*, where it includes the
5 number of reported “End-User Switched Access Lines and VoIP Subscriptions.”⁶⁰ As
6 noted in the most recent *Local Competition Report*, non-ILEC VoIP subscriptions in
7 Washington increased to 884,000 in December 2011.⁶¹ VoIP-based telephone offerings
8 represent an increasing and significant form of competition for CenturyLink’s local
9 exchange service.

10
11 **Q. IS THE PROVISION OF VOIP-BASED SERVICES INCREASING IN**
12 **WASHINGTON?**

13 A. While it is very difficult to obtain accurate subscribership information regarding VoIP
14 services in Washington, VoIP is clearly a rapidly growing communications technology that
15 represents a competitive alternative to traditional landline-based telephone services. “Over
16 the Top” VoIP-based telephone service, which is typically offered as a package that
17 includes unlimited local and long distance service plus an array of calling features, is now
18 readily available from a broad range of providers to *any customer in Washington that has*
19 *high-speed broadband internet access*. And it is clear that broadband availability and

⁵⁹ *In the Matter of Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing an Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-Up, Universal Service Reform – Mobility Fund*, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161, Released November 18, 2011, (“*ICC/USF Order*”), ¶63.

⁶⁰ It is not clear that all over-the-top VoIP providers report VoIP lines to the FCC.

⁶¹ *Local Telephone Competition: Status as of December 31, 2011*; Industry Analysis and Technology Division, Wireline Competition Bureau, January 2013, table 9.

1 subscribership will increase over time, especially given the recent initiative by the FCC to
2 provide universal service funding for broadband. In fact, the FCC acknowledged how
3 increases in broadband availability will stimulate VoIP usage: “The deployment of
4 broadband infrastructure to all Americans will in turn make services such as interconnected
5 VoIP service accessible to more Americans.”⁶²

6
7 Broadband access has been increasing rapidly in Washington. According to the FCC’s
8 latest *Internet Access Services Report*, ADSL broadband connections in Washington have
9 grown from 262,149 in December 2003 to 591,000 in December 2011—an increase of over
10 225 percent, and cable modem broadband connections in Washington have grown over this
11 timeframe from 367,321 to 1,329,000—an increase of over 360 percent.⁶³ As of December
12 31, 2011, according to the FCC, there were 591,000 ADSL connections, 1,329,000 cable
13 modem connections, 69,000 fiber connections, 27,000 fixed wireless broadband
14 connections, 3,297,000 mobile wireless broadband connections, and 36,000 other
15 broadband connections, for a total of 5,349,000 broadband connections.⁶⁴ Thus, the
16 number of broadband connections in Washington far exceeds the 1,086,969 total
17 CenturyLink basic exchange access lines that were in service in Washington on December
18 31, 2012. According to the FCC, as of December 2011, high speed internet access was
19 available to 90% of ILEC residential end-user premises and 97% of cable residential end-
20 user premises in Washington, and 55% of Washington residential households subscribed to

⁶² *ICC/USF Order*, ¶67

⁶³ *Internet Access Services: Status as of December 31, 2011*, FCC Industry Analysis and Technology Division, Wireline Competition Bureau, February 2013, Table 16, and *High Speed Services for Internet Access: Status as of December 31, 2007*, FCC Industry Analysis and Technology Division, Wireline Competition Bureau, January 2009, Tables 11 & 12.

⁶⁴ *Internet Access Services: Status as of December 31, 2011*, FCC Industry Analysis and Technology Division, Wireline Competition Bureau, February 2013, Table 16.

1 a high speed internet connection from one of the 87 broadband providers in the state.⁶⁵
2 Thus, competitive broadband services are now widely available from multiple providers in
3 Washington, and these services have been embraced by a rapidly increasing number of
4 customers. Each broadband connection represents an existing or potential VoIP subscriber.

5
6 **Q. CAN CENTURYLINK DSL CUSTOMERS SUBSCRIBE TO VoIP TELEPHONE**
7 **SERVICE PROVIDED BY ANOTHER PROVIDER?**

8 A. Yes. CenturyLink DSL service subscribers have the option of utilizing their DSL
9 connection to subscribe to VoIP service from another provider, in lieu of traditional
10 CenturyLink local exchange services. Residential and business customers within
11 CenturyLink's service territory in Washington may subscribe to CenturyLink DSL service
12 on a "stand-alone" basis (i.e., they are not required to subscribe to standard CenturyLink
13 local exchange service as a precondition to subscribing to CenturyLink DSL service).
14 These customers may order VoIP telephone service from a wide range of non-CenturyLink
15 VoIP providers as a replacement for CenturyLink basic exchange voice service.

16
17 **Q. PLEASE PROVIDE EXAMPLES OF SOME OF THE VOIP-BASED TELEPHONE**
18 **SERVICE OFFERINGS AVAILABLE IN WASHINGTON.**

19 A. Numerous companies offer VoIP services in Washington, including Vonage, Lingo, 8x8,
20 MagicJack, VoIP.com, viataalk, Intalk, PhonePower, CallCentric, VoIPYourLife and many
21 others. There are numerous pricing plans and services available for residential and
22 business customers. Vonage offers "Vonage World" service for \$25.99 per month (\$9.99
23 for the first three months), which includes unlimited domestic usage and unlimited calls to
24 60 countries, Voicemail, Caller ID, Call Waiting, Anonymous Call Block, 3-Way-Calling

⁶⁵ *Id.*, Tables 22, 13 and 21.

1 and many other standard features, online account access and portability (“Take your
2 Vonage adapter anywhere there's a high-speed Internet connection and use your service just
3 like at home.”) Vonage also offers its “U.S. & Canada 300” plan for \$11.99 per month that
4 includes 300 minutes of outbound local and long distance home phone service across U.S.,
5 Canada and Puerto Rico, with 5 cents for each additional minute, along with the same
6 features listed above.⁶⁶ Lingo offers numerous plans, starting with the “America 250” for
7 \$9.95 per month which includes 250 minutes to the U.S. and Canada, with 4 cents for each
8 additional minute. The plan includes over 20 calling features, free activation and a free
9 adapter, with no annual contract. The Lingo “America Unlimited” plan provides unlimited
10 calling in the U.S. and Canada for \$22.95 per month (first month free), with the same
11 features as the “America 250” plan. Lingo also offers international plans such as the
12 “World Unlimited” plan with unlimited calls to 45 countries for \$23.95 per month (first
13 month free), including the features described above.⁶⁷ Other providers offer similar plans,
14 and many carriers offer additional business-related features.

15
16 **Q. WHAT DO YOU CONCLUDE REGARDING COMPETITION FROM “OVER**
17 **THE TOP” VOIP PROVIDERS?**

18 A. VoIP providers offer very attractively priced phone services today; these are functionally
19 equivalent or substitute services readily available at competitive rates, terms and
20 conditions. As with cable, CLEC and wireless competition, this limits CenturyLink’s
21 market power. There are dozens of VoIP providers offering voice service to
22 Washingtonians.
23

⁶⁶ See: <http://www.vonage.com>, visited 3-28-2013.

⁶⁷ See: <http://www.lingo.com/voip/residential/world.jsp>, visited 3-28-2013..

D. COMPETITION AND PRICING

1
2 **Q. GIVEN THIS COMPETITIVE ENVIRONMENT YOU HAVE DESCRIBED,**
3 **SHOULD THE COMMISSION CLASSIFY ALL CENTURYLINK RETAIL**
4 **SERVICES AS EFFECTIVELY COMPETITIVE THROUGHOUT**
5 **CENTURYLINK’S WASHINGTON TERRITORY?**

6 A. Yes. It is in the competitive environment described above, where customers throughout
7 CenturyLink’s Washington territory have multiple voice options, that CenturyLink must set
8 prices for its retail services. The company must set rates at levels that allow for the
9 recovery of costs and investment in the network, while operating within competitive price
10 constraints. If prices are set too low, CenturyLink may not have sufficient margin to
11 sustain operations. If prices are set too high, CenturyLink may experience a mass exodus
12 of customers to the competition, with a potential loss in profitability.

13
14 **Q. DOES THE NEARLY UBIQUITOUS AVAILABILITY OF CABLE TELEPHONY,**
15 **WIRELESS SERVICE AND VOIP-BASED SERVICES PROVIDE PROTECTION**
16 **FOR WASHINGTON CONSUMERS?**

17 A. Yes. If customers are unhappy with CenturyLink prices or service quality, they may easily
18 move to a competitor’s service—whether cable, another CLEC, wireless or VoIP. This is
19 the way competitive markets work, and this disciplines CenturyLink’s prices. If
20 CenturyLink sets rates too high or provides poor service quality, then customers will
21 simply leave CenturyLink for another option. In this way, the competitive market protects
22 Washington retail consumers.

23
24 For example, the threat of a customer “cutting the cord” constrains CenturyLink’s local
25 exchange prices. If CenturyLink sets local exchange rates too high, many customers will
26 simply disconnect their wireline phone and use their wireless phones for all calls. Many

1 customers already use their wireless phone for most calls, and a rate increase that
2 consumers perceive to be unreasonable would cause CenturyLink to lose more customers
3 to the competition, exerting pressure on CenturyLink to provide a competitive response,
4 including the consideration of a reduction of rates. Thus, wireless competition, along with
5 cable telephony, CLEC and VoIP-based competition protects Washington residential
6 customers from unreasonable rate increases, where “unreasonable” is determined by the
7 market.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 A. Yes, it does.