CLEC Market Share – What do the numbers say?

Regional Oversight Committee

Santa Fe • April 15, 2002

Remarks of Ron Binz
Public Policy Consulting

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Consulting services provided to

- The telecommunications and energy industries
- Large and small consumers
- Regulators
- Consumer advocates

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Current and Recent Clients

- Homebuilders Association of Metro Denver
- Colorado Energy Assistance Foundation
- Catholic Charities
- Colorado Office of Consumer Counsel
- Qwest Communications
- Astaris, LLC
- Missouri Office of Public Counsel
- Univance
- NASUCA members in Pennsylvania, Maine, Missouri, Ohio, and Maryland
- Competition Policy Institute

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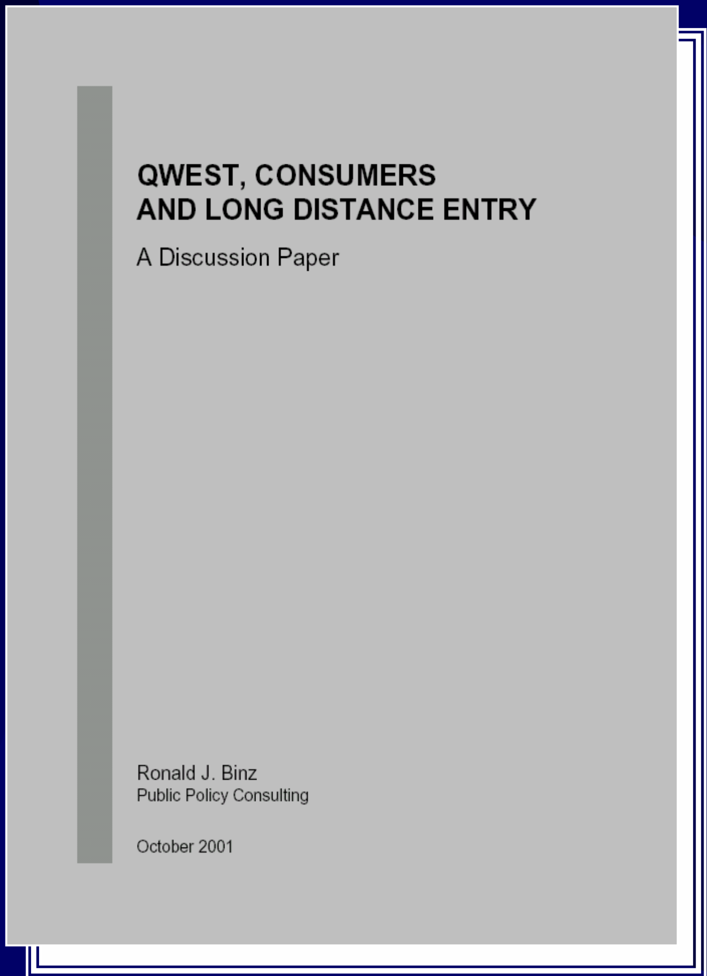
Qwest, Consumers and Long Distance Entry: A Discussion Paper



QWEST, CONSUMERS AND LONG DISTANCE ENTRY

A Discussion Paper

Ronald J. Binz
Public Policy Consulting

October 2001

Available on website

www.rbinz.com

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Purpose of the Report

- What does Qwest's acquisition of *USWEST* mean for competition in the region?
- How much should Qwest's professed new attitude count toward §271 approval?
- How likely is it that consumers will benefit if Qwest receives §271 approval?

Some Major Findings

- Experience in New York and Texas shows Telecommunications Act of 1996 can work
- Qwest has above-average levels of retail competition in its region today
- Retail and wholesale service quality has sharply improved
- Attitudes are changing after Qwest merger
- CLECs give Qwest high marks for flexibility
- Performance Assurance Plan is key to §271 success

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Finding: Changed attitudes at Qwest makes §271 more likely to succeed

- Qwest out-of-region CLEC business shapes its attitude
- Qwest sees genuine value in wholesale markets
- Qwest has an extensive national and international fiber network
- Qwest is breaking with RBOC positions on some policy issues

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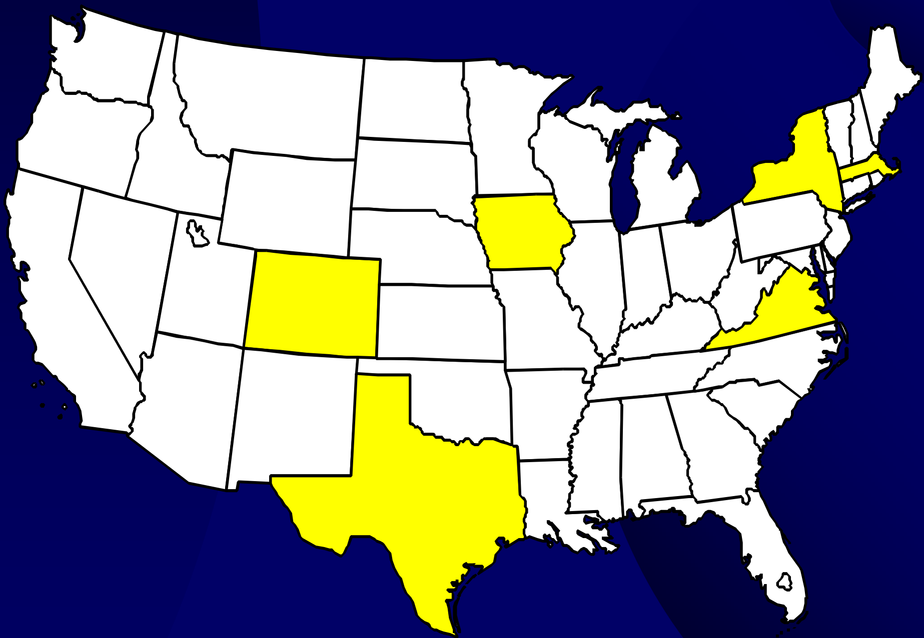
Finding: 2000 FCC data shows Qwest region above average in CLEC entry

States with highest levels of residential competition



- Competitors had gained 8.4% of all access lines
  - 20% of business lines
  - 4.2% of residential lines
- Qwest region trailed only Verizon; it led the SBC and BellSouth regions
- Iowa and Colorado were #3 and #4 nationally for residential competition

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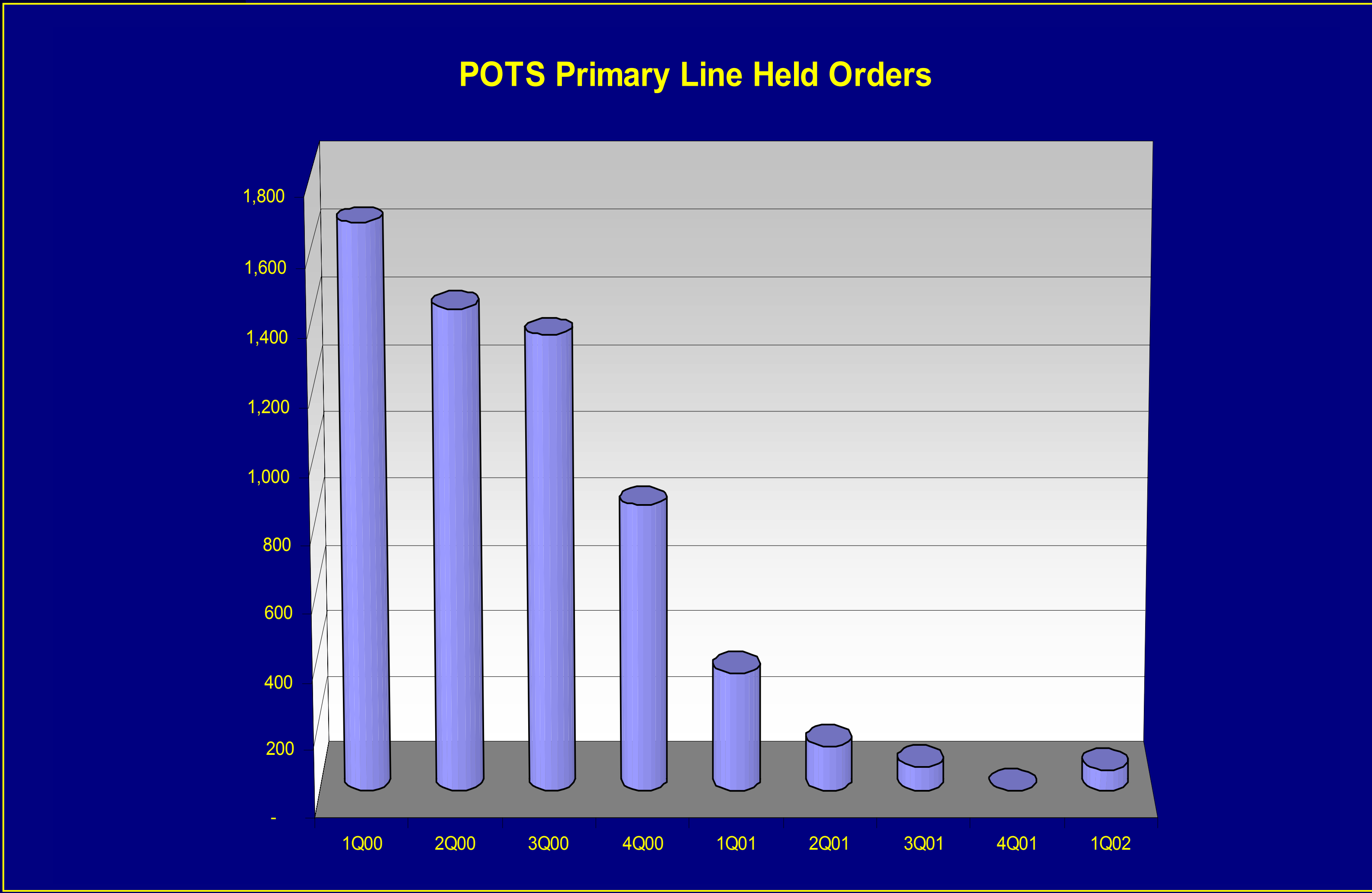
Finding: Retail service quality is improving in most important measures



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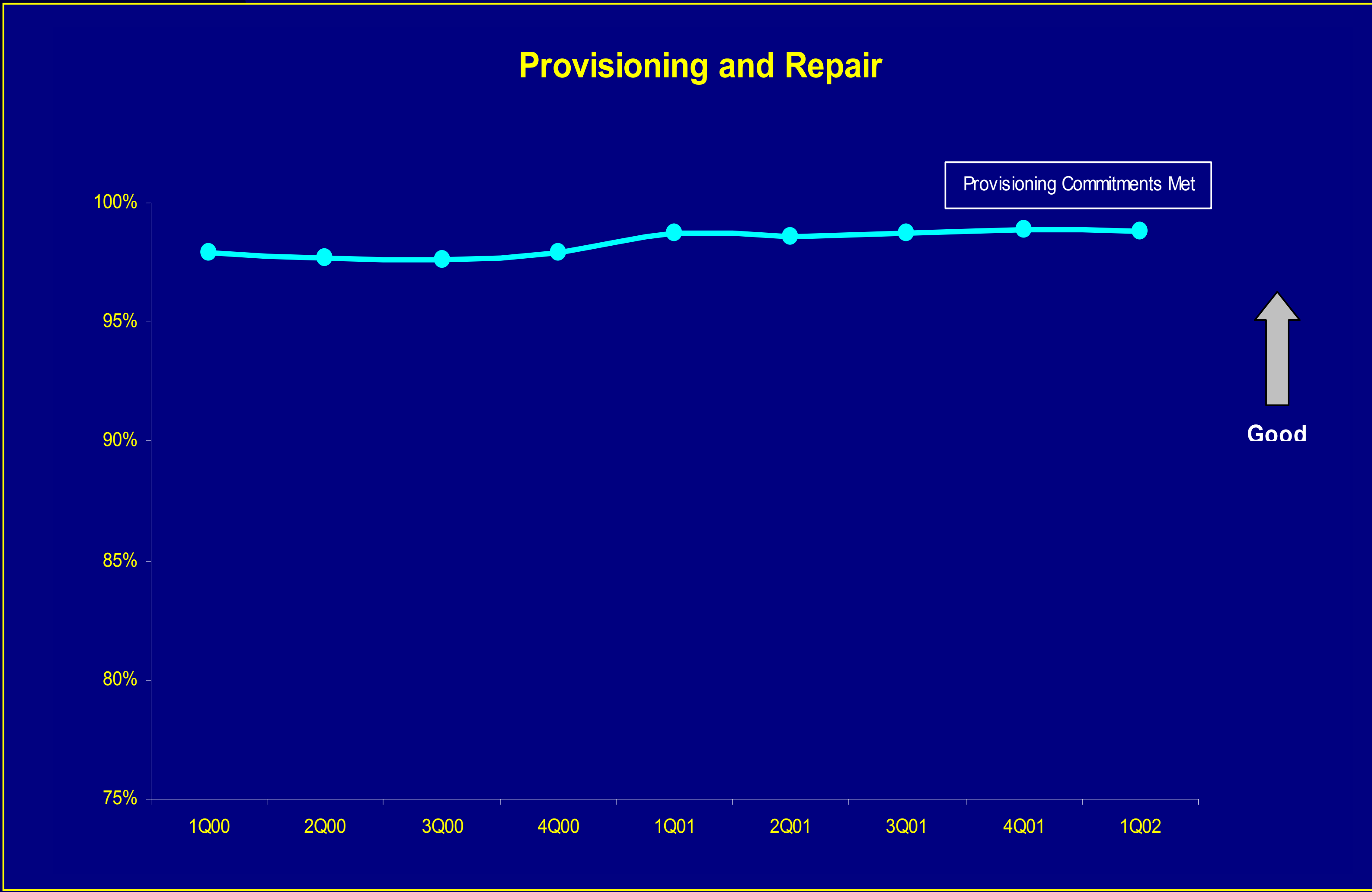

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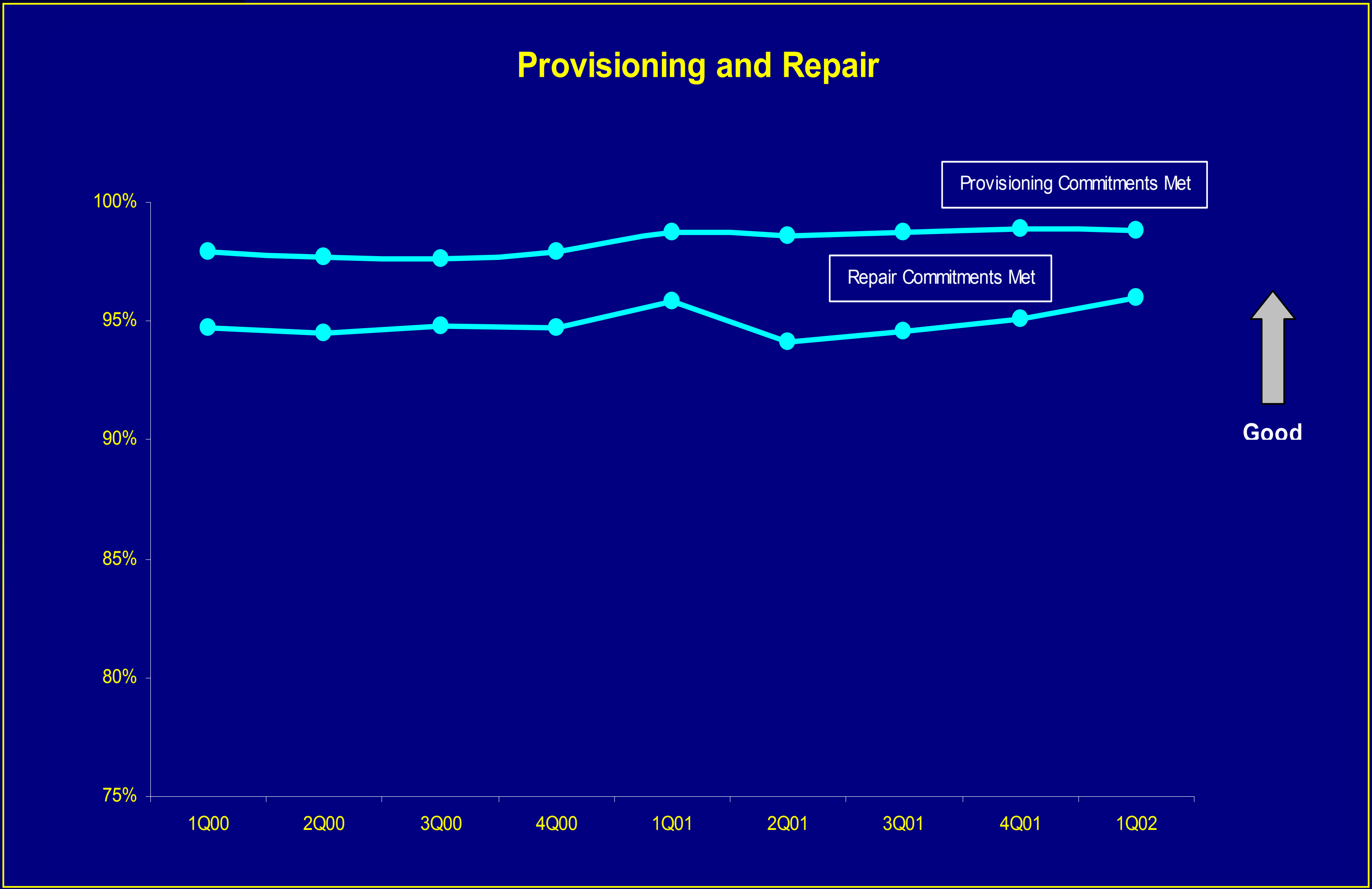
Finding: Retail service quality is improving in most important measures



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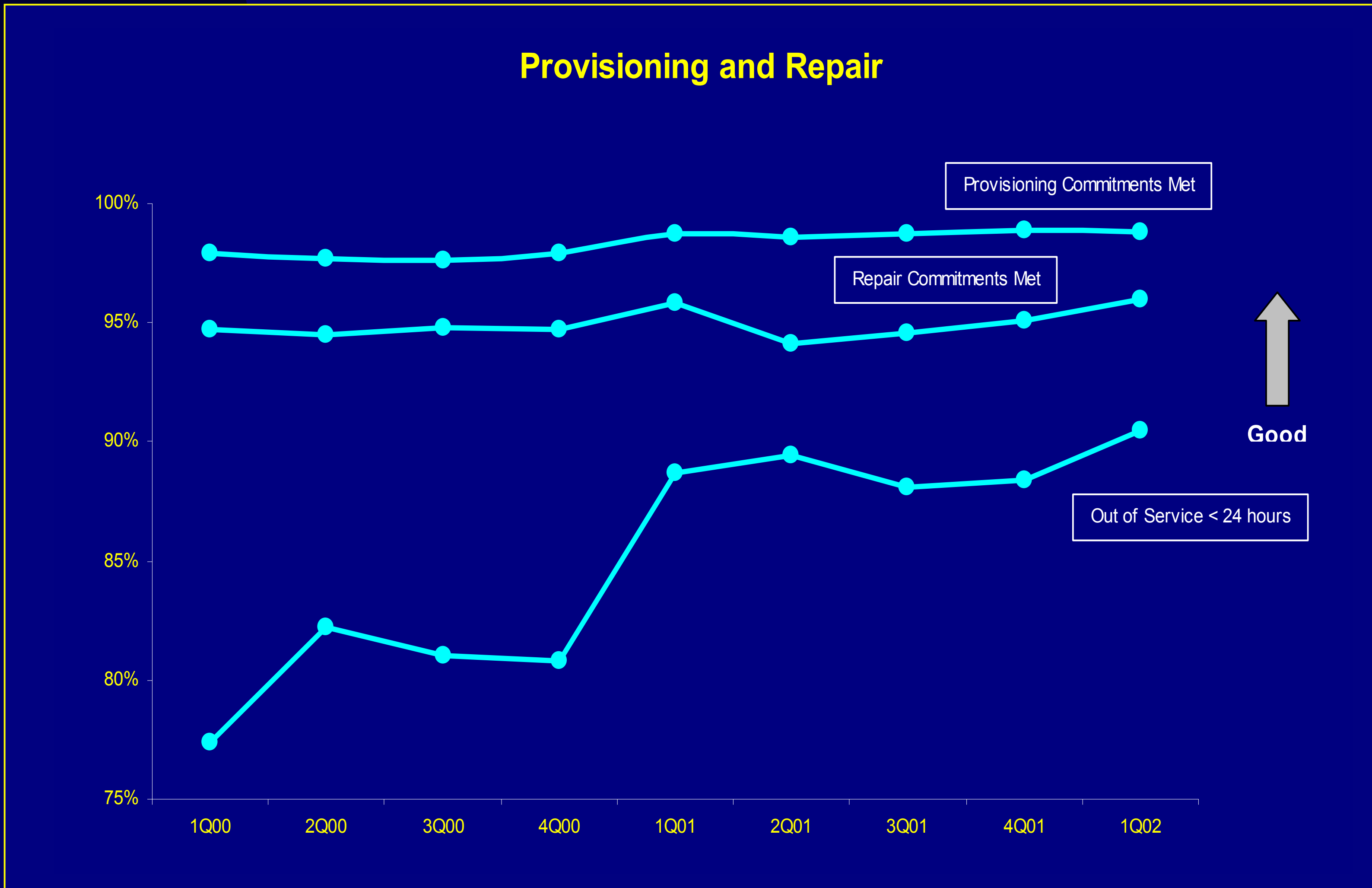
Finding: Retail service quality is improving in most important measures



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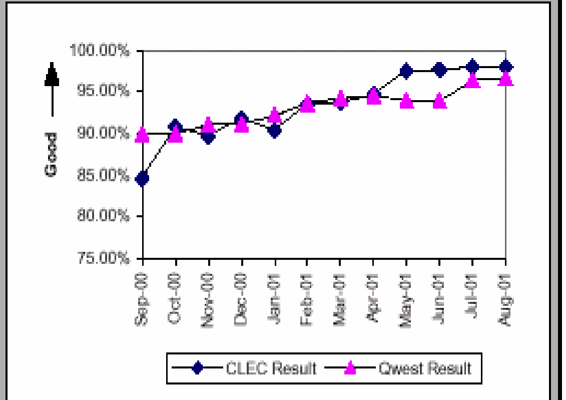
Finding: Wholesale service quality is also improving, moving to parity

OP-3A - Installation Commitments Met (Percent) - Dispatches within MSAs

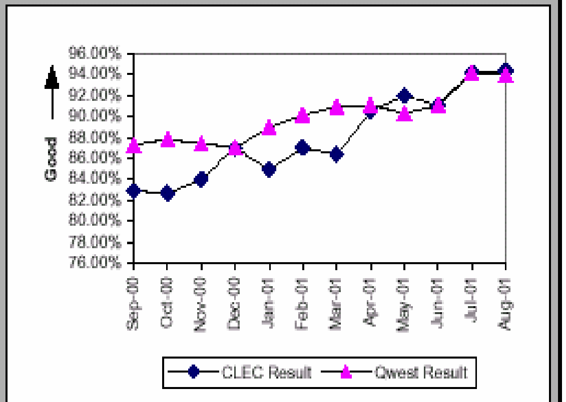
Residence

Date	CLEC Num	CLEC Deno	CLEC Resu	CLEC Std D	Qwest Num	Qwest Deno	Qwest Resu	Mod Z Scr	Parity Scr
Sep-00	1320	1560	84.62%	36.08%	73695	81962	89.91%	6.88	3.18
Oct-00	1446	1593	90.77%	28.94%	72624	80711	89.98%	-1.04	-1.63
Nov-00	1354	1510	89.67%	30.44%	70736	77672	91.07%	1.89	0.15
Dec-00	1076	1172	91.81%	27.42%	67748	74322	91.15%	-0.78	-1.48
Jan-01	1002	1108	90.43%	29.41%	75157	81511	92.20%	2.18	0.33
Feb-01	1088	1164	93.47%	24.70%	67512	72108	93.63%	0.22	-0.87
Mar-01	1120	1195	93.72%	24.25%	75848	80567	94.14%	0.61	-0.63
Apr-01	918	970	94.64%	22.52%	71080	75234	94.48%	-0.22	-1.13
May-01	1379	1415	97.46%	15.75%	79871	85022	93.94%	-5.5	-4.34
Jun-01	1567	1605	97.63%	15.20%	80426	85608	93.95%	-6.13	-4.73
Jul-01	1702	1737	97.99%	14.05%	84674	87849	96.39%	-3.54	-3.15
Aug-01	1867	1905	98.01%	13.98%	98313	101808	96.57%	-3.42	-3.08



Business

Date	CLEC Num	CLEC Deno	CLEC Resu	CLEC Std D	Qwest Num	Qwest Deno	Qwest Resu	Mod Z Scr	Parity Scr
Sep-00	349	421	82.90%	37.65%	16640	19067	87.27%	2.59	0.57
Oct-00	488	590	82.71%	37.81%	18111	20629	87.79%	3.72	1.26
Nov-00	426	507	84.02%	36.64%	16324	18684	87.37%	2.24	0.36
Dec-00	527	606	86.96%	33.67%	14100	16200	87.04%	0.05	-0.97
Jan-01	525	618	84.95%	35.75%	16945	19039	89.00%	3.17	0.93
Feb-01	529	608	87.01%	33.62%	15319	16989	90.17%	2.57	0.57
Mar-01	482	558	86.38%	34.30%	17030	18723	90.96%	3.72	1.26
Apr-01	585	646	90.56%	29.24%	15773	17322	91.06%	0.44	-0.73
May-01	710	772	91.97%	27.18%	16026	17734	90.37%	-1.48	-1.9
Jun-01	588	646	91.02%	28.59%	15660	17196	91.07%	0.04	-0.98
Jul-01	540	573	94.24%	23.30%	16403	17422	94.15%	-0.09	-1.05
Aug-01	582	617	94.33%	23.13%	18456	19645	93.95%	-0.39	-1.24



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CLEC Entry Model using UNE-P

		Case A	Case B	Case C	Case D
Arizona	Margin	-8.49	-1.83	4.83	11.49
	Percent	-32%	-7%	18%	43%
Colorado	Margin	-4.31	1.45	6.11	10.76
	Percent	-18%	6%	22%	36%
Idaho	Margin	-10.69	-4.17	2.36	8.89
	Percent	-32%	-13%	7%	27%
Iowa	Margin	-6.41	0.29	7.08	13.87
	Percent	-27%	1%	29%	57%
Minnesota	Margin	-3.70	2.91	9.53	16.14
	Percent	-16%	12%	41%	69%
Montana	Margin	-9.87	-3.21	3.45	10.11
	Percent	-28%	-9%	10%	29%
Nebraska	Margin	-0.23	6.66	13.55	20.45
	Percent	-1%	28%	58%	87%
New Mexico	Margin	-5.81	0.85	7.51	14.17
	Percent	-26%	4%	34%	64%
North Dakota	Margin	-0.64	6.25	13.15	20.04
	Percent	-3%	27%	56%	86%
Oregon	Margin	2.19	8.75	15.32	21.89
	Percent	12%	47%	83%	119%
South Dakota	Margin	-6.86	0.03	6.93	13.82
	Percent	-23%	0%	23%	46%
Utah	Margin	-0.72	4.99	8.95	15.38
	Percent	-4%	24%	38%	65%
Washington	Margin	-4.89	1.74	8.37	14.99
	Percent	-22%	8%	37%	67%
Wyoming	Margin	-0.05	6.84	13.74	20.63
	Percent	0%	24%	49%	73%

Case A – No Add'l Revenue (0%) **Case C – Med Add'l Revenue (100%)**

Case B – Low Add'l Revenue (50%) **Case D – High Add'l Revenue (150%)**

Table 6 -- Summary of CLEC Margins Using UNE-P Under Four Scenarios

- Relationship between UNE costs and retail rates varies among Qwest states
- CLEC margins depend on level of toll and features
- CLECs generally have attractive margins for customers with above average additional revenues

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Measuring CLEC Local Market Entry

Resources

- FCC Competition Reports
- Reports from ILECs
- Wall Street Analysts
- State Commission Reports

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The FCC's Competition Report

Strengths

- Consistent national reporting: definitions, timeframe
- Carrier reporting enforced by FCC rule
- Accessible

Limitations

- Reporting threshold of 10,000 lines
- Data by state, not by carrier region
- Some data is kept confidential
- Report is annual, lagged

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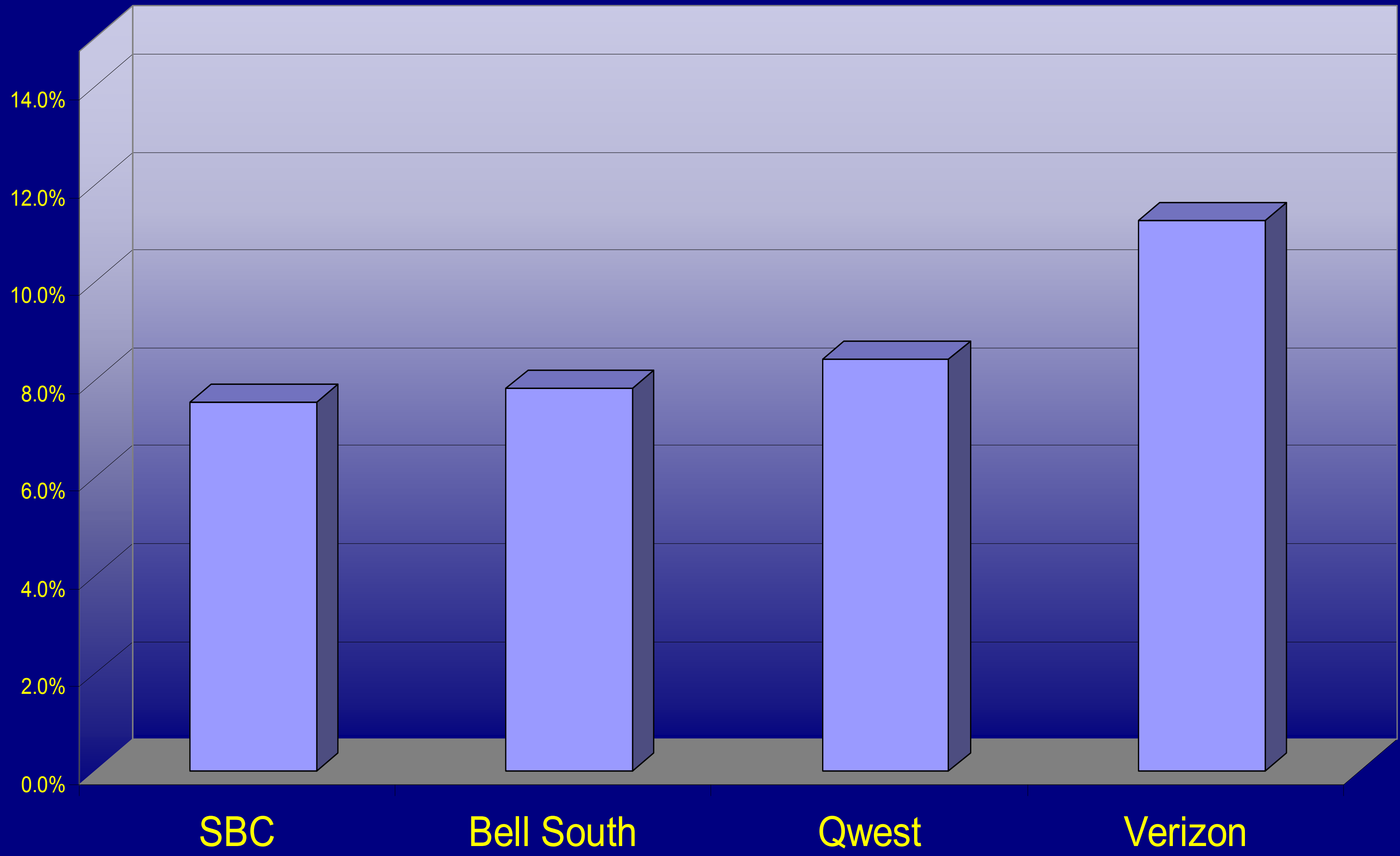
CLEC Entry -- All Lines by RBOC Region
based on FCC Competition Report as of 12/31/00



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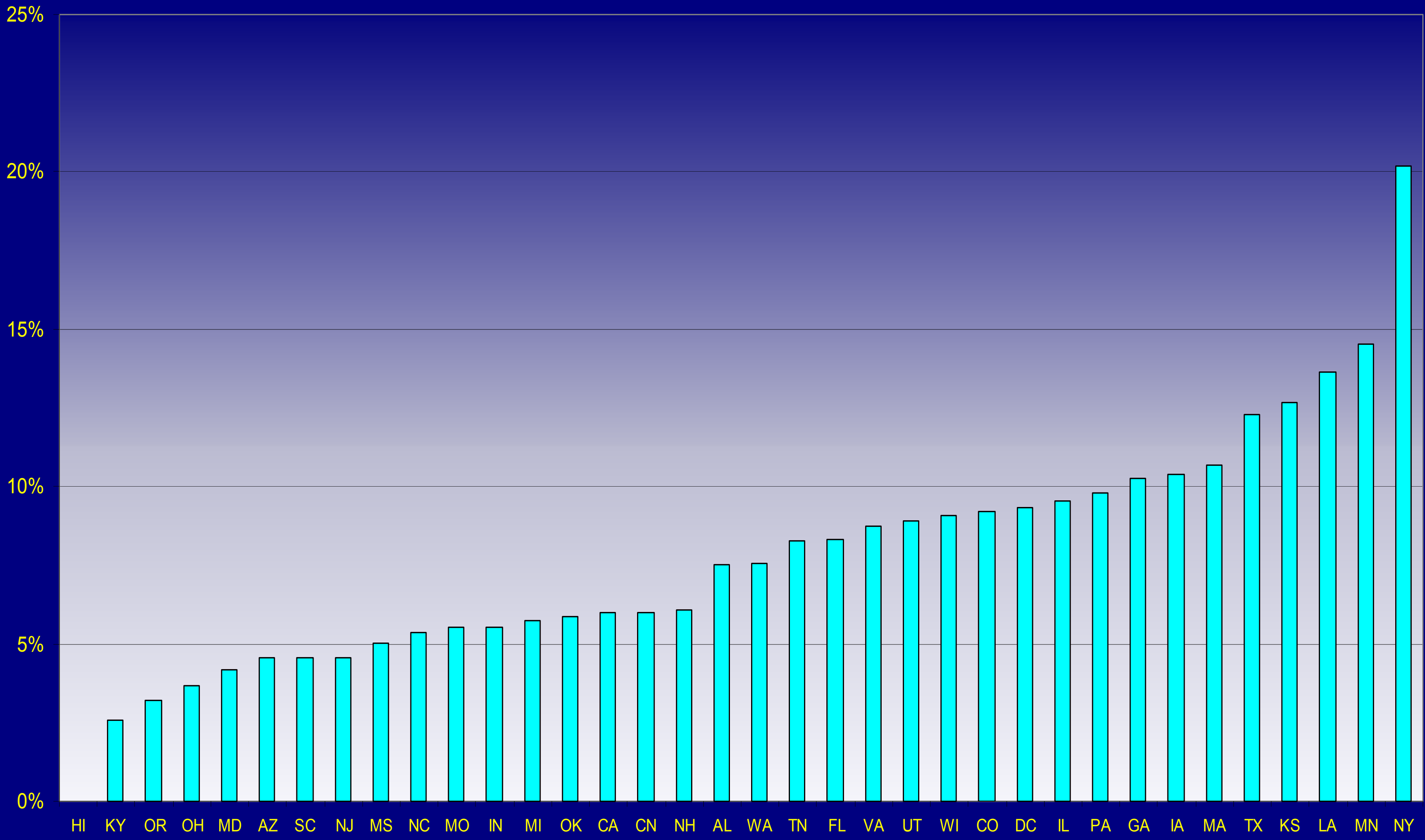
CLEC Market Share by State -- All Lines

based on Dec 2000 FCC Competition Report



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CLEC Market Share by State -- All Lines

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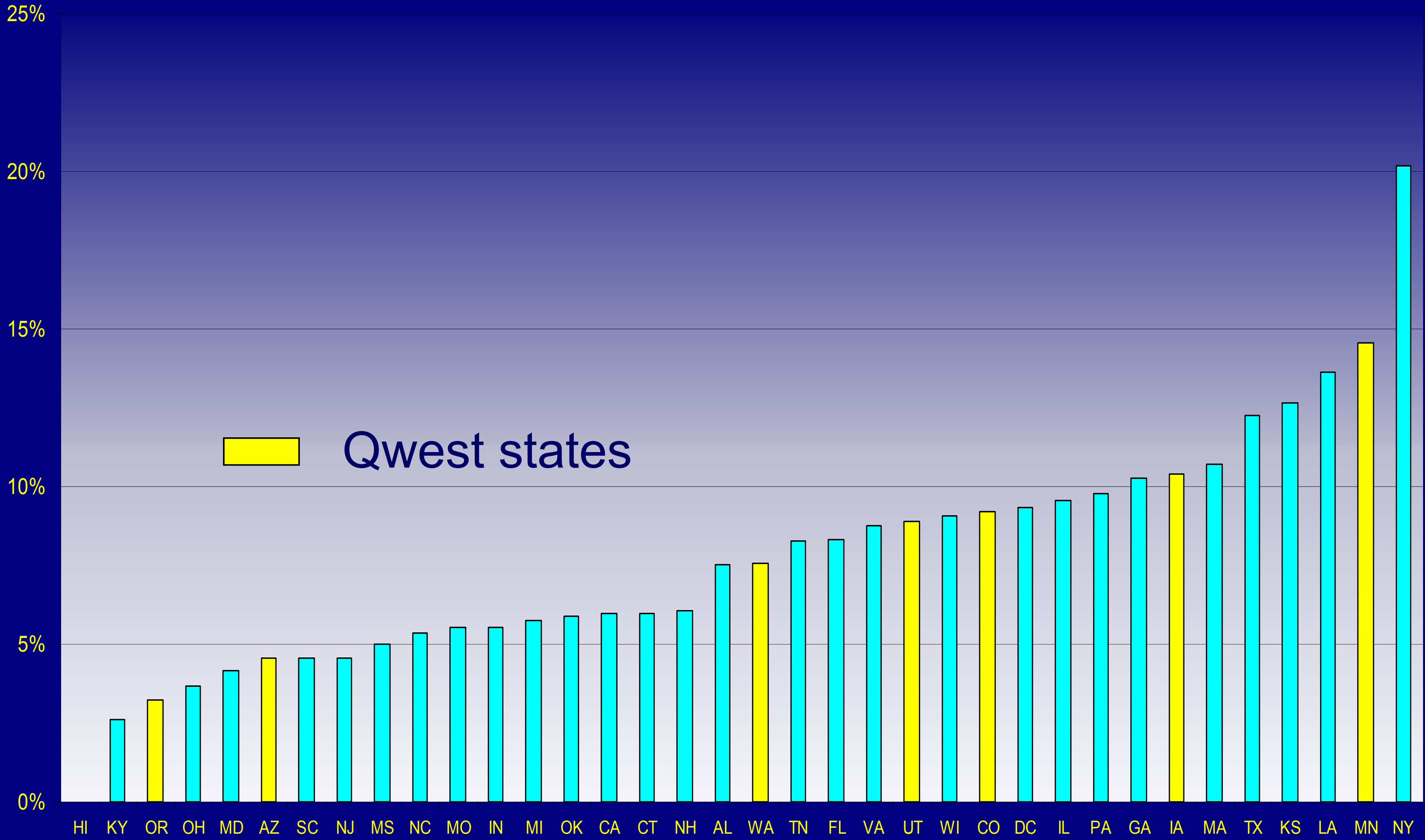

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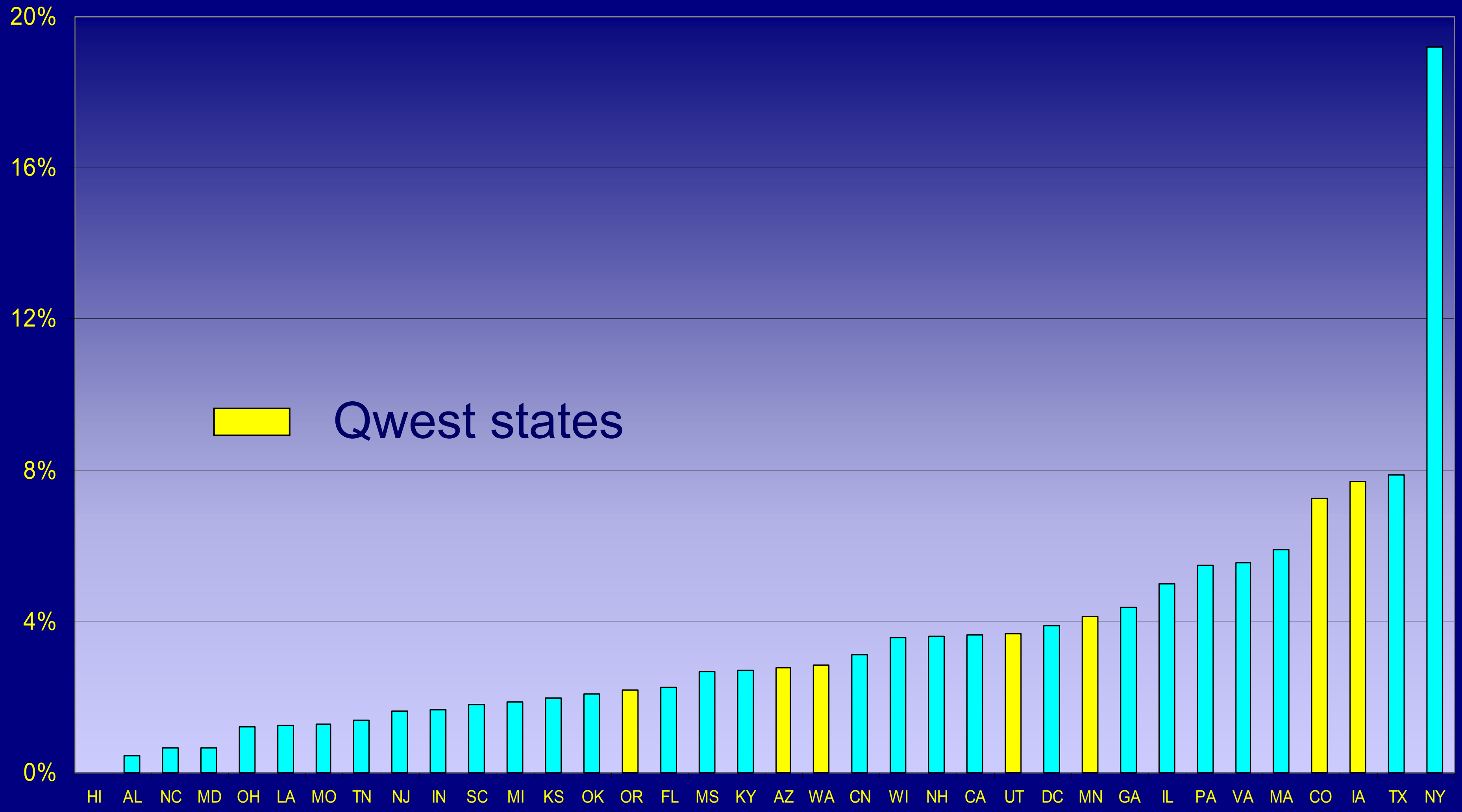
CLEC Market Share -- Residential & Small Bus Lines

based on Dec 2000 FCC Competition Report



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Qwest Estimate of CLEC Market Share

<u>CLEC Lines</u> divided by <u>Total Lines</u>

CLEC Lines	Total Lines
Resold Lines *plus* UNE-P lines *plus* Switched lines (from E-911 records)	Qwest Line Counts from Internal Reports *plus* CLEC Lines

(CLEC Res/Bus ratios estimated from White Pages listings)

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Region-wide CLEC Market Share

Estimated Using Qwest Method

	Residential	Business	Total
Resold Lines	148,201	211,889	360,090
UNE-P Lines	54,505	420,916	475,421
CLEC Switched Lines	873,379	2,338,209	3,211,588
Total CLEC Lines	1,076,085	2,971,014	4,047,099
Qwest Lines	11,217,483	4,804,982	16,022,465
CLEC Market Share	8.8%	38.2%	20.2%

FCC's Use of CLEC Market Share

Recently Approved §271 Applications

- SBC Arkansas/Missouri Joint Application (Nov 01)
  - SBC estimated 10% CLEC share in Missouri
  - SBC estimated 9% CLEC share in Arkansas, including 13.5% business, 5.6% residential
  - DOJ confirmed results using E-911 database
- Verizon Rhode Island Application (Feb 02)
  - Verizon estimated CLEC had 16% of all lines
  - Verizon's method is similar to Qwest's method

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FCC's Use of CLEC Market Share

Recently Approved §271 Applications

We disagree with commenters that assert that under our public interest standard, we must consider the market share of each entry strategy for each type of service.

* * *

Given an affirmative showing that the competitive checklist has been satisfied, low customer volumes in any one particular mode of entry or in general do not necessarily undermine that showing. As the Commission has said in previous section 271 orders, factors beyond the control of the BOC, such as individual competitive LEC entry strategies, might explain a low residential customer base.

Verizon Rhode Island Order (February 22, 2002), p 53.

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CLEC Market Share by State -- All Lines
based on Dec 2000 FCC Competition Report
25%
20%
15%
10%
5%
0%
§271 approved
HI
KY
OR
OH
MD
AZ
SC
NJ
MS
NC
MO
IN
MI
OK
CA
CN
NH
AL
WA
TN
FL
VA
UT
WI
CO
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Conclusions

- CLEC entry in Qwest region is relatively higher than for several other BOC regions
- True for residential as well as business service
- There is a wide variation in CLEC market share in Qwest region states
- While CLEC market share data is informative to FCC, it is neither necessary nor sufficient for §271 approval

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The End

Thanks for the invitation.

This presentation is posted at www.rbinz.com

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