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August 19, 2005

Luly Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Re: Successor Alternative Regulation Plan for Verizon New England Inc., d/b/a Verizon Rhode Island

Dear Ms. Massaro:

Enclosed for filing in the above-referenced matter please find an original and nine (9) copies of the following:

(1) Testimony of Theresa L. O'Brien (Public and Proprietary Versions) and Exhibit A: Alternative Regulation Plan Applicable to Verizon Rhode Island Intrastate Operations; and
(2) Testimony of Robert J. Kenney (Public and Proprietary Versions) and Attachments 1 through 5; and
(3) Testimony of Paul B. Vasington.

Please be advised that portions of Theresa L. O'Brien's testimony and Robert J. Kenney's testimony are proprietary and confidential, and those proprietary portions are being provided to the Commission only. Accordingly, Verizon RI respectfully requests that this information not be placed in the public record of this proceeding. Verizon RI will provide copies of the referenced proprietary documents to the Rhode Island Division of Public Utilities and Carriers following the execution of a protective agreement.

If you have any questions regarding this filing, please do not hesitate to call me.

Sincerely,

/s/ Alexander W. Moore

Alexander W. Moore

Enclosures

Public Version

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

Investigation into a Successor Alternative Regulation Plan for Verizon New England Inc. d/b/a Verizon Rhode Island.	)	Docket No. _____

TESTIMONY OF

THERESA L. O'BRIEN

ON BEHALF OF

VERIZON NEW ENGLAND INC.,

d/b/a VERIZON RHODE ISLAND

August 19, 2005

I. WITNESS BACKGROUND AND OVERVIEW

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

A. My name is Theresa L. O'Brien. I am Vice President – Regulatory Affairs for Verizon Rhode Island. My business address is 234 Washington Street, Providence, Rhode Island.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I received my Bachelor of Science Degree in Accounting from Bentley College, Waltham, Massachusetts, in 1980, and later received a Master of Business Administration from Northeastern University. I began my career as a supervisor in Corporate Accounting at New England Telephone and Telegraph Company in 1980 and held various assignments of increasing responsibility in Corporate Budgets, Marketing, Access Markets, and Public Relations before assuming the position of Director – Regulatory in May of 1995. In December 2001, I was named Vice President – Regulatory Affairs.

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.

A. The purpose of my testimony is to present Verizon Rhode Island's ("Verizon RI") proposal for a successor alternative regulatory plan for effect January 1, 2006. My testimony begins with a brief overview of the evolution of telephone regulation in Rhode Island. I explain how the marketplace for telecommunications services in the State has changed since the implementation in 2003 of the current alternative form of regulation plan, and I describe how those

changes affect the components of an appropriate regulatory plan for Verizon Rhode Island moving forward. I will also describe the specifics of Verizon RI's proposed regulatory plan and explain why this plan provides the operating and pricing flexibility the Company needs in order to continue to compete in the telecommunications market in Rhode Island. Finally, I introduce Verizon RI's other witnesses in the case, Mr. Kenney and Mr. Vasington, who in their respective testimonies discuss in detail the status of competition in the Rhode Island telecommunications market and assess the proposed regulatory plan in light of current market and regulatory conditions in the State.

II. EVOLUTION OF TELECOMMUNICATIONS REGULATION IN RHODE ISLAND

Q. WHAT ARE THE PROGRESSIVE STEPS TAKEN BY THE COMMISSION IN RECOGNITION OF THE CHANGING MARKET CONDITIONS IN THE INDUSTRY?

A. For many years, Verizon RI, previously New England Telephone and Telegraph Company ("NET") operated under traditional rate of return regulation. In 1989, the Rhode Island Public Utilities Commission was the first in the country to begin the transition from rate of return regulation by approving a regulatory plan that recognized the rapidly evolving technological changes in the market. By moving away from the traditional rate of return regulatory scheme toward an earnings sharing form of regulation the Commission's goal was to encourage the Company to find ways to operate more efficiently while continuing to invest in new technologies. Thereafter, over a span of 13 years and four successive plans, the

Commission continued its ongoing evolution toward a regulatory framework that was more closely aligned with existing market forces.

In March of 2003, the Commission approved the current Alternative Form of Regulation ("AFOR") plan, giving Verizon RI significant discretion in pricing its services. In approving the AFOR plan, the Commission found that there was "sufficient competition to eliminate the need for any price ceilings on Verizon RI's retail business services"[1] and allowed the prices for Verizon's business services to fluctuate with the market, subject only to the price floor mentioned below. With respect to residential services, the AFOR plan allowed Verizon RI the flexibility to increase its monthly residential basic exchange rates by up to $1 per year in each of the first two years of the plan, with a similar increase in the third year of the plan subject to Commission and Division review. In addition, the AFOR plan authorized Verizon RI to set its own rates for residential discretionary services (such as distinctive ringing, additional lines, non-published numbers, additional directory listings, custom calling services) subject to annual rate increase caps of between five and fifteen percent. The plan also provided for a price floor on all of Verizon RI's retail services, precluding Verizon RI from reducing its rates for those services below Verizon RI's Long Run Incremental Cost ("LRIC") of providing the service.

In addition, the Commission imposed quarterly reporting requirements on Verizon RI for certain competitive information that was used in the Company's

[1] Order No. 17417 (issued 3/31/03), p. 49

direct and rebuttal testimony.[2] Finally, the AFOR plan required Verizon RI to file monthly service quality reports and provided for a performance payment obligation in the form of a bill credit if Verizon RI did not meet its service quality requirements for the preceding twelve months. The terms of the current AFOR plan expire on December 31, 2005.

Q. WHAT IS THE CURRENT STATE OF COMPETITION IN THE RETAIL COMMUNICATIONS MARKETS IN RHODE ISLAND?

A. As described in detail in the testimony of Mr. Kenney, competition in Rhode Island is even more robust than it was three years ago. According to the FCC's most recent Local Telephone Competition Report, CLECs have achieved a greater market share in Rhode Island than in any other state in the country. In its Order approving the AFOR plan, the Commission noted that Verizon RI had less than 70 percent (66.4 percent) of all business lines and more than 70 percent (86.1 percent) of all residential lines. Based upon the competitive profile filed in August 2005, Verizon RI's share of business access lines is now BEGIN PROPRIETARY *** *** END PROPRIETARY, and the Company's residential access line share has dropped to BEGIN PROPRIETARY *** *** END PROPRIETARY. Further, as noted in the testimony of Mr. Vasington, it is evident that Verizon RI has no market power for retail telephone services in Rhode Island given the current conditions for supply elasticity, demand elasticity, and market share.[3] As described in Mr. Kenney's

[2] *Id*., pp. 61-62.

[3] *See* Direct Testimony of Mr. Paul B. Vasington, p. 13.

testimony, competitors in the telecommunications market in Rhode Island include cable companies, resellers, facilities-based competitive local exchange companies, wireless providers, and VoIP providers.

Q. SHOULD A NEW REGULATION PLAN FOR VERIZON RI REFLECT THE CURRENT STATE OF COMPETITION IN RHODE ISLAND?

A. Yes. As stated by the Commission in its Order approving the AFOR plan, "as the CLEC market share grows in the residential market, we expect the need for price ceilings to diminish."[4] Verizon RI is proposing a new alternative regulation plan that recognizes the changes in the competitive marketplace in Rhode Island that have occurred since 2002.

III. DESCRIPTION OF THE ALTERNATIVE REGULATION PLAN

Q. PLEASE SUMMARIZE THE BASIC COMPONENTS OF THE PROPOSED PLAN.

A. The Plan, which is presented as Exhibit A to this testimony, provides for the culmination of the transition from traditional rate of return regulation to an alternative form of regulation that recognizes the fully competitive nature of the RI marketplace. It recognizes the changes that have taken place in the competitive marketplace since 2002 and expands the flexibility granted by the Commission three years ago.

Q. UNDER THE PROPOSED PLAN, HOW WILL RATES AND CHARGES FOR ALL INTRASTATE RETAIL SERVICES BE REGULATED?

[4] Order No. 17417, p. 51

A. Rates and charges for all regulated retail services will increase or decrease in response to market conditions. This approach expands the pricing flexibility that the Commission granted three years ago for business services to encompass residential services.

Q. HOW DOES THIS TREATMENT OF RESIDENTIAL SERVICES DIFFER FROM THE PLAN CURRENTLY IN PLACE?

A. In the current AFOR plan, the rates for discretionary residential services[5] are allowed a maximum annual rate increase of between 5 and 15 percent depending upon the current price of the service. Residential basic exchange rates were allowed monthly increases of no more than $1.00 per line per year in each of the first two years of the plan. Any increase in the third year of the plan (up to $1.00) was subject to Commission and Division review.

Q. WHY IS VERIZON RI'S PROPOSED TREATMENT OF RESIDENTIAL SERVICES BETTER SUITED TO THE CURRENT MARKETPLACE?

A. As both Mr. Kenney and Mr. Vasington testify, the marketplace in Rhode Island has changed significantly since the AFOR plan was approved three years ago. The CLEC share of the wireline market has increased substantially, and competition from wireless providers has also been rapidly growing, to the point where there are now more wireless subscribers in Rhode Island than there are Verizon access lines. In addition, as described in Mr. Kenney's testimony, there are a number of VoIP providers doing business in Rhode Island who are offering

[5] Discretionary residential services are defined on page 3 of Appendix A to the Settlement Agreement filed in Docket No. 3445 on December 6, 2002.

a variety of calling plans at rates that make VoIP a viable alternative to traditional wireline services. As Mr. Vasington has testified, the plan being proposed by Verizon RI will match the level of Commission oversight to current and expected market conditions, by allowing market forces to control the level of Verizon RI's prices.

Q. WHAT IS VERIZON RI'S PROPOSAL FOR CHARGES THAT ARE NOT INCLUDED IN THE EXISTING AFOR PLAN, SUCH AS LATE PAYMENT CHARGES AND RETURNED CHECK CHARGES?

A. In Order No. 15538, issued on February 26, 1998 in Docket No. 2370, the Commission ruled that Late Payment Charges and Returned Check Charges were properly classified as "terms and conditions" and not "services" to be included in a price regulation plan. As such, those charges are excluded from the proposed Plan, and Verizon RI will continue to update the business Late Payment Charge annually via a tariff filing along with the methodology approved by the Commission for calculating that charge. Any proposed change to the Returned Check Charge or introduction of a residential Late Payment Charge would also require a tariff filing and Commission approval, as it does today.

Q. PLEASE EXPLAIN THE CURRENT STATUS OF THE LIFELINE SUBSIDIES.

A. Under the current AFOR plan, Verizon RI funds the state Lifeline subsidy for all of its Lifeline customers. In addition to having the federal subscriber line charge ("SLC," currently $6.39) waived, Lifeline customers who subscribe to Unlimited Basic Exchange Service receive a credit of $9.00 off the price of the service,

$5.50 that is funded by Verizon and $3.50 in federal support. In addition to having the SLC waived, Lifeline customers who opt for Measured Service receive a credit of $7.17, $3.67 that is funded by Verizon and $3.50 in federal support. A Lifeline customer who subscribes to Unlimited Basic Exchange Service pays between $5.30 and $10.26 per month, depending upon the exchange he or she is served from. A Lifeline customer who opts for Measured Service pays $1.00 per month.

Q. WHAT IS THE IMPACT OF THE PROPOSED PLAN ON LIFELINE CUSTOMERS?

According to the FCC's rules, each Lifeline customer receives $1.75 in federal support. Additional federal support equal to one-half the amount of any state-mandated Lifeline support or Lifeline support otherwise provided by the carrier, up to a maximum of $1.75 per month, is made available provided the carrier passes through the full amount to the Lifeline customer. Therefore, state support up to $3.50 per month is matched by additional federal support of $1.75. As long as the state support does not go below $3.50, Rhode Island Lifeline customers will receive the maximum federal support of $3.50 ($1.75 baseline plus $1.75 in additional support). Under Verizon RI's proposed Plan, the monthly state support subsidy for Unlimited Lifeline customers will decrease by $1.00 in 2006, and by another $1.00 in 2007. The monthly state support subsidy for Measured Lifeline customers will decrease by $.17 in 2006. These reductions will bring the monthly state subsidies for both Unlimited and Measured Lifeline customers to a level of $3.50.

Q. HOW MANY CUSTOMERS WILL BE IMPACTED BY THE PROPOSED REDUCTION IN THE LIFELINE SUBSIDY?

A. As of 12/31/04, there were 39,348 Lifeline customers in Rhode Island, which represents approximately 14% of Verizon RI's total residential retail access lines. Approximately 36,000 Lifeline customers subscribe to Unlimited Service, and the remaining 3,000 customers purchase Measured Service. The cost to Verizon RI of funding the state Lifeline subsidy will be approximately $2.5 million in 2005. Under the proposed Plan, that cost would decrease to roughly $2.1 million in 2006 and to approximately $1.6 million in 2007.

Q. **WHY IS IT IMPORTANT FOR VERIZON RI TO REDUCE THE LIFELINE SUBSIDY AT THIS TIME?**

A. This proposed reduction in the Lifeline subsidy represents the first time in over 11 years that Lifeline customers will be paying more for basic telephone service. In addition, reduction of the subsidy to $3.50 per month will bring Verizon RI's support to Lifeline customers in line with the level of support provided by Cox, Verizon RI's chief landline competitor in the residential market and the only other Eligible Telecommunications Carrier authorized by the RI PUC. Moreover, the reduction in the state support level will not impact the amount of federal support that Rhode Island Lifeline customers are entitled to. These customers will continue to receive the maximum amount of federal support that is available - - $3.50 per month - - thereby reducing their monthly charges by $7.00.

Q. **WHAT OTHER CHANGES IS VERIZON RI PROPOSING IN THIS PLAN?**

A. Verizon RI proposes to eliminate its existing monthly retail service quality reporting requirements and associated service quality penalties. Given the extremely competitive telecommunications market in Rhode Island, there is no need for the Commission to retain retail service quality standards. The evidence presented in this case by Mr. Kenney and Mr. Vasington demonstrates that Rhode Island is at the point where competitive forces, rather than government regulation, are sufficient to discipline Verizon RI's service performance, and the Commission should permit the Company to compete on equal terms with other carriers - - none of whom are subject to service quality standards. In a competitive market, it is inconsistent with the goal of fair competition among all carriers to hold only Verizon RI to regulated retail service quality standards. Otherwise, to the extent that these regulatory standards do not reflect customer expectation in the marketplace, they serve only to increase Verizon RI's costs and undermine its ability to compete. The Commission should let competition define customer expectations. Customers who are unhappy with their current provider will take their business to another carrier or provider. Providing customers with high quality service is critical to Verizon RI's ability to compete, today and in the future. Retaining our current customers' business and attracting new customers is all the incentive necessary for Verizon RI to provide high quality service.

Q. IS VERIZON RI PROPOSING TO ELIMINATE ANY OTHER REPORTING REQUIREMENTS?

A. Yes. Verizon RI currently files an annual intrastate earnings report as well as semi-annual competitive profile reports. The Company is proposing that the

Commission eliminate the filing requirement for both sets of reports. No other competitor in Rhode Island is required to disclose its statewide revenues, earnings, and access lines, and Verizon RI should be treated equally. The competitive profile should also be eliminated as it no longer captures the entire competitive picture in the state. The profile depicts wireline market share only, and does not capture the increasingly important competitive impact of wireless and VoIP alternatives.

Q. WHAT COMPETITIVE AND CUSTOMER SAFEGUARDS ARE INCLUDED IN VERIZON RI'S PROPOSED ALTERNATIVE REGULATION PLAN?

A. As with the previous AFOR plan, Verizon RI's proposed Plan provides that prices for access to Verizon RI's unbundled network elements and interconnection with the Company's facilities and equipment, as well as the level of the Company's wholesale discount, will continue to be set in accordance with the Federal Telecommunications Act of 1996, as amended. The continued availability of such wholesale competitive opportunities will ensure that the increased residential pricing flexibility incorporated into Verizon RI's proposed Plan will not serve as a barrier to competition. In addition, Verizon RI is not proposing any changes to the treatment of intrastate switched access services than existed in the previous AFOR Plan. Furthermore, Verizon RI is proposing no changes to the price floor requirements approved by the Commission in the previous AFOR plan. These provisions will ensure that Verizon RI will compete fairly for customers based

upon the network efficiencies, marketing expertise, and new technology deployment of Verizon RI and its competitors.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. Three years ago, the Rhode Island Commission took a critical step to move toward market-based pricing by granting Verizon RI pricing flexibility for all of its retail business services. The Plan that is now being proposed allows the Commission to take the final step toward complete market-based pricing for all retail services, by removing pricing restrictions on the Company's residential services. Given the widespread and still growing competition in Rhode Island, the proposed Plan provides the appropriate regulatory framework to maintain and further competition in Rhode Island by allowing Verizon RI to compete on a level playing field with its competitors. In order for Verizon RI to maintain its current communications network and to deploy new technologies such as broadband, any new regulatory framework must provide the Company with a reasonable opportunity to introduce, to market, and to profitably sell existing and new services to support the necessary investment.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

ALTERNATIVE REGULATION PLAN

APPLICABLE TO

VERIZON RHODE ISLAND INTRASTATE OPERATIONS

The Alternative Regulation Plan (the "Plan") establishes the method by which the Rhode Island Public Utilities Commission ("Commission") will regulate the intrastate services Verizon New England Inc., d/b/a Verizon Rhode Island ("Verizon RI" or the "Company") offers under tariff in the state. The terms of the Plan are as follows:

A Rates and charges for all regulated retail services will increase or decrease in response to market conditions. Pricing and rate structures for these services will be at the discretion of Verizon RI.

B The aggregate rates associated with all Intrastate Switched Access Services (as described in P.U.C. NO. 20) shall not be increased, except in response to an event such as a change in tax laws or other regulatory, judicial or legislative changes affecting the telecommunications industry, that is beyond the control of Verizon RI and negatively changes the Company's cost of providing, or its revenues from, its services. Outside of such an event, rate levels of individual service elements in this category may be increased, provided that the revenue impact of those increases is equal to or less than the revenue impact of rate reductions implemented in this category, prior to or coincident with the proposed increase. Should Verizon RI desire to increase or decrease any of its switched access rates as permitted by this Paragraph, it may do so only once it has made the appropriate filing with the Commission, and the Commission has taken such action on such filing as it deems is necessary and proper.

C Prices for access to Verizon RI's unbundled network elements and interconnection with the Company's facilities and equipment, and the level of the Company's wholesale (resale) discount, will continue to be set in accordance with the Federal Telecommunications Act of 1996, as amended.

D Lifeline Services – Beginning in 2006, Verizon RI will reduce the monthly state Lifeline subsidy by $1.00 for Lifeline customers who subscribe to Unlimited Basic Exchange Service. The monthly state subsidy for Lifeline customers who subscribe to Measured Service will decrease by $.17 to a level of $3.50. In 2007, Verizon RI will further reduce the monthly state subsidy for Lifeline customers with Unlimited Service by $1.00 to a level of $3.50.

E Verizon RI or the Division may petition the Commission to modify any of the terms or conditions of the Plan: (i) to reflect the impact of relevant provisions or decisions, enacted or issued subsequent to the Commission's approval of the Plan, of federal or state legislative, judicial or administrative bodies of competent jurisdiction; or (ii) to seek a less structured form of regulation or deregulation of its operations based upon changes in market conditions. In any proceeding, the burden shall be on the Petitioner to establish the reasonable basis for the modification.

F Effective with the implementation of this Plan, Verizon RI will no longer be required to file annual financial reports, and it shall have flexibility in regards to the depreciation of its plant and investment. Also, effective with the implementation of this plan, Verizon RI will no longer be required to file the semi-annual Competitive Profile with the Commission. However, Verizon RI will provide information the Commission or Division may reasonably request, subject to appropriate proprietary arrangements, which would assist the Commission in its regulatory role in Rhode Island. In addition, Verizon RI will cease providing monthly service quality reports, and service quality penalties are no longer applicable.

G Price Floor

At such time as Verizon RI files any tariff proposing decreases in any of its retail rates for services currently offered or proposing initial retail rates for new offerings, Verizon RI will include with such filing a certification that such reduced rates or initial rates are not less than the Long Run Incremental Cost (LRIC) of such services or offerings. Upon the subsequent request of the Commission or the Division, Verizon RI shall file the necessary support documentation to confirm that such reduced or initial rates meet said price floor. In all proceedings concerning Verizon RI's compliance with the price floor, Verizon RI retains the burden of proving that its proposed prices exceed the appropriate LRIC price floor.

H Term

The term of this Plan shall be indefinite. All pricing rules for services included in the plan will remain in effect indefinitely or until the Commission approves a different plan.

PUBLIC VERSION

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

Investigation into a Successor Incentive Regulation Plan for Verizon New England Inc. d/b/a Verizon Rhode Island.	)	Docket No. _____

TESTIMONY OF

ROBERT J. KENNEY

ON BEHALF OF VERIZON NEW ENGLAND INC.,

d/b/a VERIZON RHODE ISLAND

August 19, 2005

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

A. My name is Robert J. Kenney. My office is located at 125 High Street, Boston, Massachusetts. I am an Executive Director in Verizon's Public Affairs, Policy and Communications Department.

Q. PLEASE DESCRIBE YOUR WORK AND EDUCATIONAL BACKGROUND.

A. I was first employed by New England Telephone and Telegraph Company in November 1973 in the Marketing Department. I held various positions in Marketing, Network and Special Services until 1983, when I was assigned to the Information Services Department. Within Information Services, I held various positions in Project Management and systems development. In 1992, I was assigned to the Regulatory Planning Department, where I worked on a variety of issues with increasing responsibility including many associated with the implementation of the Telecommunications Act of 1996. My current assignment as an Executive Director in Verizon's Public Affairs, Policy and Communications Department includes responsibilities for regulatory planning for both Wholesale and Retail issues within the New England area. I hold a Bachelor of Science degree in Management from the University of Massachusetts and a Masters of Business Administration degree from Boston University. I have previously testified before the Massachusetts Department of Telecommunications and Energy and the New Hampshire Public Utilities Commission regarding various operational, tariff and CLEC arbitration matters.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to describe the extent of competition in the telecommunications market in Rhode Island. The telecommunications marketplace

in Rhode Island has continued to change dramatically since the Commission last examined the form of regulation for Verizon RI. Competitors are active today throughout Rhode Island and the Commission has implemented policies that are allowing competition to flourish. The environment in Rhode Island is such that competitive marketplace forces can be relied upon to discipline retail telecommunications service prices, including residential, as well as the service quality related to such services.

Q. HAS THE COMPETITIVE ENVIRONMENT IN RHODE ISLAND CHANGED SINCE THE COMMISSION ADOPTED THE CURRENT AFOR?

A. Yes, substantially. The competitive landscape in Rhode Island is even more robust than the one that existed in 2002, in terms of the growth of competitors' share of the local exchange market as traditionally measured by the number of land-based access lines. In addition, as I discuss in more detail below, new technologies and services are offering customers multiple alternatives to the traditional landline telephone, resulting in broader forms of competition and redefining the local exchange market so that it can no longer be fully measured merely by counting traditional land-based access lines.

Q. HOW HAS THE CLECS' SHARE OF THE TRADITIONAL LAND-BASED ACCESS LINE MARKET CHANGED SINCE 2002?

A. In its Order 17417 in Docket No. 3445 approving the current Plan, the Commission noted that competitors had a market share of less than 15% of all land-based access lines serving residential customers and slightly more than one-third of all land-based lines serving business customers. In contrast, by June 2005, as shown in the Rhode Island Competitive Profile, CLECs controlled BEGIN PROPRIETARY *** ----------

---- *** END PROPRIETARY of all land-based access lines serving Residential customers in Rhode Island and over BEGIN PROPRIETARY *** *** END PROPRIETARY of all land-based lines serving Business customers. In total, CLECs currently serve BEGIN PROPRIETARY *** *** END PROPRIETARY of all traditional land-based access lines in the state.[1] By this measure, CLECs have BEGIN PROPRIETARY *** *** END PROPRIETARY their share of the residential market and increased their share of the business market by BEGIN PROPRIETARY *** *** END PROPRIETARY since February 2002. Moreover, since February 2002, competitors in aggregate have expanded their share of the land-based access lines in Rhode Island by an average of BEGIN PROPRIETARY *** *** END PROPRIETARY annually. As noted above, these figures measure only share of traditional land-based access lines and do not include the impact of Voice over Internet Protocol (VoIP) or wireless services used as an alternative to landline service.

These substantial changes are attributable in large part to the Commission's actions to implement the Telecommunications Act of 1996 ("The Act"). The Act mandated the elimination of legal and regulatory prohibitions against competitive entry to the local exchange markets. Under the rules adopted by the FCC and the Commission to implement the Act, Verizon RI has interconnected its network with the networks of its competitors, made available unbundled network elements to its competitors, and made all of its retail telecommunications services available for resale at commission-mandated discounts. The terms and conditions governing

[1] *See* Rhode Island Competitive Profile with data as of June 30, 2005, filed with the Commission on August 15, 2005. A copy of that Competitive Profile is attached hereto as Proprietary Attachment 1.

competitive interactions between carriers in the Rhode Island telecommunications market are contained in the tariffs and interconnection agreements approved by the Commission.

Q. PLEASE PROVIDE A BRIEF OVERVIEW OF THE RHODE ISLAND COMPETITIVE PROFILE.

A. The Rhode Island Competitive Profile consists of information detailing the competitive progress in each Verizon RI central office. It contains a summary by central office of Verizon RI's estimates of the number of access lines served by competitors using the three modes of entry (*i.e.*, resale, unbundled network elements (UNE-P), and facilities based competition). It does not include information about customers who have switched to VoIP or Wireless service. Verizon RI compiled the Competitive Profile using the same methodology and sources of information – Verizon RI's internal sources and the E-911 database – that it used and the Commission relied on in Docket 3445. As ordered by the Commission, this information is also currently updated and filed with the Commission on a semi-annual basis.

Q. WHAT ELSE CAN BE SAID ABOUT THE CURRENT STATE OF COMPETITION IN THE RHODE ISLAND TELECOMMUNICATIONS MARKETPLACE?

A. Competition in the Rhode Island telecommunications marketplace is widespread and vibrant. According to the FCC's most recent Local Telephone Competition Report,[2] CLECs have achieved a greater market share in Rhode Island than in any other state

[2] FCC, *Local Telephone Competition: Status as of December 31, 2004,* Table 7, "CLEC Share of End-User Switched Access Lines", a copy of which is attached hereto as Attachment 2.

in the country. Moreover, the Competitive Profiles filed with the Commission over the last 3 years provide extensive evidence of broad-based competition in the Rhode Island telecommunications marketplace. Carriers are using the technical means at their disposal to reach and acquire customers throughout the state. Multiple telecommunications providers are authorized to offer telecommunications services across Rhode Island. These include interexchange and other "toll" carriers, pay phone providers, competitive access providers, cable companies, resellers, facilities-based competitive local exchange companies ("CLECs"), and wireless providers. Carriers are offering a myriad of services to customers throughout the State of Rhode Island using all three entry modes envisioned by the Act in addition to new technologies that may not have been envisioned at the time of the Act.

Q. PLEASE DESCRIBE HOW TECHNOLOGY IS CONTRIBUTING TO THE EVOLUTION OF COMPETITION IN RHODE ISLAND.

A. Broadband is now widely available in Rhode Island. According to FCC data, as of December 31, 2004, there were over 165,000 subscribers of high speed internet service in Rhode Island, and they were spread out across nearly every zip code in the state.[3] Email and instant messaging delivered over high speed internet service offer growing alternatives to traditional telephone service that is not measured by analysis of the relative market share of land-based access lines served by Verizon RI and its traditional telecom competitors.

The proliferation of broadband also brings with it the growth of yet another alternative voice service – Voice over Internet Protocol – or VoIP. Today, any customer with a broadband connection can utilize VoIP service from one of the

many VoIP providers that are operating in Rhode Island (but do not necessarily have equipment physically located here).

VoIP providers have already made significant progress in winning over customers nationally and in Rhode Island and are expected to grow significantly in the coming years. For example, Skype, a provider of free VoIP software, reported having more than 12.9 million users and 28 million downloads of its free software in just the first 14 months of operations.[4]

One of the most widely known brands in VoIP services is Vonage. Vonage had exceeded 400,000 subscribers as of January 2005, after adding over 300,000 new subscribers in 2004 alone.[5] And, according to a recent article in BUSINESS WEEK: "*Vonage subscriptions have jumped 63% this year, to 700,000. Some 15,000 more jump on board every week.*"[6]

Vonage also recently announced that it has raised $200 million in new private investments, one of the largest single rounds of venture capital financing in the last decade.[7] According to a report in the New York Times, "the size of the deal underscores the confidence of the lead investors, including several major Silicon Valley Venture capital firms that Vonage … can continue to thrive as an Internet

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[3] *See* FCC High Speed Internet Access Services Report, Issued July 7, 2005 at Tables 8 & 13.

[4] *See* Skype Press Release, *One Million Simultaneous Users on Skype*, Oct. 20, 2004 (publicly available on Skype's website). Skype demonstrates that, because VoIP requires only a broadband connection and a VoIP-enabled telephone, consumers can literally subscribe to VoIP service from any provider in the world. Being Rhode Island -based, as is necessary for wireline service providers, is irrelevant.

[5] Vonage Press Release, "Vonage Crosses 400,000 Line Mark," January 5, 2005, accessed March 29, 2005, http://www.vonage.com/media/pdf/pr_01_05_05.pdf, accessed April 8, 2005.

[6] See *BusinessWeek Online* June 20, 2005 "THE FUTURE OF TECH – TELECOMMUNICATIONS Vonage: Spending As Fast As It Can," emphasis added. http://www.businessweek.com/magazine/content/05_25/b3938626.htm, accessed June 15, 2005.

[7] *Venture Capital Streams Into Internet Phone Company*, NEW YORK TIMES, May 9, 2005.

telephone provider even as regional Bell companies and cable providers enter the business."[8]

Since VoIP service is Internet based and providers can literally provide service from anywhere, it is impossible to determine all of the VoIP providers that are serving customers in Rhode Island. However, a quick Internet search reveals some of the current VoIP companies doing business in Rhode Island and the very competitive products that they are selling. For instance, according to their websites:

- a company known as Packet8 offers an unlimited calling plan for $19.95 per month and provides for unlimited calls to anyone in the U.S. and Canada.
- Broadvox Direct offers similar plans starting at $12.95 a month for 500 minutes anywhere in the U.S. and Canada. It also offers an unlimited plan for $19.95 a month.
- Verizon, through its Voice Wing product, offers plans starting at $19.95.
- Vonage offers several plans starting at $14.99 and there are many others.
- AOL just recently announced it would begin offering VoIP services with competitive plans.

Virtually all of the plans offered by the VoIP companies come all-inclusive with many of the most popular features such as voicemail, callerID, call forwarding, and call waiting. Attachment 3 lists some examples of VoIP providers serving Rhode Island, including AT&T,[9] as well as their package offerings for residential and small

[8] *Id.*

[9] In July 2004, AT&T announced the availability of its VoIP service, CallVantage, in 100 major markets across the country, including Rhode Island, stating: "Today's market entry places us in 29 states and Washington, D.C. – that's 100 major markets in just 16 weeks since service introduction." Cathy Martine, *AT&T Press Release*, July 12, 2004.

business customers. All provide some sort of unlimited local and long distance calling plan with varying monthly prices.

The recent surge in VoIP subscribership strongly implies that any purported "limitations" of the service are not preventing customers from purchasing it. Moreover, VoIP providers are working diligently to eliminate service limitations, as recently reported in the New York Times:

> For the first year or so, we had problems with people not hearing us, or voices would sound scratchy," said Sowmya Parthasarathy, who has been a Vonage subscriber for nearly two years and "used to spend hours on the phone" with the company's operators. "But they really seem to have fixed the problems.[10]

Indeed, low prices, coupled with services such as unlimited calls in the United States and Canada, free voice mail, call waiting and three-way calling, make VoIP an attractive alternative to traditional wireline services from ILECs and CLECs.

With VoIP technology maturing and the gap in service quality between VoIP and traditional wireline telephony narrowing, household subscriptions to the service are expected to grow. Analyst group Parks Associates' "aggressive forecast" predicts that 13 percent of US broadband households will subscribe to VoIP service by 2009.[11] Jupiter Research predicts that 10 percent of all U.S. households will be using VoIP telephony by 2009.[12] Attachment 4 shows the rapid growth that has been forecasted for VoIP.

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[10] *Cable's New Pitch: Reach Out and Touch Someone*, NEW YORK TIMES, May 8, 2005.

[11] *Residential Voice-over-IP: Analysis and Forecasts (Second Edition)*, Parks Associates, published 1Q 2005, pp. 24-25.

[12] Joseph Lazlo, *et al*., *Broadband Telephony: Leveraging Voice Over IP to Facilitate Competitive Voice Services*, Jupiter Research, Vol. 2, 2004.

Q. IS VERIZON RI EXPERIENCING COMPETITION DIRECTLY FROM WIRELESS COMPANIES?

A. Yes. Customers are increasingly using wireless services in direct competition with traditional telecommunications services. Nationally, and in Rhode Island, the number of wireless lines has overtaken the number of incumbent Local Exchange Carrier landlines

Competition from wireless providers has also been growing steadily in Rhode Island. For example, the number of wireless subscribers in Rhode Island rose from about 314,000 in June 2000 to about 607,000 in December 2004.[13] During that same period, switched access lines served by ILECs in the state declined by more than 219,000 lines (or 34 percent).[14]

Moreover, from the fourth quarter of 2000 through the fourth quarter of 2004, total access minutes of use ("MOUs") reported by Verizon RI to the FCC has declined 50 percent, from 610 million to about 303 million MOUs.[15] In contrast, wireless minutes of use have been increasing rapidly. Although state-specific data on wireless usage are not available, the national data on wireless usage and average cost per minute set forth in Attachment 5 provides ample evidence that the decline in wireline usage is strongly related to growth in wireless.

The tremendous growth of wireless subscribership and usage clearly demonstrates that customers have become accustomed to the rapidly diminishing drawbacks of wireless and are becoming more willing to give up wireline. Indeed, it

[13] FCC, *Local Telephone Competition: Status as of December 31, 2004,* Table 13, "Mobile Wireless Telephone Subscribers."

[14] FCC, *Local Telephone Competition: Status as of June 30, 2000 through 2004*, Table 9, "End-User Switched Access Lines Served by Reporting Incumbent Local Exchange Carriers."

[15] FCC, National Exchange Carrier Association, Quarterly Minutes of Use Data.

was reported more than a year ago that wireless service has gained a general level of acceptance among consumers despite its "limitations." One study concludes that "[c]onsumers appear to be more willing to accept a modest reduction in the level of reliability in return for other benefits (especially low price, and improved convenience)."[16]

Q. HOW ARE CARRIERS USING THE FACILITIES-BASED MODE OF ENTRY TO SERVE CUSTOMERS IN RHODE ISLAND?

A. Facilities-based CLECs use several methods to compete in the market. One form of facilities-based competition in Rhode Island, exemplified by Cox Communications, uses an existing cable television network combined with a telecommunications switch to provide dial tone, switching for local and long distance calling, vertical features, and Internet access. Since these carriers serve many of their customers without ever touching the Verizon RI network, it is necessary to use estimates to determine the number of lines they serve. CLEC customer listings in the E-911 database capture lines that are served by these carriers as well as carriers that are using Verizon RI loops. The data shows that as of June 2005, there are over BEGIN PROPRIETARY *** *** END PROPRIETARY E-911 listings for CLEC customers in Rhode Island. That's more than twice the number reported in February 2002 and a 37% increase in the last year alone. These figures include services from competitors who are either using Verizon RI loops such as Conversent, Choice One

[16] *See, e.g.*, R. Talbot, *Battle for the Broadband Home***,** RBC Markets, Jan. 27, 2004, p. 7. *See also* Frank Louthan, Vice President, Equity Research, Raymond James, prepared witness testimony before the Subcommittee on Telecommunications and the Internet of the House Energy and Commerce Committee, Washington, DC (Feb. 4, 2004) ("A key change in consumer preference would include acceptance of less than '5-9's' reliability for phone coverage, which I believe is already emerging, as evidenced by the significant numbers of consumers that already view wireless as an acceptable alternative to a landline phone.").

and others or who may be completely bypassing Verizon RI utilizing their own facilities, such as Cox Communications. Most CLEC service to customers in Rhode Island is facilities-based. Cox, for example, is now offering its telephone service throughout the state. Cox claims to be the 12th largest phone company in the United States with 1.1 million phone customers across the country[17].

Q. PLEASE PROVIDE AN OVERVIEW OF HOW CLECS ARE INTERCONNECTING WITH VERIZON RI'S NETWORK USING UNBUNDLED NETWORK ELEMENTS (UNES).

A. The Act requires Verizon RI to provide UNEs to competing telecommunications carriers on a nondiscriminatory basis. CLECs use this mode of entry to obtain UNEs from Verizon RI in order to fill gaps in their own networks. In some cases, CLECs are using a combination of UNEs known as UNE-Platform ("UNE-P") to provide local service. This allows a CLEC to provide local service without having any network facilities of its own. Carriers are purchasing and using UNEs and UNE-P to serve their customers across the state.

Q. TO WHAT EXTENT ARE CLECS USING UNE-P ARRANGEMENTS TO PROVIDE SERVICE TO CUSTOMERS?

A. Through June 2005, there were approximately BEGIN PROPRIETARY *** *** END PROPRIETARY loops provided as part of UNE-P combinations that include switching and transport elements.[18] It is also important to note that CLECs are not required to limit themselves to one mode of entry. They can offer service

[17] *See* Cox Communications: Continuing Growth Momentum, Merrill Lynch Telecom, Media and Technology Conference, June 10, 2004. http://media.corporate-ir.net/media_files/irol/76/76341/presentations/MerrillLynchEuropeJune2004.pdf

[18] Verizon Rhode Island Competitive Profile, filed with the Commission on August 15, 2005.

using both resale and UNEs, for example, without the need to provision any of their own facilities. It would not be surprising to see a CLEC begin by offering its services via resale and then evaluate its customer base to determine whether resale, or some other mode (i.e. UNEs or facilities based) is the most efficient way to serve a customer.

Q. THE FCC RECENTLY ELIMINATED NEW UNBUNDLED SWITCHING AND UNE-P NATIONWIDE AND IS PHASING OUT THE EMBEDDED BASE OF SUCH ARRANGEMENTS. WILL THE LOSS OF A TELRIC-PRICED UNE-P PRODUCT HAVE A SIGNIFICANT EFFECT ON CLEC MARKET SHARE IN RI?

A. No. In its Order on Remand, the FCC concluded that CLECs are not impaired without the use of UNE-P. The FCC found that competitive LECs have deployed a significant and growing number of their own switches, often using new and more efficient technologies such as packet switches that they are able to use to serve the mass market in many areas, and that similar deployment is possible in other geographic markets. Only BEGIN PROPRIETARY *** *** END PROPRIETARY of CLEC customers in Rhode Island are being served using UNE-P. Moreover, CLECs will have the opportunity to continue use of a UNE-P-like product from Verizon RI. Such products are already being offered at commercially available rates, and more than one-hundred carriers have already entered into commercial agreements with Verizon, including 16 that operate in Rhode Island.[19]

[19] *See*, e.g., press release issued by Verizon and Granite Telecommunications, August 25, 2004: "Verizon and Granite Telecommunications today announced they have signed a definitive commercial agreement that will replace the existing wholesale network leasing arrangement known as Unbundled Network Element Platform (UNE-P) used to serve mass market and small-business customers. Verizon's Wholesale Advantage

Q. WHAT IS THE STATUS OF INTRALATA TOLL COMPETITION IN RHODE ISLAND?

A. The relative ease of entry has made the intraLATA toll market competitive in Rhode Island for many years. With literally dozens of providers of intraLATA usage services and implementation of intraLATA presubscription in 1997, customers have many choices of providers. In the Consumer Market, we estimate that approximately BEGIN PROPRIETARY *** *** END PROPRIETARY percent of customers currently use a wireline carrier other than Verizon RI for their intraLATA calling. In addition, the extensive development of wireless telecommunications is also impacting this market. As noted above, wireless carriers were serving over 607,000 subscribers in their Rhode Island operations as of December 2004.[20] In addition to providing a competitive alternative to wireline telephones, wireless telecommunications generally contain liberal calling allowances which provide a significant alternative for the completion of both toll and local calling services.

Q. WHAT DOES THIS ALL MEAN FOR TELECOMMUNICATIONS COMPETITION IN RHODE ISLAND?

A. These examples illustrate that the Act and its implementation by the FCC and the Commission have enabled competitors to flourish in the Rhode Island market, and that these competitors – including not only full facilities based providers and other landline-based CLECs but wireless providers and VoIP providers as well – have captured enormous shares of the residential and business local exchange markets in

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agreement with Granite Telecommunications includes restructured pricing and a number of high-value services not offered under the existing government-mandated UNE-P plan." See http://www.granitenet.com/index.html (with link to press release).

Rhode Island, and those shares continue to grow rapidly. As a result, Rhode Island customers now have multiple providers, technologies, and services to choose from with respect to their local, toll, and data services.

Q. DOES THIS LEVEL OF COMPETITION IN RHODE ISLAND SUPPORT THE REGULATORY FRAMEWORK VERIZON RI IS PROPOSING?

A. Yes. In its Order in Docket 3445, the Commission stated:

> In the Rhode Island business market, the VZ-RI market share is below 70 percent. As a result, there is sufficient competition to eliminate the need for price ceilings on retail business services.

The same is now true in the Rhode Island residence market, where Verizon RI's share of the land-based access lines is below 70 percent – and that is without considering the impact of VoIP and wireless alternatives. As a result, the Commission should provide Verizon RI with the same pricing freedoms it provided for business services in Docket 3445 which are the same pricing freedoms already enjoyed by Verizon RI's competitors.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

[20] FCC Local Competition Report, Issued July 8, 2005 at Table 13.

NEWS

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July 8, 2005

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FEDERAL COMMUNICATIONS COMMISSION RELEASES DATA ON LOCAL TELEPHONE COMPETITION

Washington, D.C. – The Federal Communications Commission (FCC) today released new data on local telephone service competition in the United States. Twice a year, telecommunications carriers must report the number of lines in service and mobile wireless telephone subscribership pursuant to FCC's local competition and broadband data gathering program (FCC Form 477).

Statistics released today reflect data as of December 31, 2004, filed by providers on FCC Form 477 in the Commission's local competition and broadband data gathering program. For purposes of this report, carriers with at least 10,000 switched access lines, or at least 10,000 mobile wireless telephone service subscribers, in a state were required to file.

Summary Statistics

- At the end of 2004, end-user customers obtained local telephone service by utilizing approximately 145.1 million incumbent local exchange carrier (ILEC) switched access lines, 32.9 million competitive local exchange carrier (CLEC) switched access lines, and 181.1 million mobile wireless telephone service subscriptions.

- Local telephone service by CLECs was provided over 3.7 million coaxial cable connections. These lines represent about 44% of the 8.5 million switched access lines that CLECs reported providing over their own local loop facilities.

- Nationwide, mobile wireless telephone subscribers increased 8% during the second half of 2004 from 167.3 million to 181.1 million. For the full twelve-month period ending December 31, 2004, mobile wireless subscribers increased by 15%.

- At least one CLEC was serving customers in 78% of the nation's zip codes at the end of 2004. About 97% of United States households resided in these zip codes. Moreover, multiple carriers reported providing local telephone service in the major population centers of the country.

- Total CLEC end-user switched access lines increased by 3% during the second half of 2004, from 32.0 million to 32.9 million lines.

- About 18.5% of the 177.9 million total end-user switched access lines (or 32.9 million lines) were reported by CLECs at the end of December 2004, compared to 17.8% (or 32.0 million lines) in June 2004.

- CLECs reported 19.8 million (or 15%) of the 132.1 million lines that served residential and small business end users and 13.1 million (or 29%) of the 45.9 million lines that served medium and large business, institutional, and government customers.

- CLECs reported providing about 26% of switched access lines over their own local loop facilities. To serve the remainder, CLECs resold the services of other carriers or used unbundled network element (UNE) loops that they leased from other carriers.

- ILECs reported providing about 3% fewer UNE loops with switching (referred to as the UNE-Platform) to unaffiliated carriers at the end of December 2004 than they reported six months earlier (16.5 million compared to 17.1 million) and also about 3% fewer UNE loops without switching (about 4.2 million).

As additional information becomes available, it will be posted on the Commission's Internet site.

The report is available for reference in the FCC's Reference Information Center, Courtyard Level, 445 12th Street, SW, Washington, DC. Copies may be purchased by calling Best Copy and Printing, Inc. at (800) 378–3160. The report can also be downloaded from the **FCC-State Link** Internet site at www.fcc.gov/wcb/stats.

- FCC -

Wireline Competition Bureau contacts: James Eisner and Ellen Burton at (202) 418-0940, TTY (202) 418-0484.

Local Telephone Competition: Status as of December 31, 2004

Industry Analysis and Technology Division
Wireline Competition Bureau
July 2005

This report is available for reference in the FCC's Reference Information Center, Courtyard Level, 445 12th Street, SW, Washington, DC. Copies may be purchased by contacting Best Copy and Printing, Inc., 445 12th Street, SW, Room CY-B402, Washington, DC 20554, telephone (800) 378-3160, or via their website at www.bcpiweb.com. The report can also be downloaded from the **FCC-State Link** Internet site at www.fcc.gov/wcb/stats.

Local Telephone Competition: Status as of December 31, 2004

We present here summary statistics of the latest data on local telephone service competition in the United States as reported in the Commission's local competition and broadband data gathering program (FCC Form 477).[1] The summary statistics provide a snapshot of local telephone service competition based on switched access lines in service and state-specific mobile wireless telephone subscribership as of December 31, 2004.[2]

Based on the latest information now available, readers can draw the following broad conclusions:

- Competitive local exchange carriers (CLECs) reported 32.9 million (or 18.5%) of the approximately 177.9 million nationwide end-user switched access lines in service at the end of December 2004, compared to 32.0 million (or 17.8% of nationwide lines) in June 2004.[3] This represents a 3% growth in CLEC market size during the second half of 2004. See Table 1.

- End-user customers obtained local telephone service by utilizing approximately 145.1 million incumbent local exchange carrier (ILEC) switched access lines, 32.9 million competitive local exchange carrier (CLEC) switched access lines, and 181.1 million mobile wireless telephone service subscriptions. See Tables 1 and 13.

[1] *Local Competition and Broadband Reporting*, CC Docket No. 99-301, Report and Order, 15 FCC Rcd 7717 (2000) (*Data Gathering Order*). During this data gathering program, qualifying providers file FCC Form 477 each year on March 1 (reporting data for the preceding December 31) and September 1 (reporting data for June 30 of the same year). Qualification status is determined separately for each state. If a carrier, or its holding company, has at least 10,000 local telephone connections in service in a state, it must file local telephone data for that state. An updated FCC Form 477, and instructions for that particular form, for each specific round of the data collection may be downloaded from the FCC Forms website at www.fcc.gov/formpage.html. We note that the Commission recently issued an Order that eliminated reporting thresholds. *See Local Telephone Competition and Broadband Reporting*, WC Docket No. 04-141, Report and Order, FCC 04-266 (rel. Nov. 12, 2004). Accordingly, beginning in September, 2005, data reported pursuant to Form 477 will not include thresholds.

[2] Statistical summaries of the earlier Form 477 data collections appeared in previous releases of the *Local Telephone Competition* report, available at www.fcc.gov/wcb/iatd/comp.html.

[3] Total numbers reported by ILECs filing FCC Form 477 may be slightly understated because smaller carriers are not required to report data. However, as the reporting ILECs account for about 98% of all ILEC lines, the understatement should not be large. (All ILECs, whether or not they normally report to the FCC, provide data on the number of telephone lines served to the National Exchange Carrier Association for use in conjunction with the Commission's universal service mechanism.) We are less certain about the extent to which comparable lines as reported by CLECs are understated as a result of the state-specific reporting threshold, but we expect such understatement to be larger, on a percentage basis, than for ILECs.

- 60% of switched access lines in service to CLEC end users served residential and small business customers whereas 77% of switched access lines in service to ILEC end users served residential and small business customers.[4] See Table 2.

- CLECs reported providing about 26% of switched access lines over their own local loop facilities.[5] To serve the remainder, CLECs resold the services of other carriers or used unbundled network element (UNE) loops that they leased from other carriers.[6] See Table 3.

- The number of switched access lines that CLECs report provisioning by reselling services increased by 10% during the six months ending December 31, 2004, to 16% of total CLEC switched access lines, and the number of CLEC switched access lines provisioned over UNE loops decreased by 3%, to 58% of total CLEC switched access lines. See Table 3, and for data reported for individual states, see Table 10. For historical data for individual states, see Tables 17 and 18.

- ILECs reported providing about 1.5 million switched access lines to unaffiliated carriers on a resale basis at the end of December 2004, down from 1.6 million six months earlier. They reported providing 20.7 million unbundled loops (with or without unbundled switching) to unaffiliated carriers, down from 21.4 million six months earlier.[7] See Table 4.

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[4] In the local telephone section of FCC Form 477, the switched access lines in service to the carrier's own end-user customers that are reported to be "used for residential and small business service" should be those lines that connect to customer locations for which the reporting carrier bills fewer than four (4) voice-grade equivalent lines used for local exchange service. If this information is not available, the carrier may use tariffs or marketing information to report an estimate that it reasonably expects to be accurate within plus or minus five percentage points of the true number.

[5] A reporting carrier should own the "last mile" of wire, cable, or optical fiber that connects to the end-user premises (or have obtained radio spectrum for the equivalent fixed wireless facility) if it reports providing the local telephone line over its own facilities. In general, local exchange and exchange access lines provisioned over facilities (other than dark fiber) and services obtained from another carrier are not the reporting carrier's "own facilities" for purposes of FCC Form 477, irrespective of whether those facilities or services are obtained under interconnection arrangements, under tariff, or by other means. In particular, owning the switch that provides dialtone (and other services) over a UNE loop leased from another carrier does not qualify a line as being provisioned over the reporting carrier's own facilities.

[6] From CLECs, FCC Form 477 collects information on the percentage of the CLEC's switched access lines provided over "UNE loops." For purposes of FCC Form 477, this term includes UNE loops leased from an unaffiliated carrier on a stand-alone basis and also UNE loops leased in combination with UNE switching or any other unbundled network element.

[7] The reported number of UNE loops provided without ILEC switching in Table 4 includes some UNE loops that ILECs supply to DSL-service providers that do not also provide local telephone service. Because no local telephone service is provided by means of such UNE loops, they are not included in the end-user local telephone lines reported by CLECs.

- ILECs reported providing about 3% fewer UNE loops with switching (referred to as the UNE-Platform) to unaffiliated carriers at the end of December 2004 than they reported six months earlier (16.5 million compared to 17.1 million) and about 3% fewer loops without switching (about 4.2 million). See Table 4.

- Local telephone service by CLECs was provided over 3.7 million coaxial cable connections at the end of December 2004. These lines represent about 44% of the 8.5 million switched access lines that CLECs reported providing over their own local loop facilities, about 11% of all switched access lines that CLECs reported, about 19% of CLEC lines to residential and small business end users, about 2% of total switched access lines, and about 3% of total lines to residential and small business end users. See Table 5.

- The Commission's data collection program collates information about CLEC local telephone service lines (and the CLEC share of total local telephone service lines) in individual states. Relatively large numbers of CLEC lines are associated with the more populous states.[8] With respect to the calculated CLEC share of switched access lines in service, however, some less populous states, such as Nebraska, New Hampshire, Rhode Island, and Utah had larger CLEC shares than some more populous states, such as California, Florida, and Ohio, as of December 2004. See Tables 6 - 9.[9]

- At least one CLEC reported switched access lines in service in all 50 states, the District of Columbia, and Puerto Rico.[10] In 31 states, ten or more CLECs reported serving local telephone service customers. See Table 12.

- The 76 providers of mobile wireless telephone services that reported information served about 181.1 million subscribers at the end of December 2004.[11] About 9% of these subscribers received their service via a reseller of mobile wireless telephone service. See Table 13.

[8] The largest numbers of CLEC lines are reported for California, the most populous state, followed by New York and Texas, the third and second most populous states, respectively.

[9] CLEC shares appearing in Table 7 are based on CLEC and ILEC lines in Tables 8 and 9.

[10] Under section 3(40) of the Communications Act, the term *state* "includes the District of Columbia and the Territories and possessions." 47 U.S.C. §153(40). We note that carriers that have fewer than 10,000 local telephone lines in service in a state were not required to report those lines on FCC Form 477, but may file the data on a voluntary basis. There were 36 voluntary ILEC filings and 87 voluntary CLEC filings of state-specific data as of December 31, 2004. In the course of our eleven data collections to date, the number of voluntary ILEC filings has varied between 7 and 37, and the number of voluntary CLEC filings has varied between 13 and 87.

[11] Facilities-based providers with fewer than 10,000 mobile wireless telephone service subscribers in a state (measured by revenue-generating handsets in service) were not required to report. A facilities-based mobile wireless telephone service provider serves subscribers using spectrum licenses that it has obtained or manages.

- The Commission's data collection program requires CLECs and ILECs to identify each zip code in which the carrier provides local telephone service to at least one end-user customer.[12] As of December 31, 2004, at least one CLEC was serving customers in 78% of the nation's zip codes. About 97% of United States households resided in these zip codes. Moreover, multiple carriers reported providing local telephone service in the major population centers of the country. See Table 14, Table 15, and the map that follows Table 18.

As other information from FCC Form 477 becomes available, it will be routinely posted on the Commission's Internet site. We invite users of the information presented in this statistical summary to provide suggestions for improved data collection and analysis by:

- Using the attached customer response form,
- E-mailing comments to James.Eisner@fcc.gov,
- Calling the Industry Analysis and Technology Division of the Wireline Competition Bureau at (202) 418-0940, or
- Participating in any formal proceedings undertaken by the Commission to solicit comments for improvement of FCC Form 477.

[12] CLECs and ILECs were required to report, for states in which they have at least 10,000 local telephone lines in service, lists of zip codes where they have subscribers. Providers of mobile wireless telephone service do not report zip codes.

Table 1

End-User Switched Access Lines Reported

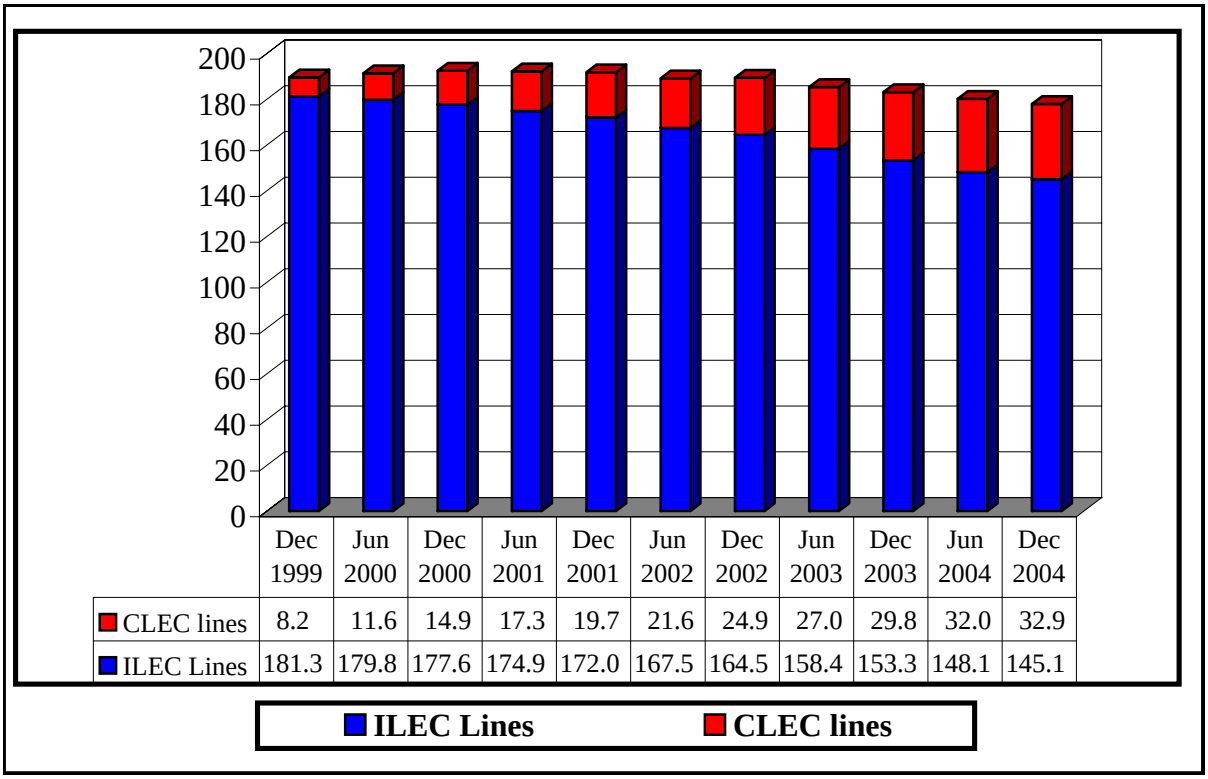
Date	ILEC Lines	CLEC Lines	Total	CLEC Share
December 1999	181,307,695	8,194,243	189,501,938	4.3 %
June 2000	179,761,930	11,557,381	191,319,311	6.0
December 2000	177,641,529	14,871,409	192,512,938	7.7
June 2001	174,861,248	17,274,727	192,135,975	9.0
December 2001	172,043,582	19,653,441	191,697,023	10.3
June 2002	167,472,318	21,644,928	189,117,246	11.4
December 2002	164,526,149	24,863,691	189,389,840	13.1
June 2003	158,386,821	26,985,345	185,372,166	14.6
December 2003	153,266,932	29,775,438	183,042,370	16.3
June 2004	148,103,506	32,033,915	180,137,421	17.8
December 2004	145,055,087	32,891,892	177,946,979	18.5

Note: Data for June 2004 have been revised.

Chart 1

End-User Switched Access Lines Reported

(Lines in Millions)



	Dec 1999	Jun 2000	Dec 2000	Jun 2001	Dec 2001	Jun 2002	Dec 2002	Jun 2003	Dec 2003	Jun 2004	Dec 2004
CLEC lines	8.2	11.6	14.9	17.3	19.7	21.6	24.9	27.0	29.8	32.0	32.9
ILEC Lines	181.3	179.8	177.6	174.9	172.0	167.5	164.5	158.4	153.3	148.1	145.1

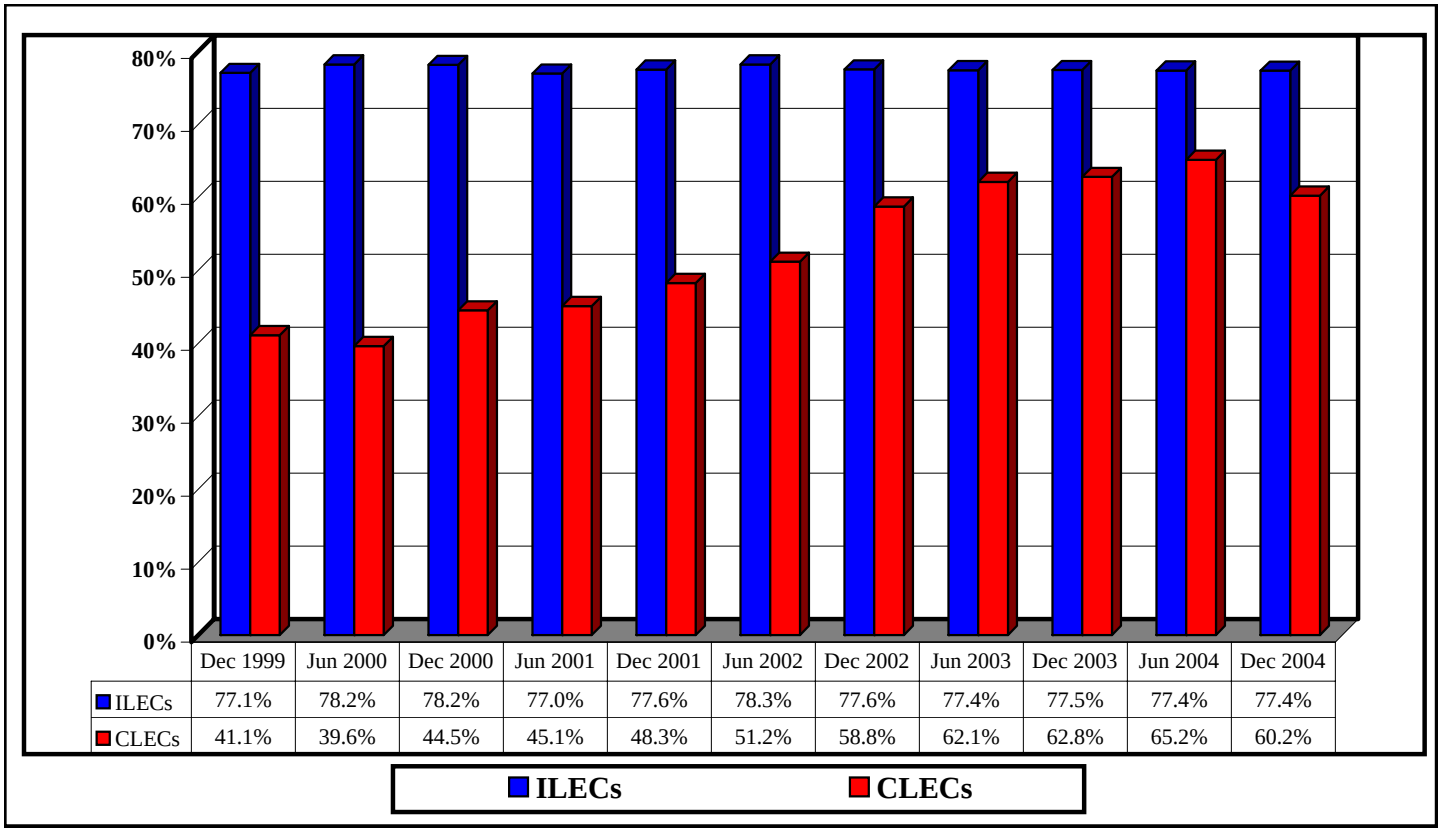
Table 2
End-User Switched Access Lines by Customer Type

Date	Reporting ILECs			Reporting CLECs		
	Residential and Small Business	Other [1]	% Residential and Small Business	Residential and Small Business	Other [1]	% Residential and Small Business
December 1999	139,758,434	41,549,261	77.1 %	3,368,702	9,481,656	41.1 %
June 2000	140,635,199	39,126,731	78.2	4,579,501	6,977,880	39.6
December 2000	138,872,415	38,769,114	78.2	6,620,471	8,250,938	44.5
June 2001	134,618,062	40,243,186	77.0	7,793,071	9,481,656	45.1
December 2001	133,421,570	38,622,012	77.6	9,489,049	10,164,392	48.3
June 2002	131,051,178	36,421,140	78.3	11,080,676	10,564,252	51.2
December 2002	127,606,456	36,919,693	77.6	14,608,495	10,255,196	58.8
June 2003	122,663,356	35,723,465	77.4	16,770,561	10,214,784	62.1
December 2003	118,746,138	34,520,794	77.5	18,702,229	11,073,209	62.8
June 2004	114,621,599	33,481,907	77.4	20,871,756	11,162,159	65.2
December 2004	112,246,949	32,808,138	77.4	19,812,922	13,078,970	60.2

Note: Data for June 2004 have been revised.

[1] Medium and large business, institutional, and government customers.

Chart 2
Percent of Lines that Serve Residential and Small Business Customers



	Dec 1999	Jun 2000	Dec 2000	Jun 2001	Dec 2001	Jun 2002	Dec 2002	Jun 2003	Dec 2003	Jun 2004	Dec 2004
ILECs	77.1%	78.2%	78.2%	77.0%	77.6%	78.3%	77.6%	77.4%	77.5%	77.4%	77.4%
CLECs	41.1%	39.6%	44.5%	45.1%	48.3%	51.2%	58.8%	62.1%	62.8%	65.2%	60.2%

Table 3
Reporting Competitive Local Exchange Carriers
(End-User Switched Access Lines in Thousands)

Date	CLECs Reporting	Total End-User Lines	Acquired from Other Carriers				CLEC-Owned	
			Resold Lines	Percent	UNEs [1]	Percent	Lines [2]	Percent
Dec 1999	81	8,194	3,513	42.9 %	1,959	23.9 %	2,723	33.2 %
Jun 2000	78	11,557	4,315	37.3	3,201	27.7	4,042	35.0
Dec 2000	89	14,871	4,114	27.7	5,540	37.3	5,217	35.1
Jun 2001	91	17,275	3,919	22.7	7,580	43.9	5,776	33.4
Dec 2001	94	19,653	4,250	21.6	9,332	47.5	6,072	30.9
Jun 2002	96	21,645	4,478	20.7	10,930	50.5	6,236	28.8
Dec 2002	112	24,864	4,677	18.8	13,709	55.1	6,479	26.1
Jun 2003	125	26,985	4,887	18.1	15,728	58.3	6,370	23.6
Dec 2003	136	29,775	4,842	16.3	17,888	60.1	7,045	23.7
Jun 2004	137	32,034	4,927	15.4	19,624	61.3	7,483	23.4
Dec 2004	149	32,892	5,417	16.5	18,970	57.7	8,505	25.9

Notes: Data for June 2004 have been revised. Figures may not add to totals due to rounding.

[1] Includes unbundled network element (UNE) loops leased from an unaffiliated carrier on a stand-alone basis and also UNE loops leased in combination with UNE switching or any other unbundled network element.

[2] Lines provided over CLEC-owned "last-mile" facilities.

Chart 3
Competitive Local Exchange Carriers' End-User Lines

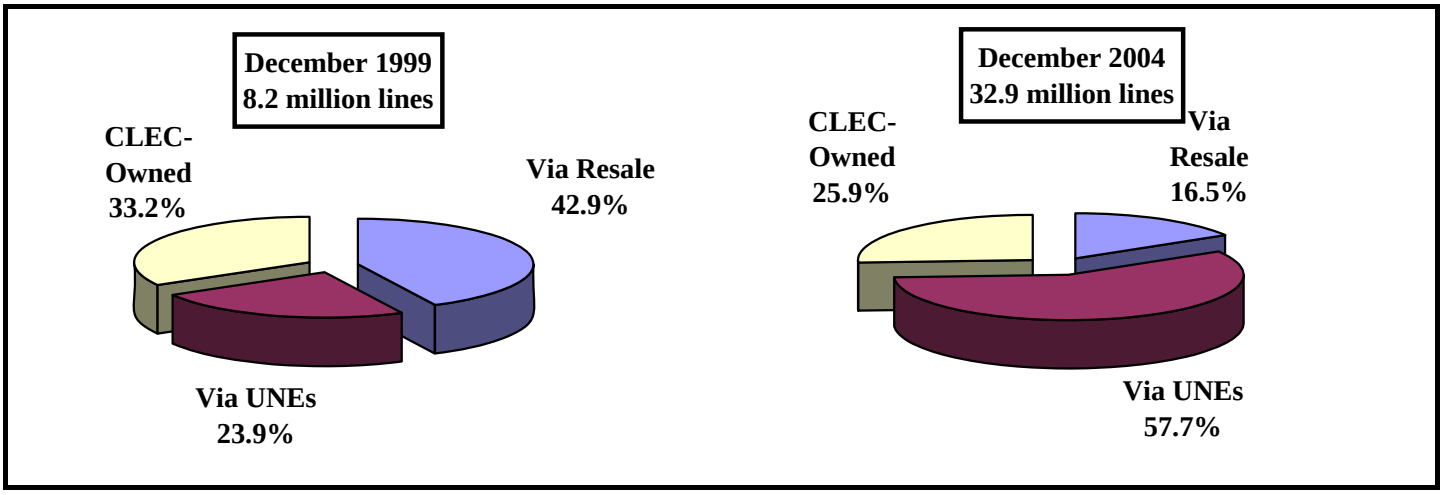


Table 4
Reporting Incumbent Local Exchange Carriers
(End-User Switched Access Lines in Thousands)

Date [1]	ILECs Reporting	Total Lines	End-User Lines	Provided to Other Carriers					
				Resold Lines	UNEs			Total UNEs and Resold Lines	Percent of Total Lines
					Without Switching	With Switching	Total UNEs		
Dec 1997	9	159,008	157,132	1,743			133	1,876	1.2 %
Jun 1998	8	161,810	159,118	2,448			244	2,692	1.7
Dec 1998	7	164,614	161,191	3,062			361	3,423	2.1
Jun 1999	7	167,177	162,909	3,583			685	4,268	2.6
Dec 1999	168	187,294	181,308	4,494	1,004	489	1,493	5,987	3.2
Jun 2000	159	188,171	179,762	5,098	1,696	1,616	3,312	8,409	4.5
Dec 2000	166	188,304	177,642	5,388	2,436	2,838	5,274	10,662	5.7
Jun 2001	156	187,201	174,861	4,417	3,161	4,761	7,922	12,340	6.6
Dec 2001	164	185,517	172,044	4,014	3,679	5,781	9,460	13,474	7.3
Jun 2002	166	182,487	167,472	3,475	4,061	7,478	11,540	15,015	8.2
Dec 2002	174	181,756	164,526	2,743	4,259	10,227	14,487	17,229	9.5
Jun 2003	181	177,860	158,387	2,232	4,205	13,036	17,241	19,473	10.9
Dec 2003	185	174,536	153,267	1,833	4,260	15,176	19,436	21,269	12.2
Jun 2004	185	171,129	148,104	1,600	4,290	17,136	21,426	23,026	13.5
Dec 2004	190	167,273	145,055	1,490	4,182	16,546	20,727	22,218	13.3

Note: Figures may not add to totals due to rounding.

[1] Data for December 1997 through June 1999 are from Common Carrier Bureau voluntary surveys. Starting with December 1999, data are from FCC Form 477 filings.

Chart 4
ILEC Lines and the Percent Provided to Other Carriers

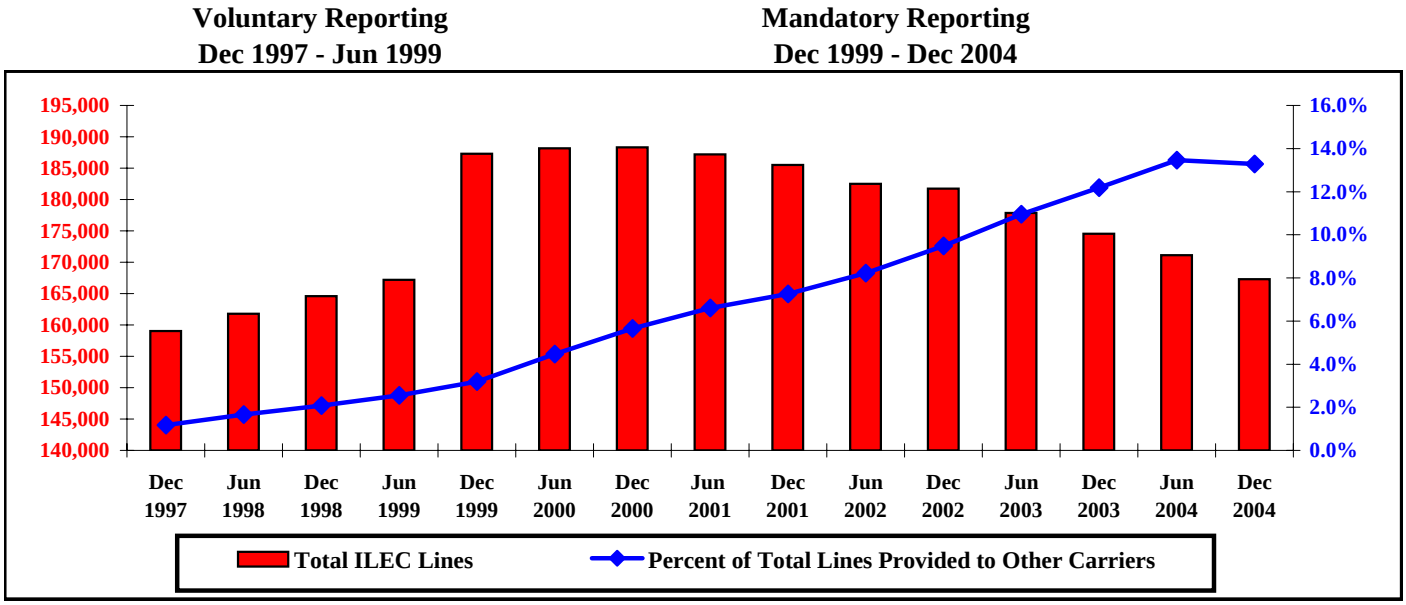


Table 5
Competitive Local Exchange Carrier Lines by Type of Technology
(End-User Switched Access Lines in Thousands)

	Coaxial Cable	Other Technologies	Total	Percent Coaxial Cable
December 1999	308	7,886	8,194	3.8 %
June 2000	614	10,943	11,557	5.3
December 2000	1,125	13,746	14,871	7.6
June 2001	1,876	15,399	17,275	10.9
December 2001	2,246	17,408	19,653	11.4
June 2002	2,597	19,048	21,645	12.0
December 2002	3,071	21,793	24,864	12.4
June 2003	3,123	23,863	26,985	11.6
December 2003	3,301	26,474	29,775	11.1
June 2004	3,338	28,696	32,034	10.4
December 2004	3,706	29,186	32,892	11.3

Note: Data for June 2004 have been revised.

Chart 5
Competitive Local Exchange Carrier Lines by Type of Technology
(End-User Switched Access Lines in Thousands)

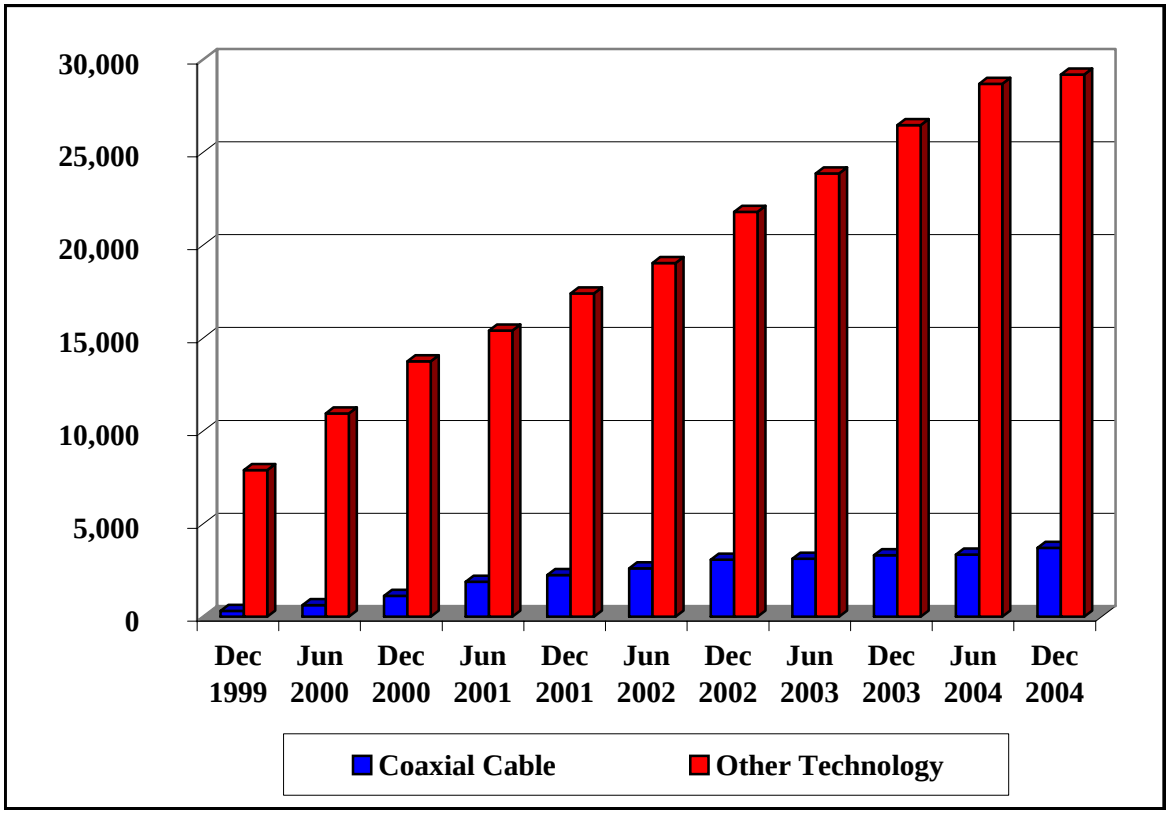


Table 6
End-User Switched Access Lines Served by Reporting Local Exchange Carriers
(As of December 31, 2004)

State	ILECs	CLECs	Total	CLEC Share
Alabama	1,971,713	369,923	2,341,636	16 %
Alaska	394,842	*	*	*
Arizona	2,367,011	792,272	3,159,283	25
Arkansas	1,156,827	153,951	1,310,778	12
California	19,140,976	3,905,815	23,046,791	17
Colorado	2,403,583	473,193	2,876,776	16
Connecticut	2,045,255	300,221	2,345,476	13
Delaware	485,278	95,464	580,742	16
District of Columbia	892,860	211,752	1,104,612	19
Florida	9,541,737	1,818,671	11,360,408	16
Georgia	4,016,300	1,002,671	5,018,971	20
Hawaii	673,259	*	*	*
Idaho	659,009	47,442	706,451	7
Illinois	6,225,760	1,712,232	7,937,992	22
Indiana	3,056,392	472,491	3,528,883	13
Iowa	1,209,063	195,144	1,404,207	14
Kansas	1,067,801	335,946	1,403,747	24
Kentucky	1,808,619	220,362	2,028,981	11
Louisiana	2,000,230	323,623	2,323,853	14
Maine	661,288	143,207	804,495	18
Maryland	3,189,630	693,940	3,883,570	18
Massachusetts	3,321,129	1,089,437	4,410,566	25
Michigan	4,393,671	1,571,391	5,965,062	26
Minnesota	2,318,334	609,495	2,927,829	21
Mississippi	1,125,740	127,282	1,253,022	10
Missouri	2,854,275	411,039	3,265,314	13
Montana	471,621	20,401	492,022	4
Nebraska	707,214	216,377	923,591	23
Nevada	1,260,566	152,285	1,412,851	11
New Hampshire	653,880	192,674	846,554	23
New Jersey	4,972,805	1,394,412	6,367,217	22
New Mexico	879,539	76,443	955,982	8
New York	8,476,771	3,627,966	12,104,737	30
North Carolina	4,355,625	636,878	4,992,503	13
North Dakota	257,409	20,478	277,887	7
Ohio	5,596,876	963,330	6,560,206	15
Oklahoma	1,525,885	286,138	1,812,023	16
Oregon	1,697,357	317,675	2,015,032	16
Pennsylvania	6,506,755	1,828,160	8,334,915	22
Puerto Rico	1,072,456	*	*	*
Rhode Island	420,277	229,179	649,456	35
South Carolina	2,004,098	240,281	2,244,379	11
South Dakota	269,271	*	*	*
Tennessee	2,773,968	481,997	3,255,965	15
Texas	9,784,577	2,278,556	12,063,133	19
Utah	923,458	286,966	1,210,424	24
Vermont	361,751	*	*	*
Virgin Islands	70,888	0	70,888	0
Virginia	3,996,369	1,074,184	5,070,553	21
Washington	3,204,555	501,518	3,706,073	14
West Virginia	896,304	107,134	1,003,438	11
Wisconsin	2,699,412	593,293	3,292,705	18
Wyoming	234,818	*	*	*
Nationwide	145,055,087	32,891,892	177,946,979	18 %

Note: Carriers with under 10,000 lines in a state were not required to report.

* Data withheld to maintain firm confidentiality.

Table 7
Competitive Local Exchange Carrier Share of End-User Switched Access Lines

	1999	2000		2001		2002		2003		2004	
State	**Dec**	**Jun**	**Dec**	**Jun**	**Dec**	**Jun**	**Dec**	**Jun**	**Dec**	**Jun**	**Dec**
Alabama	5 %	3 %	4 %	5 %	5 %	5 %	9 %	11 %	13 %	15 %	16 %
Alaska	*	*	*	*	*	*	*	*	*	*	*
Arizona	*	5	5	7	9	11	12	16	22	25	25
Arkansas	*	*	*	*	*	*	10	*	11	12	12
California	4	5	6	7	8	9	11	13	15	16	17
Colorado	5	7	9	10	13	14	15	16	17	17	16
Connecticut	3	5	6	7	7	9	9	10	10	11	13
Delaware	*	*	*	0	0	*	*	9	12	16	16
District of Columbia	7	7	9	12	13	16	14	16	17	19	19
Florida	6	6	6	7	7	9	13	13	14	16	16
Georgia	5	6	8	10	11	13	15	17	18	19	20
Hawaii	*	*	0	*	*	*	*	*	*	*	*
Idaho	0	0	*	*	*	*	*	5	6	7	7
Illinois	5	7	9	13	15	17	19	19	20	21	22
Indiana	3	4	5	5	5	7	8	9	13	14	13
Iowa	*	9	11	11	12	12	13	13	13	14	14
Kansas	*	5	7	8	9	12	17	21	21	22	24
Kentucky	2	*	3	*	*	*	4	5	8	11	11
Louisiana	3	2	3	4	4	5	7	9	10	12	14
Maine	*	*	*	*	*	*	*	8	10	14	18
Maryland	2	3	4	6	4	6	7	10	14	16	18
Massachusetts	6	8	11	12	15	16	16	18	21	23	25
Michigan	3	5	6	9	13	18	21	22	25	26	26
Minnesota	6	7	9	11	13	14	17	17	19	20	21
Mississippi	4	*	4	4	3	2	6	7	9	10	10
Missouri	3	5	6	6	7	8	10	10	11	13	13
Montana	*	*	*	*	*	*	*	3	4	4	4
Nebraska	*	*	*	*	12	16	18	20	21	22	23
Nevada	*	*	*	10	*	*	11	9	10	11	11
New Hampshire	*	*	6	8	10	13	14	16	17	20	23
New Jersey	*	4	5	4	5	6	10	15	19	20	22
New Mexico	*	*	*	*	*	*	*	*	*	8	8
New York	9	16	20	23	25	25	24	27	28	30	30
North Carolina	3	4	4	6	6	6	8	9	9	11	13
North Dakota	*	*	*	*	*	*	*	*	8	8	7
Ohio	4	4	4	4	5	7	9	11	14	15	15
Oklahoma	*	*	5	6	8	10	11	11	14	13	16
Oregon	2	3	4	5	7	7	9	8	12	13	16
Pennsylvania	5	8	10	13	14	15	16	17	19	20	22
Puerto Rico	0	*	*	*	*	*	*	*	*	*	*
Rhode Island	*	*	*	10	16	18	21	25	28	32	35
South Carolina	*	*	4	4	3	5	7	9	9	10	11
South Dakota	*	*	*	*	*	*	*	14	18	*	*
Tennessee	4	6	6	8	8	7	9	10	11	14	15
Texas	4	7	13	14	16	16	17	18	18	19	19
Utah	3	6	10	11	13	13	15	19	20	23	24
Vermont	*	*	*	*	*	*	*	*	*	*	*
Virgin Islands	0	0	0	0	0	0	0	0	0	0	0
Virginia	2	5	7	9	11	12	12	14	17	20	21
Washington	4	5	6	6	8	9	10	10	11	13	14
West Virginia	*	*	*	*	*	*	*	*	*	*	11
Wisconsin	5	7	8	9	11	12	13	15	18	19	18
Wyoming	*	*	*	*	*	*	*	*	*	*	*
Nationwide	4 %	6 %	8 %	9 %	10 %	11 %	13 %	15 %	16 %	18 %	18 %

Note: Carriers with under 10,000 lines in a state were not required to report.

* Data withheld to maintain firm confidentiality.

Table 8
End-User Switched Access Lines Served by Reporting Competitive Local Exchange Carriers

	1999	2000		2001		2002		2003		2004	
State	**Dec**	**Jun**	**Dec**	**Jun**	**Dec**	**Jun**	**Dec**	**Jun**	**Dec**	**Jun**	**Dec**
Alabama	131,357	78,525	104,933	121,059	117,159	118,721	215,962	265,556	302,911	365,060	369,923
Alaska	*	*	*	*	*	*	*	*	*	*	*
Arizona	*	155,657	165,597	231,777	310,517	354,592	400,080	519,128	707,477	814,194	792,272
Arkansas	*	*	*	*	*	*	144,411	*	146,513	162,996	153,951
California	1,027,200	1,317,414	1,498,146	1,668,232	2,003,404	2,158,878	2,705,851	3,046,959	3,422,373	3,774,501	3,905,815
Colorado	141,135	204,608	286,955	325,983	391,257	434,125	482,014	495,007	505,772	498,583	473,193
Connecticut	86,385	136,086	154,349	164,379	187,450	222,815	236,462	234,372	242,643	272,385	300,221
Delaware	*	*	*	0	0	*	*	53,473	71,230	92,810	95,464
District of Columbia	77,865	72,696	94,850	124,630	126,461	161,114	160,174	174,584	180,680	215,421	211,752
Florida	681,382	670,714	718,157	864,892	866,809	1,035,417	1,509,299	1,552,996	1,576,562	1,785,001	1,818,671
Georgia	254,672	327,881	462,392	515,730	600,087	704,651	807,935	861,156	913,567	977,358	1,002,671
Hawaii	*	*	0	*	*	*	*	*	*	*	*
Idaho	0	0	*	*	*	*	*	33,864	46,858	47,398	47,442
Illinois	443,936	590,208	803,492	1,113,112	1,341,060	1,468,057	1,602,482	1,616,765	1,662,007	1,672,522	1,712,232
Indiana	96,091	156,280	191,921	180,221	205,845	252,722	284,532	348,159	457,657	501,936	472,491
Iowa	*	140,706	164,069	164,637	186,254	190,869	201,176	195,860	188,645	199,115	195,144
Kansas	*	84,823	106,686	121,294	145,659	176,322	258,312	318,862	310,032	316,946	335,946
Kentucky	45,522	*	56,392	*	*	*	92,483	97,288	162,391	218,810	220,362
Louisiana	71,206	57,617	69,437	108,820	93,107	115,220	188,652	212,363	229,051	283,333	323,623
Maine	*	*	*	*	*	*	*	70,275	78,050	113,957	143,207
Maryland	79,173	131,272	160,126	211,499	158,999	232,793	285,416	379,961	555,282	615,757	693,940
Massachusetts	277,476	384,548	509,731	576,442	669,209	736,932	750,473	846,276	973,607	997,760	1,089,437
Michigan	208,980	349,703	366,305	583,653	865,182	1,211,379	1,362,217	1,384,973	1,547,619	1,575,267	1,571,391
Minnesota	202,675	230,789	287,660	353,245	394,310	443,739	572,708	534,965	581,234	604,152	609,495
Mississippi	57,914	*	63,515	51,496	43,578	22,966	74,410	93,912	111,657	131,218	127,282
Missouri	113,347	178,377	203,537	224,442	262,947	279,342	336,895	334,319	362,346	430,538	411,039
Montana	*	*	*	*	*	*	*	17,473	18,616	19,204	20,401
Nebraska	*	*	*	*	144,229	159,617	177,698	190,754	199,498	205,560	216,377
Nevada	*	*	*	144,453	*	*	163,520	132,684	150,615	149,735	152,285
New Hampshire	*	*	52,137	67,315	85,549	109,610	125,893	136,510	142,385	170,433	192,674
New Jersey	*	294,690	323,680	300,594	330,005	396,865	697,176	1,009,996	1,235,977	1,319,513	1,394,412
New Mexico	*	*	*	*	*	*	*	*	*	76,469	76,443
New York	1,191,446	2,157,618	2,769,814	3,138,133	3,353,394	3,259,221	3,175,265	3,478,918	3,596,739	3,684,036	3,627,966
North Carolina	166,473	187,253	230,733	323,594	302,044	328,715	405,853	443,600	476,299	576,538	636,878
North Dakota	*	*	*	*	*	*	*	*	25,039	22,502	20,478
Ohio	262,159	255,267	308,213	280,088	352,811	510,623	652,104	754,020	946,303	979,885	963,330
Oklahoma	*	*	102,456	125,912	160,186	203,028	207,798	217,854	270,313	242,737	286,138
Oregon	47,239	58,699	99,326	118,425	153,084	154,492	183,319	167,965	249,696	267,121	317,675
Pennsylvania	412,761	671,437	870,618	1,122,623	1,186,897	1,329,357	1,405,894	1,413,458	1,585,025	1,706,036	1,828,160
Puerto Rico	0	*	*	*	*	*	*	*	*	*	*
Rhode Island	*	*	*	69,237	108,190	119,112	145,202	167,714	187,936	213,787	229,179
South Carolina	*	*	89,255	90,241	72,035	121,331	171,572	204,252	218,095	226,284	240,281
South Dakota	*	*	*	*	*	*	*	49,243	64,784	*	*
Tennessee	129,987	200,721	222,917	272,211	268,222	247,056	329,150	349,588	380,298	475,312	481,997
Texas	586,111	998,326	1,764,676	1,891,131	2,166,033	2,170,914	2,182,929	2,266,028	2,265,505	2,320,273	2,278,556
Utah	34,351	79,034	129,834	145,603	155,992	161,193	194,352	235,170	241,454	288,009	286,966
Vermont	*	*	*	*	*	*	*	*	*	*	*
Virgin Islands	0	0	0	0	0	0	0	0	0	0	0
Virginia	88,431	228,271	336,826	402,528	537,753	558,206	639,330	738,479	873,022	994,588	1,074,184
Washington	138,449	184,353	240,514	229,693	336,230	358,933	406,750	386,104	433,967	494,375	501,518
West Virginia	*	*	*	*	*	*	*	*	*	*	107,134
Wisconsin	177,336	244,373	278,087	322,735	367,195	420,200	477,915	526,343	603,492	626,809	593,293
Wyoming	*	*	*	*	*	*	*	*	*	*	*
Total	8,194,243	11,557,381	14,871,409	17,274,727	19,653,441	21,644,928	24,863,691	26,985,345	29,775,438	32,033,915	32,891,892

Notes: Data for June 2004 have been revised. Carriers with under 10,000 lines in a state were not required to report.

* Data withheld to maintain firm confidentiality.

Table 9
End-User Switched Access Lines Served by Reporting Incumbent Local Exchange Carriers

	1999	2000		2001		2002		2003		2004	
State	**Dec**	**Jun**	**Dec**	**Jun**	**Dec**	**Jun**	**Dec**	**Jun**	**Dec**	**Jun**	**Dec**
Alabama	2,360,023	2,456,101	2,424,197	2,413,440	2,381,574	2,330,940	2,238,352	2,183,237	2,046,244	1,997,058	1,971,713
Alaska	460,425	486,337	481,684	474,215	462,804	484,065	466,880	430,339	425,322	419,304	394,842
Arizona	3,006,276	3,051,648	3,073,779	3,062,586	2,981,156	2,947,967	2,878,210	2,700,186	2,541,931	2,415,432	2,367,011
Arkansas	1,396,981	1,422,736	1,420,169	1,412,863	1,363,454	1,304,659	1,257,291	1,220,542	1,212,895	1,172,200	1,156,827
California	23,198,657	23,436,793	23,250,580	23,103,077	22,771,976	22,315,423	21,475,881	20,645,363	20,111,818	19,478,761	19,140,976
Colorado	2,873,169	2,887,311	2,833,948	2,805,532	2,727,654	2,717,320	2,642,166	2,557,814	2,496,330	2,439,132	2,403,583
Connecticut	2,416,300	2,438,119	2,382,208	2,363,687	2,329,716	2,305,082	2,266,558	2,219,140	2,172,574	2,102,689	2,045,255
Delaware	581,714	570,331	555,913	567,381	552,331	537,498	562,577	546,684	525,331	497,466	485,278
District of Columbia	994,975	914,716	922,531	887,590	865,008	829,592	976,228	932,576	901,056	915,583	892,860
Florida	11,090,801	11,365,772	11,349,981	11,211,674	11,019,972	10,603,872	10,406,129	10,133,865	9,975,073	9,633,565	9,541,737
Georgia	4,869,774	5,032,360	4,988,949	4,905,002	4,723,842	4,604,834	4,423,324	4,308,760	4,187,544	4,044,935	4,016,300
Hawaii	736,080	737,255	744,205	739,979	735,459	729,239	723,111	707,634	698,178	683,146	673,259
Idaho	709,210	724,440	733,580	732,814	706,991	707,180	700,089	687,342	678,088	666,914	659,009
Illinois	8,040,394	7,990,635	7,875,563	7,558,613	7,578,706	7,322,494	6,994,127	6,741,172	6,517,977	6,326,988	6,225,760
Indiana	3,559,946	3,597,365	3,574,414	3,576,710	3,637,893	3,542,715	3,459,873	3,327,235	3,188,863	3,095,055	3,056,392
Iowa	1,439,574	1,414,622	1,387,746	1,379,872	1,356,643	1,357,155	1,329,633	1,296,148	1,285,764	1,232,364	1,209,063
Kansas	1,543,799	1,533,755	1,498,636	1,441,940	1,397,937	1,324,804	1,236,051	1,186,953	1,149,527	1,102,696	1,067,801
Kentucky	2,126,249	2,173,716	2,166,664	2,170,191	2,173,958	2,141,611	2,100,313	2,024,894	1,910,272	1,841,495	1,808,619
Louisiana	2,423,524	2,515,485	2,506,348	2,505,961	2,440,988	2,428,935	2,353,620	2,251,091	2,146,036	2,040,518	2,000,230
Maine	822,990	818,979	804,652	801,649	764,536	768,216	797,973	775,378	737,751	690,024	661,288
Maryland	3,932,708	3,760,409	3,802,622	3,599,027	3,660,869	3,488,961	3,634,524	3,541,493	3,369,687	3,239,029	3,189,630
Massachusetts	4,580,383	4,313,988	4,252,502	4,131,520	3,931,469	3,804,513	3,914,218	3,771,142	3,565,171	3,432,038	3,321,129
Michigan	6,287,424	6,363,024	6,262,696	6,027,730	5,965,971	5,498,139	5,174,471	4,819,294	4,614,333	4,487,619	4,393,671
Minnesota	2,926,177	2,935,154	2,940,034	2,861,684	2,698,867	2,804,937	2,708,221	2,572,413	2,453,860	2,377,827	2,318,334
Mississippi	1,288,847	1,355,932	1,352,284	1,356,136	1,332,389	1,332,853	1,277,168	1,235,339	1,186,725	1,148,580	1,125,740
Missouri	3,464,118	3,508,475	3,418,983	3,446,252	3,328,130	3,262,072	3,145,872	3,067,732	2,997,347	2,906,801	2,854,275
Montana	530,884	514,992	529,878	527,989	521,550	514,353	509,979	500,865	490,505	482,548	471,621
Nebraska	946,718	1,010,682	949,217	931,979	1,030,125	867,474	828,394	775,829	736,105	736,257	707,214
Nevada	1,331,122	1,341,786	1,353,193	1,366,124	1,352,724	1,351,282	1,348,042	1,304,641	1,301,193	1,272,060	1,260,566
New Hampshire	861,976	813,919	805,143	775,864	758,515	741,553	743,300	723,408	703,594	670,480	653,880
New Jersey	6,867,616	6,705,441	6,747,131	6,707,243	6,482,459	6,226,079	6,200,678	5,766,555	5,425,840	5,148,627	4,972,805
New Mexico	940,489	947,809	957,195	977,439	965,946	969,763	965,816	940,232	919,450	894,345	879,539
New York	12,675,692	11,532,265	10,952,903	10,689,293	10,223,476	9,806,596	10,037,200	9,588,446	9,115,865	8,685,767	8,476,771
North Carolina	4,922,110	5,136,006	5,133,984	5,040,317	5,023,740	4,942,113	4,824,385	4,682,253	4,630,912	4,440,280	4,355,625
North Dakota	357,062	354,945	317,270	312,573	306,963	303,326	293,639	280,507	275,457	265,881	257,409
Ohio	6,904,938	6,944,806	6,922,773	6,876,434	6,967,603	6,705,911	6,405,570	6,131,768	5,889,260	5,697,351	5,596,876
Oklahoma	2,008,819	1,983,894	1,950,618	1,923,027	1,873,489	1,822,278	1,726,359	1,679,984	1,638,861	1,591,936	1,525,885
Oregon	2,104,982	2,119,998	2,109,510	2,079,221	2,043,164	2,005,347	1,955,544	1,871,970	1,813,627	1,743,918	1,697,357
Pennsylvania	8,474,914	8,200,347	8,012,115	7,818,599	7,524,072	7,288,959	7,394,441	7,146,626	6,922,904	6,638,982	6,506,755
Puerto Rico	1,294,962	1,288,076	1,299,291	1,300,665	1,288,439	1,288,718	1,276,493	1,212,779	1,178,707	1,111,894	1,072,456
Rhode Island	676,212	639,438	627,784	604,128	570,513	547,728	542,069	509,749	482,392	448,853	420,277
South Carolina	2,222,641	2,234,165	2,314,649	2,239,383	2,276,681	2,253,384	2,210,548	2,143,712	2,100,205	2,025,422	2,004,098
South Dakota	353,816	353,073	309,349	338,834	327,150	314,755	309,173	296,879	297,540	271,682	269,271
Tennessee	3,322,220	3,419,317	3,412,145	3,352,224	3,289,154	3,232,548	3,147,556	3,042,739	2,943,127	2,818,771	2,773,968
Texas	12,601,936	12,349,899	11,892,768	11,496,247	11,365,441	11,006,831	10,766,127	10,451,045	10,269,558	10,139,446	9,784,577
Utah	1,197,043	1,207,581	1,174,625	1,149,667	1,086,537	1,090,791	1,075,061	1,019,089	993,796	940,678	923,458
Vermont	404,836	377,987	400,929	399,084	388,399	383,917	395,441	385,901	376,390	366,716	361,751
Virgin Islands	66,701	69,063	0	70,426	70,784	71,984	71,894	71,132	71,284	70,672	70,888
Virginia	4,853,301	4,184,850	4,317,626	4,203,412	4,436,193	4,276,468	4,512,398	4,366,897	4,192,316	4,075,297	3,996,369
Washington	3,811,920	3,837,744	3,784,183	3,751,683	3,635,702	3,622,857	3,553,994	3,452,669	3,375,160	3,276,000	3,204,555
West Virginia	1,004,031	910,992	927,432	980,575	967,218	940,483	974,090	962,417	954,583	912,228	896,304
Wisconsin	3,184,664	3,239,809	3,178,516	3,151,854	3,121,462	3,145,341	3,063,426	2,953,647	2,834,559	2,754,836	2,699,412
Wyoming	255,572	237,588	256,434	259,839	255,790	256,403	251,672	241,316	238,045	235,360	234,818
Total	181,307,695	179,761,930	177,641,529	174,861,248	172,043,582	167,472,318	164,526,149	158,386,821	153,266,932	148,103,506	145,055,087

Note: Carriers with under 10,000 lines in a state were not required to report.

Table 10
CLEC-Reported End-User Switched Access Lines by State
(As of December 31, 2004)

State	CLEC-Owned	UNEs	Resold Lines	Total
Alabama	89,415	201,043	79,465	369,923
Alaska	*	*	*	*
Arizona	439,522	228,154	124,595	792,272
Arkansas	47,984	98,638	7,329	153,951
California	1,050,380	2,244,531	610,903	3,905,815
Colorado	155,153	199,176	118,864	473,193
Connecticut	121,717	101,110	77,394	300,221
Delaware	*	52,260	*	95,464
District of Columbia	81,382	62,066	68,305	211,752
Florida	418,302	1,037,317	363,053	1,818,671
Georgia	253,667	566,005	182,999	1,002,671
Hawaii	*	*	*	*
Idaho	*	25,111	*	47,442
Illinois	487,554	1,016,283	208,395	1,712,232
Indiana	92,108	328,154	52,229	472,491
Iowa	41,747	138,285	15,112	195,144
Kansas	102,239	208,428	25,280	335,946
Kentucky	91,143	103,353	25,867	220,362
Louisiana	100,480	170,060	53,083	323,623
Maine	26,977	68,341	47,890	143,207
Maryland	154,923	431,217	107,800	693,940
Massachusetts	420,332	429,262	239,843	1,089,437
Michigan	160,327	1,309,653	101,411	1,571,391
Minnesota	182,057	295,393	132,044	609,495
Mississippi	8,336	80,268	38,677	127,282
Missouri	89,449	260,118	61,472	411,039
Montana	15,752	4,649	0	20,401
Nebraska	141,762	41,077	33,538	216,377
Nevada	32,220	64,660	55,406	152,285
New Hampshire	76,259	82,711	33,704	192,674
New Jersey	155,703	996,955	241,754	1,394,412
New Mexico	14,556	47,444	14,443	76,443
New York	448,802	2,494,882	684,282	3,627,966
North Carolina	155,562	323,906	157,410	636,878
North Dakota	7,716	12,224	538	20,478
Ohio	137,402	662,213	163,715	963,330
Oklahoma	177,638	83,835	24,665	286,138
Oregon	41,403	218,782	57,490	317,675
Pennsylvania	653,579	907,330	267,251	1,828,160
Puerto Rico	*	*	*	*
Rhode Island	151,179	65,567	12,433	229,179
South Carolina	38,147	150,618	51,516	240,281
South Dakota	*	*	*	*
Tennessee	124,214	261,021	96,762	481,997
Texas	590,215	1,386,903	301,437	2,278,556
Utah	75,946	131,349	79,671	286,966
Vermont	*	*	*	*
Virgin Islands	0	0	0	0
Virginia	493,821	420,723	159,640	1,074,184
Washington	147,310	240,245	113,963	501,518
West Virginia	6,077	89,017	12,040	107,134
Wisconsin	36,829	506,094	50,370	593,293
Wyoming	*	*	*	*
Total	8,505,201	18,970,166	5,416,525	32,891,892

* Data withheld to maintain firm confidentiality.

Table 11
Percentage of Lines Provided to
Residential and Small Business Customers
(As of December 31, 2004)

State	ILECs	CLECs	Total
Alabama	83 %	52 %	78 %
Alaska	80	*	*
Arizona	74	68	72
Arkansas	87	56	83
California	82	67	79
Colorado	77	59	74
Connecticut	87	59	84
Delaware	68	76	69
District of Columbia	26	25	26
Florida	83	42	76
Georgia	78	52	73
Hawaii	83	*	*
Idaho	78	74	77
Illinois	72	67	71
Indiana	77	71	76
Iowa	77	86	78
Kansas	87	58	80
Kentucky	82	73	81
Louisiana	82	70	80
Maine	80	75	80
Maryland	64	63	64
Massachusetts	68	62	66
Michigan	73	72	73
Minnesota	78	61	75
Mississippi	82	73	81
Missouri	87	52	82
Montana	80	77	80
Nebraska	69	67	69
Nevada	74	34	70
New Hampshire	80	59	75
New Jersey	66	63	65
New Mexico	79	51	76
New York	66	64	66
North Carolina	82	34	76
North Dakota	81	89	81
Ohio	77	63	75
Oklahoma	88	64	84
Oregon	82	55	77
Pennsylvania	76	50	71
Puerto Rico	91	*	*
Rhode Island	73	80	75
South Carolina	83	36	78
South Dakota	75	*	*
Tennessee	84	39	77
Texas	87	55	81
Utah	76	58	72
Vermont	78	*	*
Virgin Islands	99	NA	99
Virginia	61	72	63
Washington	79	51	76
West Virginia	79	80	79
Wisconsin	76	60	73
Wyoming	73	*	*
Nationwide	77 %	60 %	74 %

NA -- Not Applicable.

* Data withheld to maintain firm confidentiality.

Table 12
Number of Reporting Local Exchange Carriers
(As of December 31, 2004)

State	ILECs	CLECs	Total
Alabama	9	11	20
Alaska	5	1	6
Arizona	3	13	16
Arkansas	4	6	10
California	7	27	34
Colorado	3	11	14
Connecticut	2	11	13
Delaware	1	4	5
District of Columbia	1	7	8
Florida	8	26	34
Georgia	18	24	42
Hawaii	1	1	2
Idaho	5	4	9
Illinois	6	22	28
Indiana	7	13	20
Iowa	11	13	24
Kansas	7	14	21
Kentucky	10	13	23
Louisiana	6	13	19
Maine	5	7	12
Maryland	2	17	19
Massachusetts	1	16	17
Michigan	7	17	24
Minnesota	19	19	38
Mississippi	6	9	15
Missouri	6	13	19
Montana	7	4	11
Nebraska	6	6	12
Nevada	7	6	13
New Hampshire	4	9	13
New Jersey	3	21	24
New Mexico	4	4	8
New York	8	31	39
North Carolina	16	18	34
North Dakota	9	4	13
Ohio	9	22	31
Oklahoma	11	9	20
Oregon	8	10	18
Pennsylvania	9	24	33
Puerto Rico	1	1	2
Rhode Island	1	6	7
South Carolina	14	14	28
South Dakota	8	3	11
Tennessee	14	17	31
Texas	14	26	40
Utah	6	10	16
Vermont	4	2	6
Virgin Islands	1	0	1
Virginia	5	19	24
Washington	7	12	19
West Virginia	2	4	6
Wisconsin	11	11	22
Wyoming	2	3	5
Nationwide - Unduplicated	190	149	339
Total State Filings [1]	351	628	979
Required Filings [1]	315	541	856
Voluntary Filings [1]	36	87	123

[1] Each report represents all of a company's operations in a given state. Carriers with both ILEC and CLEC operations in the same state provide separate reports.

Table 13
Mobile Wireless Telephone Subscribers [1]

State	December 2004		Subscribers											Percent Change Dec 03 - Dec 04
	Carriers [1]	Percent Resold [2]	1999	2000		2001		2002		2003		2004		
			Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	
Alabama	10	9 %	1,080,410	1,253,084	1,386,294	1,930,631	1,979,075	2,027,845	1,987,254	2,100,557	2,242,108	2,301,847	2,580,810	15 %
Alaska	4	6	165,221	169,892	*	218,424	240,216	242,133	267,630	*	303,184	307,323	321,152	6
American Samoa	*	*	0	0	0	0	0	0	0	0	0	*	*	NA
Arizona	12	11	1,125,321	1,624,668	1,855,115	2,018,410	2,171,021	2,412,998	2,520,058	2,643,952	2,843,061	3,079,657	3,299,222	16
Arkansas	6	5	719,919	715,467	743,928	891,275	970,127	1,130,302	1,156,345	1,351,291	1,296,901	1,376,564	1,458,673	12
California	13	8	8,544,941	12,283,369	12,710,520	14,184,625	15,052,203	16,007,376	17,575,105	18,892,619	20,360,454	21,575,797	23,457,761	15
Colorado	9	7	1,552,718	1,654,989	1,856,075	1,983,405	2,145,816	2,247,166	2,358,748	2,426,929	2,554,731	2,727,910	2,808,195	10
Connecticut	5	4	1,077,089	1,136,618	1,277,123	1,418,367	1,639,914	1,577,873	1,694,110	1,791,944	1,928,988	2,064,204	2,181,133	13
Delaware	5	5	270,848	275,219	371,014	389,284	412,611	433,059	438,196	503,353	543,526	593,452	646,064	19
Dist. of Columbia	5	9	346,681	333,815	354,735	382,457	404,489	415,399	472,832	520,182	513,102	555,958	657,774	28
Florida	8	15	5,158,079	4,983,478	6,369,985	7,536,670	8,937,063	8,607,715	9,482,349	10,252,348	10,855,430	11,916,615	13,169,278	21
Georgia	12	8	2,538,983	2,687,238	2,754,784	4,076,119	4,149,717	4,300,831	4,497,576	4,709,288	4,940,091	5,332,517	5,730,223	16
Guam	*	*	*	*	0	*	*	*	*	*	*	*	*	NA
Hawaii	5	1	288,425	454,364	524,291	543,283	595,721	640,247	689,857	732,262	771,023	819,262	880,965	14
Idaho	9	14	271,436	296,066	344,564	398,781	444,864	500,693	536,064	572,406	605,488	653,779	705,948	17
Illinois	9	7	3,922,482	4,309,660	5,143,767	5,621,044	5,631,172	5,409,370	6,476,683	6,834,217	7,183,989	7,529,966	8,075,938	12
Indiana	7	13	1,318,975	1,717,378	1,715,074	1,781,247	1,921,356	2,032,290	2,390,567	2,456,509	2,642,810	2,844,568	3,158,002	19
Iowa	10	10	774,773	975,629	832,106	861,382	1,087,608	1,157,580	1,239,384	1,250,305	1,342,931	1,445,711	1,557,542	16
Kansas	11	6	669,472	724,024	801,293	901,225	956,050	1,061,171	1,117,277	1,195,230	1,261,242	1,345,160	1,454,087	15
Kentucky	10	10	911,700	999,544	1,026,334	1,176,756	1,405,043	1,505,982	1,456,705	1,595,290	1,812,657	2,000,459	2,189,345	21
Louisiana	8	14	1,227,106	1,294,693	1,306,457	1,677,292	1,920,740	2,187,811	2,190,613	2,365,224	2,470,146	2,547,153	2,834,716	15
Maine	6	2	187,003	283,640	359,786	399,616	427,313	457,835	466,896	524,246	568,159	610,533	662,623	17
Maryland	7	7	1,634,625	2,013,058	2,298,651	2,446,818	2,614,216	2,684,441	2,913,943	3,108,086	3,319,605	3,575,747	3,900,172	17
Massachusetts	5	5	1,892,014	2,228,169	2,649,130	2,753,685	2,996,816	3,289,934	3,375,726	3,506,039	3,741,975	3,919,139	4,042,592	8
Michigan	11	8	3,512,813	3,423,535	3,551,719	4,071,091	4,238,399	4,758,538	4,674,980	4,889,269	5,114,259	5,430,637	5,766,616	13
Minnesota	10	13	1,550,411	1,595,560	1,851,430	2,014,317	2,153,857	2,254,895	2,415,033	2,564,783	2,677,472	2,823,079	2,973,126	11
Mississippi	8	13	673,355	509,038	786,577	993,781	1,048,061	1,106,700	1,112,765	1,232,750	1,324,160	1,411,277	1,517,702	15
Missouri	10	8	1,855,452	1,848,775	1,767,411	1,937,684	2,106,599	2,246,430	2,289,831	2,515,325	2,691,255	2,859,953	3,109,167	16
Montana	*	*	*	*	*	*	279,349	291,429	315,512	343,160	373,947	*	*	NA
Nebraska	8	5	576,296	600,885	659,380	712,685	791,799	838,568	867,810	900,744	937,184	984,355	1,045,810	12
Nevada	7	10	750,335	825,163	684,752	766,581	842,155	895,586	984,486	1,077,380	1,216,838	1,319,684	1,463,370	20
New Hampshire	7	11	280,508	309,263	387,264	445,181	492,390	529,795	525,689	598,504	648,788	686,746	727,985	12
New Jersey	5	4	2,289,181	2,750,024	3,575,130	3,896,778	4,283,643	4,531,457	4,587,640	5,392,240	5,799,417	6,326,459	7,388,722	27
New Mexico	9	17	363,827	395,111	443,343	619,582	660,849	735,107	780,855	828,869	859,408	939,091	987,813	15
New York	9	7	4,833,816	5,016,524	5,918,136	6,749,096	7,429,249	7,915,526	8,937,683	8,829,070	9,453,613	9,939,759	10,834,741	15
North Carolina	11	9	2,536,068	2,730,178	3,105,811	3,377,331	3,767,598	4,610,120	4,094,715	4,305,521	4,554,723	4,875,916	5,363,630	18
North Dakota	4	15	*	*	*	*	*	245,578	*	*	*	*	373,445	NA
Ohio	12	7	3,237,786	3,278,960	4,150,498	4,255,934	4,739,795	4,887,376	5,212,204	5,659,459	5,817,211	6,188,081	6,627,910	14
Oklahoma	12	6	826,637	979,513	1,124,214	1,200,234	1,288,357	1,366,475	1,440,970	1,574,588	1,614,191	1,724,505	1,760,122	9
Oregon	9	5	914,848	1,082,425	1,201,207	1,268,909	1,399,279	1,473,883	1,682,343	1,682,036	1,778,936	1,894,285	2,029,224	14
Pennsylvania	9	8	2,767,474	3,850,372	4,129,186	4,378,216	4,849,085	4,987,067	5,258,844	5,681,653	6,073,573	6,420,037	7,037,296	16
Puerto Rico	6	7	*	1,090,005	757,613	1,374,747	1,128,736	1,136,619	1,516,808	1,401,599	1,631,266	1,698,702	2,076,698	27
Rhode Island	5	5	279,304	313,550	355,889	401,805	456,059	463,636	515,547	527,366	567,331	615,398	607,489	7
South Carolina	11	15	1,137,232	1,236,338	1,392,586	1,502,345	1,752,457	1,830,516	1,896,369	2,041,541	2,149,480	2,337,367	2,369,252	10
South Dakota	5	11	*	*	*	*	278,646	292,210	325,114	344,825	365,211	382,906	428,513	17
Tennessee	12	9	1,529,054	1,876,444	1,985,851	2,251,208	2,510,978	2,660,068	2,674,566	2,800,735	2,974,512	3,171,487	3,531,286	19
Texas	18	9	5,792,453	6,705,423	7,548,537	8,294,338	9,156,187	9,650,715	10,133,280	10,776,234	11,327,700	12,091,134	13,092,007	16
Utah	8	9	643,824	692,006	750,244	833,492	919,002	970,854	1,052,522	1,094,563	1,154,992	1,229,029	1,345,205	16
Vermont	*	*	*	*	*	*	*	*	*	*	*	*	*	NA
Virgin Islands	*	*	*	0	0	*	*	*	*	*	*	*	*	NA
Virginia	9	4	2,262,567	2,447,687	2,708,342	3,059,420	3,270,165	3,429,450	3,753,106	3,879,582	4,147,182	4,392,319	4,240,462	2
Washington	8	11	1,873,475	2,144,767	2,286,082	2,493,214	2,706,030	2,849,043	2,869,784	3,102,750	3,377,193	3,567,896	3,770,602	12
West Virginia	9	10	241,265	347,916	392,384	452,036	498,811	549,722	576,503	579,983	675,257	713,657	761,658	13
Wisconsin	11	8	1,525,818	1,342,908	1,698,520	2,008,679	2,229,389	2,523,956	2,396,562	2,533,215	2,723,985	2,831,645	2,997,029	10
Wyoming	4	5	127,634	*	*	173,939	194,665	168,232	191,939	276,344	295,706	277,658	302,203	2
Nationwide	76	9 %	79,696,083	90,643,058	101,043,219	114,028,928	123,990,857	130,751,459	138,878,293	147,623,734	157,042,082	167,313,001	181,105,135	15 %

NA - Not Applicable.

* Data withheld to maintain firm confidentiality.

[1] Carriers with under 10,000 subscribers in a state were not required to report.

[2] Percentage of mobile wireless subscribers receiving their service from a mobile wireless reseller.

Table 14
Percentage of Zip Codes with Competitive Local Exchange Carriers (CLECs)

Number of CLECs	2000		2001		2002		2003		2004	
	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec
Zero	46.6 %	44.0 %	40.0 %	38.0 %	33.0 %	31.3 %	26.8 %	25.1 %	21.0 %	21.9 %
One	19.7	16.8	16.3	16.8	19.5	19.3	18.6	17.3	15.3	15.3
Two	9.1	10.4	9.9	10.0	10.3	10.4	10.0	10.4	9.8	11.6
Three	6.9	7.2	8.2	7.7	7.9	6.7	6.7	7.0	7.5	7.6
Four	5.0	5.5	5.6	6.1	6.6	6.3	5.6	5.3	6.1	5.7
Five	3.9	4.0	4.1	4.5	4.9	5.2	5.0	4.8	5.4	5.2
Six	2.4	3.0	3.3	3.8	4.0	4.4	4.4	4.7	5.6	4.4
Seven	1.6	2.3	2.6	2.9	3.1	3.5	4.1	4.1	5.4	4.2
Eight	1.2	1.7	2.2	2.2	2.5	2.9	3.6	3.7	5.4	3.7
Nine	1.1	1.4	1.7	2.1	1.9	2.6	3.1	3.2	4.0	3.2
Ten or More	2.5	3.7	5.9	5.9	6.3	7.3	12.2	14.4	14.7	17.3

Table 15
Percentage of Households in Zip Codes with Competitive Local Exchange Carriers

Number of CLECs	2000		2001		2002		2003		2004	
	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec
Zero	14.5 %	11.8 %	9.5 %	8.8 %	6.6 %	5.8 %	4.5 %	3.8 %	3.0 %	3.1 %
One	13.5	10.6	9.0	8.5	9.1	8.2	6.5	6.0	4.8	4.6
Two	11.9	10.6	8.8	9.7	9.0	8.3	6.1	5.7	4.8	5.8
Three	12.5	11.6	11.5	10.8	9.5	7.0	5.4	5.7	4.9	4.7
Four	11.1	11.3	10.1	9.7	10.3	8.3	6.0	5.5	5.6	4.9
Five	9.6	9.3	8.7	8.8	9.0	8.4	6.8	5.7	5.7	6.1
Six	6.4	7.2	7.6	8.0	8.4	8.4	7.1	6.9	7.0	5.8
Seven	4.3	6.1	6.0	6.7	7.6	7.6	7.9	6.7	8.1	6.6
Eight	3.7	4.9	5.6	5.3	6.0	7.0	8.0	7.4	9.8	6.6
Nine	3.7	4.2	4.5	5.3	4.6	7.0	7.2	7.0	8.4	6.3
Ten or More	8.9	12.2	18.8	18.3	19.7	23.9	34.6	39.5	37.9	45.3

Source: Demographic Power Pack, Current Year Update (2000), MapInfo Corporation
Note: Figures may not add to 100% due to rounding.

Table 16
Percentage of Zip Codes with Competitive Local Exchange Carriers as of December 31, 2004

State	Number of CLECs								
	Zero	One - Three	Four	Five	Six	Seven	Eight	Nine	Ten or More
Alabama	20 %	54 %	7 %	5 %	9 %	2 %	2 %	1 %	0 %
Alaska	87	13	0	0	0	0	0	0	0
Arizona	12	36	6	5	5	6	11	13	6
Arkansas	48	52	0	0	0	0	0	0	0
California	4	19	6	6	5	6	7	6	41
Colorado	22	40	8	6	4	8	7	4	0
Connecticut	1	14	11	14	17	23	19	1	0
Delaware	2	72	26	0	0	0	0	0	0
District of Columbia	0	16	20	16	48	0	0	0	0
Florida	0	11	4	4	5	5	7	6	58
Georgia	2	40	7	6	7	7	4	4	23
Hawaii	51	49	0	0	0	0	0	0	0
Idaho	41	59	0	0	0	0	0	0	0
Illinois	31	30	4	5	4	3	2	1	20
Indiana	20	36	12	14	5	8	3	1	0
Iowa	35	61	3	0	0	0	0	0	0
Kansas	53	27	5	3	6	2	2	1	0
Kentucky	25	64	4	4	3	0	0	0	0
Louisiana	9	38	8	8	6	12	10	7	2
Maine	11	80	6	2	1	0	0	0	0
Maryland	0	21	9	8	8	7	7	6	35
Massachusetts	0	10	3	4	5	5	9	9	54
Michigan	9	26	7	6	9	9	9	9	16
Minnesota	30	38	3	5	5	5	2	4	8
Mississippi	7	56	15	14	7	1	0	0	0
Missouri	48	27	6	4	3	5	5	0	0
Montana	91	9	0	0	0	0	0	0	0
Nebraska	56	34	4	5	0	0	0	0	0
Nevada	25	44	8	17	5	0	0	0	0
New Hampshire	1	52	12	8	12	11	3	0	0
New Jersey	0	3	2	4	5	6	6	7	66
New Mexico	42	50	7	0	0	0	0	0	0
New York	5	14	4	4	4	4	4	4	56
North Carolina	8	45	9	7	5	5	5	5	12
North Dakota	63	37	0	0	0	0	0	0	0
Ohio	23	30	5	6	4	4	5	4	19
Oklahoma	44	36	4	3	4	10	1	0	0
Oregon	20	46	6	10	5	3	7	2	0
Pennsylvania	11	32	7	5	5	4	4	4	28
Puerto Rico	80	20	0	0	0	0	0	0	0
Rhode Island	0	23	35	41	1	0	0	0	0
South Carolina	18	42	10	15	11	3	1	0	0
South Dakota	60	40	0	0	0	0	0	0	0
Tennessee	0	46	8	9	6	4	5	5	15
Texas	12	23	4	4	4	3	4	5	39
Utah	27	30	9	3	4	8	10	9	0
Vermont	58	42	0	0	0	0	0	0	0
Virginia	13	39	8	6	4	4	3	4	18
Washington	23	30	8	7	7	7	6	7	6
West Virginia	25	75	0	0	0	0	0	0	0
Wisconsin	31	41	9	8	5	5	0	0	0
Wyoming	45	55	0	0	0	0	0	0	0
Nationwide	22 %	34 %	6 %	5 %	4 %	4 %	4 %	3 %	17 %

Table 17
CLEC-Owned End-User Switched Access Lines Served by Reporting Competitive Local Exchange Carriers
(In Thousands)

	1999	2000		2001		2002		2003		2004	
State	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec
Alabama	55	22	39	40	18	6	50	68	76	76	89
Alaska	*	*	*	*	*	*	*	*	*	*	*
Arizona	70	94	50	132	164	194	211	279	351	409	440
Arkansas	*	*	*	*	*	*	49	*	46	46	48
California	343	573	674	762	910	890	891	888	1,025	1,042	1,050
Colorado	51	99	117	151	172	183	207	200	163	155	155
Connecticut	42	78	73	78	91	97	105	104	104	111	122
Delaware	*	*	*	0	0	*	*	*	*	*	*
District of Columbia	29	34	52	70	80	74	67	69	71	72	81
Florida	278	266	319	372	260	302	344	309	331	364	418
Georgia	108	149	191	184	167	161	197	192	180	182	254
Hawaii	*	*	0	*	*	*	*	*	*	*	*
Idaho	0	0	*	*	*	*	*	*	*	*	*
Illinois	105	184	325	416	467	477	446	403	392	400	488
Indiana	14	48	70	59	76	76	72	69	79	91	92
Iowa	*	18	25	21	33	34	37	40	38	40	42
Kansas	*	14	11	18	25	26	46	56	64	76	102
Kentucky	39	*	42	*	*	*	50	28	79	83	91
Louisiana	20	16	15	24	21	24	38	53	77	93	100
Maine	*	*	*	*	*	*	*	2	2	20	27
Maryland	47	63	65	83	30	30	24	28	94	116	155
Massachusetts	80	154	229	277	317	310	366	363	375	390	420
Michigan	78	142	218	113	113	121	104	85	108	106	160
Minnesota	21	37	59	61	80	114	153	163	167	169	182
Mississippi	26	*	19	11	6	*	*	3	4	5	8
Missouri	51	73	75	51	37	50	70	54	50	55	89
Montana	*	*	*	*	*	*	*	13	14	15	16
Nebraska	*	*	*	*	91	103	115	125	130	135	142
Nevada	*	*	*	37	*	*	35	28	33	30	32
New Hampshire	*	*	25	29	43	45	59	60	63	65	76
New Jersey	45	92	120	95	71	88	88	89	92	105	156
New Mexico	*	*	*	*	*	*	*	*	*	15	15
New York	413	420	546	579	682	608	432	402	374	418	449
North Carolina	49	82	88	111	70	75	77	96	74	101	156
North Dakota	*	*	*	*	*	*	*	*	6	8	8
Ohio	89	82	132	135	144	153	83	69	85	108	137
Oklahoma	*	*	71	77	89	115	114	111	174	138	178
Oregon	10	16	48	60	31	36	45	39	38	35	41
Pennsylvania	139	269	386	458	512	553	538	494	554	573	654
Puerto Rico	0	*	*	*	*	*	*	*	*	*	*
Rhode Island	*	*	*	45	62	76	90	100	116	131	151
South Carolina	*	*	49	26	7	7	20	25	25	28	38
South Dakota	*	*	*	*	*	*	*	26	35	*	*
Tennessee	56	103	109	117	92	56	103	95	90	94	124
Texas	147	300	367	418	414	406	426	430	436	462	590
Utah	*	44	73	77	72	80	91	80	73	68	76
Vermont	*	*	*	*	*	*	*	*	*	*	*
Virgin Islands	0	0	0	0	0	0	0	0	0	0	0
Virginia	51	119	132	179	203	221	275	285	438	492	494
Washington	31	56	97	115	156	161	178	155	144	149	147
West Virginia	*	*	*	*	*	*	*	*	*	*	6
Wisconsin	16	40	50	54	51	56	46	45	47	58	37
Wyoming	*	*	*	*	*	*	*	*	*	*	*
Total	2,723	4,042	5,217	5,776	6,072	6,236	6,479	6,370	7,045	7,483	8,505

Notes: Some data for December 2002 through June 2004 have been revised. Carriers with under 10,000 lines in a state were not required to report.

* Data withheld to maintain firm confidentiality.

Table 18
UNEs Acquired from Other Carriers
(In Thousands)

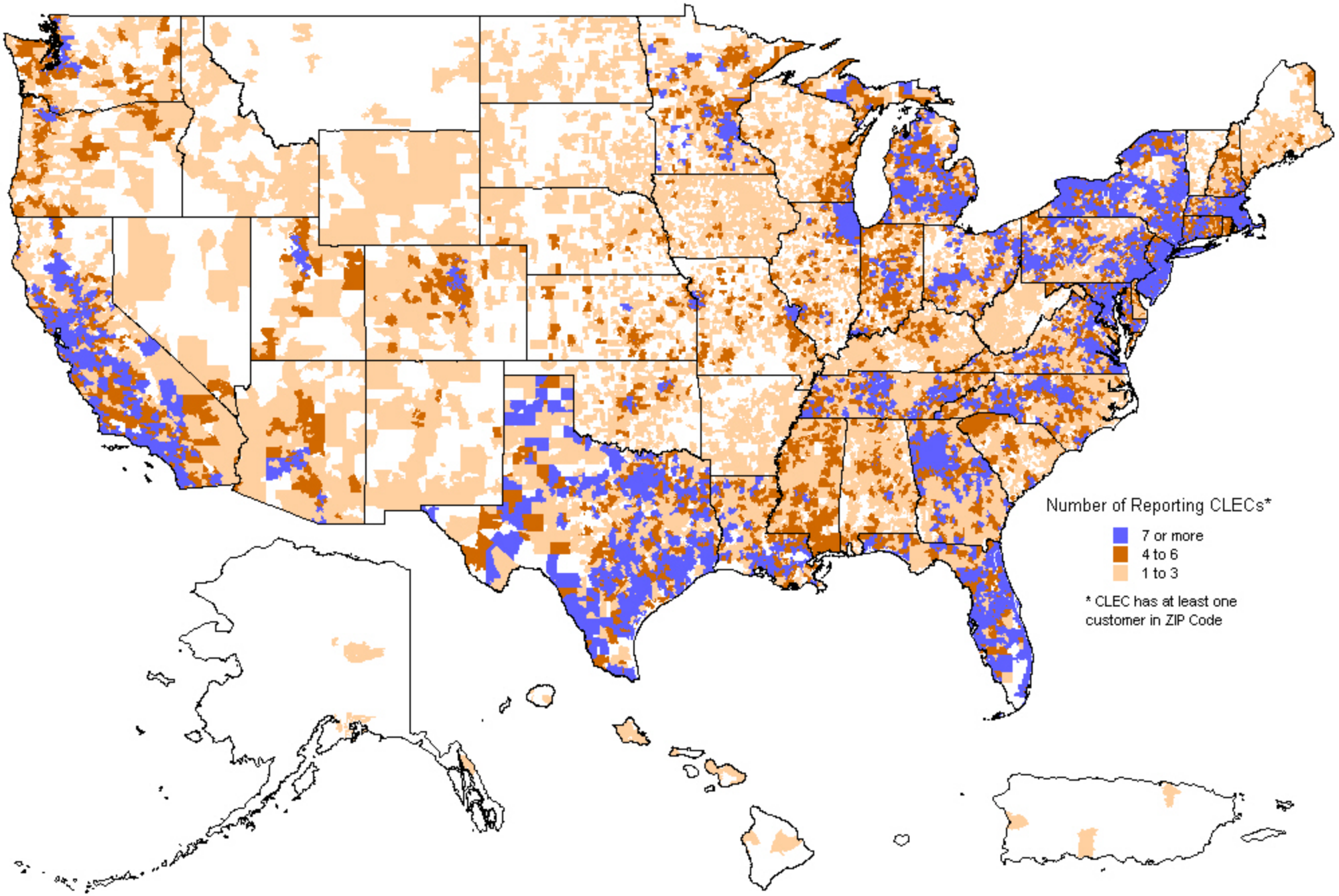
	1999	2000		2001		2002		2003		2004	
State	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec
Alabama	59	31	46	52	*	89	140	173	137	207	201
Alaska	*	*	*	*	*	*	*	*	*	*	*
Arizona	6	16	19	54	68	80	78	123	234	268	228
Arkansas	*	*	*	*	*	*	94	*	*	110	99
California	164	240	309	575	603	746	1,281	1,555	1,852	2,148	2,245
Colorado	14	22	99	140	148	161	154	187	222	234	199
Connecticut	*	*	*	*	7	18	42	47	68	93	101
Delaware	*	*	*	0	0	*	*	47	34	52	52
District of Columbia	*	*	13	34	10	42	47	60	63	82	62
Florida	186	113	186	252	377	482	849	852	871	1,020	1,037
Georgia	90	92	182	202	326	418	455	536	555	642	566
Hawaii	*	*	0	*	*	*	*	*	*	*	*
Idaho	0	0	*	*	*	*	*	*	*	26	25
Illinois	76	163	219	435	568	734	933	1,024	1,119	1,121	1,016
Indiana	16	31	56	66	79	122	158	228	326	357	328
Iowa	*	*	136	*	140	138	144	137	135	144	138
Kansas	*	21	33	43	103	132	190	206	201	215	208
Kentucky	*	*	*	*	*	*	26	51	66	112	103
Louisiana	46	14	22	52	42	46	94	120	110	156	170
Maine	*	*	*	*	*	*	*	*	46	63	68
Maryland	7	11	29	50	58	119	174	264	362	390	431
Massachusetts	8	14	49	88	117	102	161	260	391	416	429
Michigan	63	107	65	240	628	986	1,154	1,208	1,360	1,388	1,310
Minnesota	63	71	159	219	223	242	308	260	293	310	295
Mississippi	*	*	14	15	16	18	61	82	72	98	80
Missouri	30	30	37	61	110	157	204	217	240	322	260
Montana	*	*	*	*	*	*	*	4	*	*	5
Nebraska	*	*	*	*	29	30	33	37	41	43	41
Nevada	*	*	*	107	*	*	92	76	87	66	65
New Hampshire	*	*	2	12	14	23	46	57	63	81	83
New Jersey	24	25	51	82	93	110	415	682	925	987	997
New Mexico	*	*	*	*	*	*	*	*	*	47	47
New York	331	1,114	1,607	1,929	2,084	2,044	2,147	2,366	2,652	2,554	2,495
North Carolina	47	29	70	97	118	140	191	228	246	334	324
North Dakota	*	*	*	*	*	*	*	*	17	*	12
Ohio	72	67	101	103	121	278	469	584	736	759	662
Oklahoma	*	*	10	27	30	45	72	82	69	81	84
Oregon	1	3	11	31	75	75	99	93	166	191	219
Pennsylvania	92	130	292	494	516	589	612	666	776	899	907
Puerto Rico	0	*	*	*	*	*	*	*	*	*	*
Rhode Island	*	*	*	13	26	19	44	54	59	71	66
South Carolina	*	*	25	49	*	66	98	127	114	133	151
South Dakota	*	*	*	*	*	*	*	20	29	*	*
Tennessee	49	60	73	115	128	130	153	180	216	316	261
Texas	215	437	1,101	1,186	1,440	1,542	1,468	1,548	1,546	1,596	1,387
Utah	*	22	34	46	48	39	49	79	97	141	131
Vermont	*	*	*	*	*	*	*	*	*	*	*
Virgin Islands	0	0	0	0	0	0	0	0	0	0	0
Virginia	37	46	81	146	272	244	288	377	354	415	421
Washington	21	25	46	59	94	114	118	118	183	256	240
West Virginia	*	*	*	*	*	*	*	*	*	*	89
Wisconsin	55	82	108	160	209	273	352	420	499	515	506
Wyoming	*	*	*	*	*	*	*	*	*	*	*
Total	1,959	3,201	5,540	7,580	9,332	10,930	13,709	15,728	17,888	19,624	18,970

Notes: Some data for December 2002 through June 2004 have been revised. Carriers with under 10,000 lines in a state were not required to report.

* Data withheld to maintain firm confidentiality.

Reporting CLECs by ZIP Code

(As of December 31, 2004)



Customer Response

Publication: *Local Telephone Competition: Status as of December 31, 2004*

You can help us provide the best possible information to the public by completing this form and returning it to the Industry Analysis and Technology Division of the FCC's Wireline Competition Bureau.

1. Please check the category that best describes you:
   - ____ press
   - ____ current telecommunications carrier
   - ____ potential telecommunications carrier
   - ____ business customer evaluating vendors/service options
   - ____ consultant, law firm, lobbyist
   - ____ other business customer
   - ____ academic/student
   - ____ residential customer
   - ____ FCC employee
   - ____ other federal government employee
   - ____ state or local government employee
   - ____ Other (please specify)

2.

Please rate the report:	Excellent	Good	Satisfactory	Poor	No opinion
Data accuracy	(_)	(_)	(_)	(_)	(_)
Data presentation	(_)	(_)	(_)	(_)	(_)
Timeliness of data	(_)	(_)	(_)	(_)	(_)
Completeness of data	(_)	(_)	(_)	(_)	(_)
Text clarity	(_)	(_)	(_)	(_)	(_)
Completeness of text	(_)	(_)	(_)	(_)	(_)

3.

Overall, how do you rate this report?	Excellent	Good	Satisfactory	Poor	No opinion
	(_)	(_)	(_)	(_)	(_)

4. How can this report be improved?

5. May we contact you to discuss possible improvements?
   Name:
   Telephone #:

To discuss the information in this report, contact: 202-418-0940 or for users of TTY equipment, call 202-418-0484		
Fax this response to	or	Mail this response to
202-418-0520		FCC/WCB/IATD Mail Stop 1600 F Washington, DC 20554

Attachment 3
Examples of Rhode Island VoIP Plans

Provider	Plan	Monthly Price	Anytime Minutes	Additional Minutes	Long Distance
(a)	(b)	(c)	(d)	(e)	(f)
Vonage	Premium Unlimited	$24.99	Unlimited	N/A	Included
Vonage	Basic 500	$14.99	500	$0.039	Included
Vonage	Small Business Unlimited	$49.99	Unlimited	N/A	Included
Vonage	Small Business Basic	$39.99	1,500	$0.039	Included
AT&T	CallVantage Service	$29.99	Unlimited	N/A	Included
AT&T	CallVantage Local	$19.99	Unlimited Local	N/A	$0.04
AT&T	CallVantage Small Office[1]	$49.99	Unlimited	N/A	Included
Verizon	VoiceWing	$19.95	500	$0.04	Included
Lingo	Link	$7.95	Unlimited In-Network	$0.03	Unlimited In-Network
Lingo	Basic	$14.95	500	$0.03	Included
Lingo	Unlimited	$19.95	Unlimited	N/A	Included
Lingo	Business Unlimited[2]	$49.95	Unlimited	N/A	Included
Lingo	Business Unlimited Int'l[2]	$99.95	Unlimited	N/A	Included
Net2Phone	US/Canada Unlimited	$29.99	Unlimited	N/A	Included
Net2Phone	US/Canada 500	$14.99	500	$0.039	Included
Net2Phone	VoiceLine Basic[3]	$8.99	Unlimited Inbound	N/A	$0.05

Notes & Sources:

Provider websites, accessed May 26, 2005.

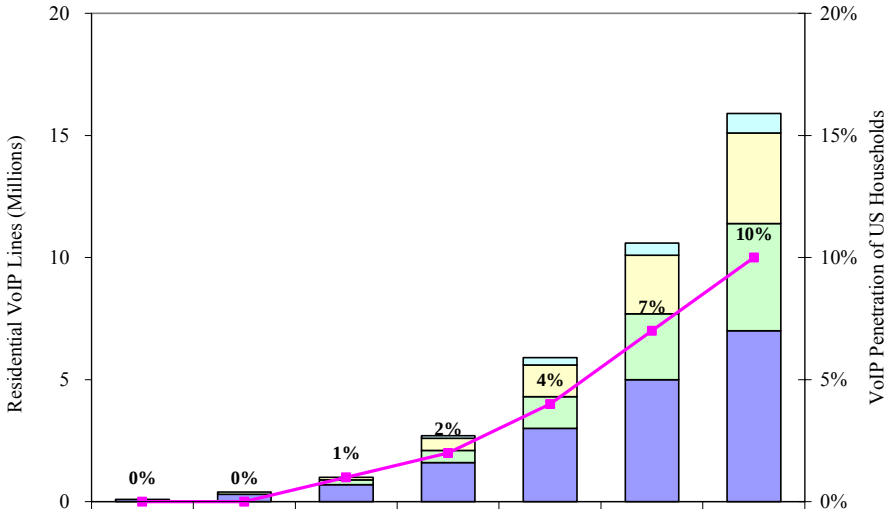
[1] CallVantage Small Office also includes unlimited faxing, additionally the service includes a second line with 500 long distance faxing and calling minutes per month. Additional minutes over 500 for the second line costs $0.04 per minute.

[2] Lingo Business plans includes 500 outgoing fax minutes. The Unlimited Business International plan includes calls to many international countries.

[3] Net2Phone VoiceLine Basic: Unlimited inbound calls & pay-as-you-go outbound calls.

Attachment 4

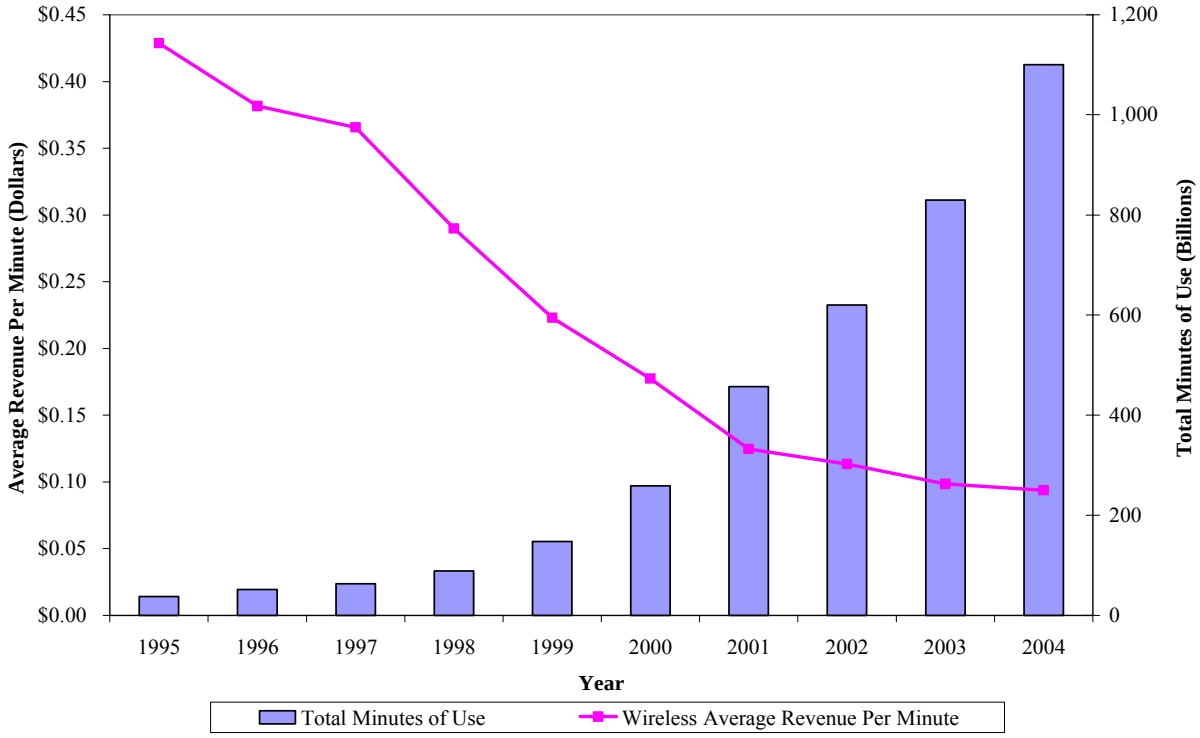
Forecast of US Residential VoIP Lines and Household Penetration, 2003 through 2009



	2003	2004	2005	2006	2007	2008	2009
Residential VoIP Lines	0.1	0.4	1.0	2.7	5.9	10.6	15.9
Other US	0.0	0.0	0.0	0.1	0.3	0.5	0.8
Other Cable	0.0	0.0	0.1	0.5	1.3	2.4	3.7
DSL	0.0	0.1	0.2	0.5	1.3	2.7	4.4
Cable Modem	0.1	0.3	0.7	1.6	3.0	5.0	7.0
Percent of Households with VoIP	0%	0%	1%	2%	4%	7%	10%

Source: Lazlo, Joseph, et. al., "Broadband Telephony: Leveraging Voip Over IP to Facilitate Competitive Voice Services," Jupiter Research, Vol. 2, 2004.

Attachment 5
Wireless Average Revenue per Minute and Total MOUs



Notes and Source: Federal Communications Commission Ninth Annual CMRS Competition Report, Table 9 at A-11. CTIA survey.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

Investigation into a Successor Incentive Regulation Plan for Verizon New England Inc. d/b/a Verizon Rhode Island.	)	Docket No. _____

TESTIMONY OF

PAUL B. VASINGTON

ON BEHALF OF

VERIZON RHODE ISLAND

August 19, 2005

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I. WITNESS BACKGROUND AND OVERVIEW

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

A. My name is Paul B. Vasington. I am a Director-State Public Policy for Verizon. My business address is 185 Franklin Street, Boston, Massachusetts 02110.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I have a Bachelor of Arts in Political Science from Boston College and a Masters in Public Policy from the Kennedy School of Government, Harvard University. I have been employed by Verizon since February 2005. From September 2003 to February 2005, I was a Vice President at Analysis Group, Inc. Prior to that, I was Chairman of the Massachusetts Department of Telecommunications and Energy (MDTE) from May 2002 to August 2003, and was a Commissioner at the MDTE from March 1998 to May 2002. Prior to my term as a Commissioner, I was a Senior Analyst at National Economic Research Associates, Inc. from August 1996 to March 1998. Prior to that, I was in the Telecommunications Division of the MDTE (then called the Department of Public Utilities); first as a staff analyst from May 1991 to December 1992, then as division director from December 1992 to July 1996.

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.

A. The purpose of my testimony is to explain why Verizon Rhode Island's (Verizon RI) proposed alternative form of regulation plan (AFOR Plan) is consistent with appropriate public policy. In particular, I explain that the extent of regulation should be tailored to the level of competition in markets, and I describe why

controls should be lifted when markets are sufficiently competitive that market forces will step in where regulation recedes in order to ensure that all customers will continue to receive the services they expect at reasonable prices. I also provide criteria for determining the competitiveness of the market, and then place Verizon RI's proposal in the context of current market and regulatory conditions in Rhode Island.

Verizon RI currently operates under an incentive regulation plan that was adopted by the Rhode Island Public Utilities Commission ("Commission") in March 2003 in Docket No. 3445 (2003 AFOR). The details of the 2003 AFOR and a review of telecommunications regulation in the state are provided in the testimony of Ms. O'Brien. The 2003 AFOR expires on December 31, 2005, so it is appropriate for the Commission to determine what form of regulation, if any, should be applied to Verizon RI starting in 2006.[1] Verizon RI is proposing to take the next step toward deregulation in Rhode Island, which is appropriate given that Rhode Island is currently the most competitive state in the nation—when measured in terms of market share for traditional competitors—and most of that competition has come in the form of full facilities-based offerings. Thus, the Commission has an opportunity to lead the way nationally in responding to market forces by evolving regulation to match customer needs and market realities.

Q. WHAT ARE THE BASIC PRINCIPLES THAT SHOULD GUIDE THE DEVELOPMENT OF ALTERNATIVE REGULATION PLANS?

[1] Docket No. 3445, Order No. 17417, issued March 31, 2003, at 34.

A. It is generally accepted that an unregulated, competitive market structure maximizes consumer welfare and thus is in the best interest of the ratepayers. Regulation exists to replicate – to the extent possible – the effects of a competitive market.[2] It follows, then, that the level of regulation should be tailored to competitive conditions. Simply put, less regulation is warranted where competitive forces are sufficient to discipline firms to produce the products and services customers want at reasonable prices. Indeed, this Commission has noted that "The more competitive this market becomes, the less need there is for regulatory oversight so that at some point, this Commission would only 'intervene and interfere in the natural workings of the competitive market only cautiously and with great circumspection.'"[3] In terms of regulatory policy for the telephone industry then, alternative regulation plans should be tailored to current and expected conditions in the market over the term of the plan. Alternative regulation is often mischaracterized as a way to regulate services in a competitive market: but if there is sufficient competition in an industry or for certain services or geographic areas, then no economic regulation—traditional or alternative—is warranted.[4] Therefore, alternative regulation plans should be designed to control

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2 See, e.g., Kahn, Alfred E., *The Economics of Regulation: Principles and Institutions*, *Vol. I*, MIT Press, 1988, p. 17, where Dr. Kahn observes that "The main body of microeconomic theory can be interpreted as describing how, under proper conditions—for example, of economic rationality, competition, and laissez-faire—an unregulated market economy will produce optimum economic results," and "the single most widely accepted rule for the governance of the regulated industries is regulate them in such a way as to produce the same results as would be produced by effective competition, if it were feasible."

3 Order No. 17417, at 59-60, citing Order No. 16032, issued Dec. 15, 1999, at 9-10.

4 A market may be effectively competitive even when an incumbent has not lost many customers to competitors. Competitive substitutes exist when products have the ability -- actual or potential -- to take significant amounts of business away from each other.

rates and service levels only in circumstances where competition is not expected to be sufficient and services are not discretionary.

Q. WHAT ARE THE PROBLEMS ASSOCIATED WITH EXCESSIVE REGULATION IN AREAS WHERE THERE IS SUFFICIENT COMPETITION?

A. When regulatory controls on prices and service levels are applied where markets are competitive, consumers are harmed. They are harmed because the companies to which excessive regulation is applied are less able to innovate and invest in advanced services, all else equal. This is particularly of concern in the telecommunications industry, where current regulation is applied asymmetrically to market participants based on how each company developed.

The telecommunications market in Rhode Island and everywhere else is not perfectly competitive today and probably may never be. However, many industries are considered competitive and prices in those industries are generally considered to be reasonable. Perfect competition is a theoretical model which postulates that a large number of firms produce homogeneous products, face no barriers to entry or exit, incur no transaction costs, and have perfect information. The long-run equilibrium of this market structure requires that price = marginal cost = average cost, which implies zero economic profits.[5] Few, if any, real world markets are "perfectly competitive." The question here is whether competition is

[5] Carlton, Dennis W. and Jeffrey M. Perloff, *Modern Industrial Organization*, Third Edition, Reading, MA: Addison Wesley, 2000, p. 57.

sufficient to prevent Verizon RI from exercising market power,[6] and the answer is that the market is sufficiently competitive for that purpose, as I discuss in more detail below. As long as alternatives exist to provide appropriate pricing discipline, the balance of the debate then moves to focusing on creating incentives for infrastructure investment and innovation.

The central issue with respect to competition in this respect is not what the market looks like when Verizon RI charges regulated prices that are just and reasonable, as it does today, but instead what the market would look like if Verizon RI were to attempt to use its pricing flexibility to charge unjust and unreasonable prices. In order to assess what the likely outcome would be in such a scenario, the Commission has to evaluate the structure of the market, in addition to the current, static level of competitiveness. The Commission has previously established a very good framework for assessing the competitiveness of the market, so my testimony will use that framework to evaluate the competitiveness of the market under current and expected market conditions in Rhode Island, and to assess whether Verizon RI's proposal is consistent with those conditions.[7]

When all is said and done, the simple and inescapable conclusion is that Verizon RI's residential rates are fully constrained by competition in the market,

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[6] The Commission has defined market power as the ability to profitably raise prices above the competitive level for a sustained period of time. Order 3445, page 45.

[7] It should be noted, however, that market share cannot capture the market characteristics that directly determine its competitiveness—namely, entry and expansion conditions. Entry and expansion conditions are critical to any determination concerning whether a firm in a market can exercise market power. If there are no entry and expansion barriers, market share is irrelevant because no firm, no matter how large its market share, could exert market power for any length of time. Entry and expansion barriers are the more important criteria. The threat of competition and the ability to respond provide sufficient pricing constraints.

such that any attempt by Verizon RI to charge unjust and unreasonable prices for its residential services would be met by a rapid loss of customers to its competitors, including Cox Telcom, other traditional CLECs, wireless providers and VoIP providers, as well as new competitors who would enter the market in response to the new rates.[8] Accordingly, the Commission should grant Verizon RI's residential services the same pricing flexibility previously granted to Verizon RI's business services, which is the same flexibility currently enjoyed by Verizon RI's competitors.

II. ASSESSMENT OF THE COMPETITIVENESS OF THE RHODE ISLAND MARKET

Q. WHAT IS THE COMMISSION'S FRAMEWORK FOR DETERMINING WHETHER A COMPANY CAN EXERCISE MARKET POWER?

A. In Verizon RI's last Alternative Regulation proceeding, Docket No. 3445, the Commission found that "[i]n order to determine if a company can exercise market power, market share, supply elasticity, and demand elasticity for the product is examined. Consequently, the product and geographic markets must first be defined."[9]

Q. PLEASE DEFINE MARKET SHARE, SUPPLY ELASTICITY, AND DEMAND ELASTICITY.

A. Market share of market participants presents the shape of the market at a specific point in time, and is often a reflection of prior regulatory policies. Supply

[8] The Commission already has granted pricing flexibility for business services, so in this case, it is appropriate to assess the market to see if it warrants similar pricing flexibility for residential services.

[9] Order No. 17417, page 45.

elasticity is the ability of firms to change their production of a good or service in response to a change in price of that good or service. It is essentially a consideration of the ease of entry for new competitors and of expansion for existing competitors. Demand elasticity refers to the willingness and ability of a consumer to change the quantity of a good consumed in response to a change in the price of that good. In general, the demand elasticity of a good is directly related to the availability of adequate substitutes.

Q. THE COMMISSION HAS SAID THAT THE FIRST STEP IN THE ANALYSIS IS TO DEFINE THE PRODUCT AND GEOGRAPHIC MARKETS. WHAT ARE YOUR RECOMMENDATIONS FOR THESE DEFINITIONS?

A. The Commission has said that "in defining the product market in which VZ-RI operates, one needs to assess all reasonable substitutes available to ratepayers. To determine if a service is reasonably interchangeable, the alternative product must be compared for purposes of price, use and qualities."[10] On the basis of that definition, the Commission determined in 2003 that there were not reasonable substitutes at that time for telecommunications wireline service, so the product market for local telecommunications was limited to wireline telephone service. In its analysis, the Commission did differentiate the market based on customer class – with different findings for business and residential customers. As I discuss in further detail later, market conditions are sufficiently different now than they were

[10] *Id*.

two years ago, such that the product market for local telecommunications must include more than just wireline telephone service.

In terms of the geographic market, the Commission noted that "it is inherently limited to the boundaries of this Commission's jurisdiction which is the State of Rhode Island."[11] The Commission also decided to not differentiate the Rhode Island market based on urban, suburban, and rural distinctions due to administrative difficulties and the uniformity of retail prices across the state. The Commission should continue to treat the market as a statewide market, as I discuss further.

Q. PLEASE DEFINE THE PRODUCT MARKET.

A. The product market for intrastate telecommunications services must include all services that are reasonable substitutes, as the Commission noted, but there are reasonable substitutes today that are provided over alternative networks (i.e., intermodal competition), in addition to those alternatives provided by other wireline carriers, such as traditional competitive local exchange carriers ("CLECs").

Technological change has altered the competitive landscape in the telecommunications industry. As a result, incumbent local exchange carriers such as Verizon RI are now facing competition from firms that were once considered to be providing separate and distinct products and services over alternative networks. According to a recent report prepared for the U.S. Chamber of Commerce:

> Technology has rendered the traditional view of *one network, one service*—voice over copper wires, video over coaxial cable—obsolete. Today's world of convergence is rapidly moving communications networks to deliver multiple services to their customers. This transforms complements into substitutes. Originally, the phone wire and the TV cable were bundled to provide two distinct services; now each network seeks to sell the customer a "triple play" package of voice, video, and high-speed data, a new offering that initially brought the alternative platforms into direct rivalry.[12]

Indeed, this report identifies five alternative network platforms that have developed as competitive alternatives to the copper wires owned by incumbent local exchange carriers: coaxial cable, mobile wireless, fixed wireless, satellite, and broadband over power lines, as well as the emergence of virtual networks created by voice over Internet Protocol ("VoIP") applications.[13] In his testimony, Mr. Kenney describes in detail the competitive alternatives available to all consumers (including residential) in Rhode Island.

Q. IF THERE ARE DIFFERENCES BETWEEN TRADITIONAL WIRELINE TELEPHONE AND ALTERNATIVE SERVICES OR GAPS IN COVERAGE, DOES THAT MEAN THAT THESE SERVICES ARE NOT A COMPETITIVE THREAT?

A. No. Wireline and wireless service have different product attributes that are valued by consumers, but at a basic level they offer the same primary function. Similarly, VoIP has some attributes that are different from wireline service, but it

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[11] *Id*. at 46.

[12] Hazlett, Thomas W., Coleman Bazelon, John Rutledge, and Deborah Allen Hewitt, *Sending the Right Signals: Promoting Competition Through Telecommunications Reform*, A Report to the U.S. Chamber of Commerce, September 22, 2004, p. 47.

[13] *Id*. at 50-60.

too offers the same primary function at a basic level. In fact, one VoIP provider, Vonage, advertises itself as "The Broadband Phone Company." It is important to recognize that for intermodal services, such as wireless and VoIP, to provide a competitive threat to wireline, it is not necessary that every customer consider it to be an alternative under all circumstances—it is only necessary that enough customers consider it to be an adequate alternative that it would be unprofitable in the long term for Verizon RI to charge unjust and unreasonable prices. The key question in any market power investigation is how consumers and producers will likely respond if the firm in question were to attempt to exercise market power in the form of an excessive price increase. It is interesting to estimate how many customers already have "cut the cord" and switched from landline telephone service to wireless and how many other customers have replaced their wireline service with VoIP. But for purposes of this proceeding, what the Commission should be most concerned with is the expected response of suppliers and consumers in the event that Verizon RI stopped charging just and reasonable rates, in which case it is clear that many more customers would be willing to switch to alternative services. Customers whose decisions today are driven by differences in product attributes between wireline and alternative telecommunications services are likely to overlook such differences if Verizon RI were to attempt to charge excessive prices.

As noted above, though, even if the Commission were to continue to define the market as limited to wireline telephone, it is still sufficiently

competitive given current conditions for supply elasticity, demand elasticity, and market share.

Q. PLEASE DEFINE THE GEOGRAPHIC MARKET.

A. The Commission should evaluate the market based on a statewide definition because the basic structure of the telecommunications market in Rhode Island does not vary by exchange or density zone. The most significant current and future competitors – Cox, wireless, and VoIP – are not limited by geography in their service offerings. In some combination, they are able to offer competitive services throughout the state. Also, the market-opening requirements of the federal Telecommunications Act have been implemented equally throughout the state.

Developments in the telecommunications market in the past few years also lead to the conclusion that the Commission should view this as a statewide market. The FCC has granted "Section 271" approval for Bell companies to originate interLATA services in every state in which it was required, so LATA boundaries have little meaning in today's market. Also, incumbent local exchange carriers ("ILECs"), CLECs, wireless companies, cable, and VoIP all have begun offering packages with significant or unlimited amounts of calling across states, regions, and even the country. These packages are often marketed through national media channels. On a going-forward basis, the ability or desire for Verizon RI to discriminate on the basis of geography in order to disadvantage customers, given these market conditions, should not be a concern to the Commission.

Q. NOW THAT THE GEOGRAPHIC AND PRODUCT MARKETS HAVE BEEN DEFINED, PLEASE DESCRIBE THE LEVEL OF SUPPLY ELASTICITY IN RHODE ISLAND.

A. Supply elasticity is the ability of firms to change their production of a good or service in response to a change in price of that good or service. In the context of evaluating whether Verizon RI possesses market power in the state, supply elasticity is essentially a determination of whether existing or potential competitors are willing and able to serve the customers who would switch from Verizon RI in the event that the Company charged unreasonable prices. Of the three components in a market power assessment, supply elasticity of the competing firms is the most significant because, despite a high market share and low market demand elasticity, high supply elasticity can eliminate market power. This is because relatively high supply elasticity will cause Verizon RI to be disciplined by competition from firms that are already competing and can easily expand their output, such as cable, wireless, and VoIP, as well as by potential competition from firms that could easily enter the market.

Q. YOU SAID THAT SUPPLY ELASTICITY IS THE MOST SIGNIFICANT FACTOR IN A MARKET POWER ASSESSMENT. HOW IMPORTANT A FACTOR IS MARKET SHARE?

A. As I noted, the importance of supply elasticity relative to the other factors is largely related to whether supply elasticity is high or low. If there is low supply elasticity, then market share is a more important factor; whereas, if there is high supply elasticity, market share is less important. The Commission in Order No.

17417 concluded that "[m]arket share is the chief tool for assessing the competitive nature of a market."[14] It appears to me that the Commission ranked market share so high in large part due to its skepticism about the level of supply elasticity in the market. The Commission colorfully phrased its concerns about supply elasticity: "… the door is open but no one may come to the party."[15] I will endeavor to address the Commission's concerns in this respect, later in my testimony.

In any event, whether market share is more or less important than supply elasticity in assessing market power is largely an academic issue in Rhode Island, where by any measure the market is sufficiently competitive that market power cannot be exercised by Verizon RI. The Commission has previously found that a market share of less than 70 percent indicates that there is sufficient competition to eliminate the need for any price ceilings,[16] and Verizon RI's retail market share for business, residential, and total in Rhode Island are all below 70 percent. Indeed, Verizon RI's share of the residential market today is slightly less than its share of the business market in 2003 when the Commission gave Verizon RI pricing flexibility for business services.[17]

Also, the Commission's evaluation of supply elasticity in Order No. 17417 was based on the market discipline of potential market entry by those not

[14] Order No. 17417, at 48.

[15] Order No. 17417 at 51.

[16] Order No. 17417, at 49.

[17] See Testimony of Robert J. Kenney and Order No. 17417, at 48.

currently in the market, but in this case it is appropriate to put more emphasis on the ability of current competitors to expand their output in response to increased demand.

Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN ENTRY AND EXPANSION.

A. Supply elasticity too often is reviewed solely or primarily in terms of "ease of entry," when it really should be reviewed in terms of "ease of entry *and expansion*." Entry by competitors who are not currently in the Rhode Island market is relatively low-cost, due to the market opening requirements of the Telecommunications Act of 1996. It is true that facilities-based entry by firms that are not currently in the market entails higher costs of entry, but in Rhode Island significant facilities-based competitors *already* have entered the market and incurred the costs of entry. Thus, for those competitors, the question of the level of supply elasticity should be focused on whether these existing networks and providers are capable of expanding their output and services.

Q. WHAT IS THE LEVEL OF SUPPLY ELASTICITY IN THE RHODE ISLAND LOCAL TELEPHONE MARKET?

A. Supply elasticity in Rhode Island is relatively high due to the actions that the Commission has taken to open markets. Alternative facilities-based providers, such as Cox, wireless, and VoIP, are present throughout the state and have grown their businesses tremendously, while Verizon RI's share of the market has

shrunk.[18] The Commission also has ensured that CLECs have access to all retail services at a wholesale discount and to all UNEs for which they are impaired without such access at Commission-approved total-element, long-run, incremental cost ("TELRIC") prices. Thus, Verizon RI is disciplined in its pricing not only by those competitors who are currently in the market, but also by those who could easily and quickly enter the market. Mr. Kenney describes how competitors are able to use UNEs and resale to compete in Rhode Island, even in light of recent judicial and FCC rulings.

Q. ARE EXISTING COMPETITORS IN RHODE ISLAND ABLE TO EXPAND THEIR OUTPUT?

A. Yes. The facts presented in Mr. Kenney's testimony clearly demonstrate that Cox cable, wireless carriers, and VoIP providers are clearly willing and able to expand their output significantly in Rhode Island. Mr. Kenney notes that the competitive landscape in Rhode Island is even more robust than the one that existed in 2002. As shown by Mr. Kenney, since February of 2002, competitors in the aggregate have expanded their share of the land-based access lines in Rhode Island by a significant amount each year. Thus, if Verizon RI were to use pricing flexibility to charge unreasonable rates, these competitors (and new ones) would be able to take on former Verizon RI customers who would be motivated to switch providers. With such a significant presence of alternative networks and service providers in Rhode Island, the Commission should take care to evaluate supply elasticity not just in terms of potential entry by those not currently in the market,

[18] Mr. Kenney's testimony summarizes these data.

but also by the ability of existing providers to expand their output and service offerings. In this way, the Commission can be confident that Verizon RI's showing of supply elasticity is stronger than just a reliance on "economic theory"—no matter how persuasive—and is based on a "decisive" foundation of "actual facts."[19]

Q. PLEASE ADDRESS DEMAND ELASTICITY IN RHODE ISLAND.

A. As noted earlier, demand elasticity refers to the willingness and ability of a consumer to change the quantity of a good consumed in response to a change in the price of that good. In the context of this type of investigation, it is appropriate to look at demand elasticity as simply the willingness of customers to change suppliers.[20] The evidence in this case (summarized in Mr. Kenney's testimony) is abundantly clear that Verizon RI customers are and have been willing to change their supplier of phone services, even when Verizon RI's prices are regulated. It follows that Verizon RI customers would be willing and able to change their service to competitors in the event that Verizon RI attempted to use pricing flexibility to charge unreasonable rates.

Q. IS MARKET SHARE IMPORTANT IN THE CONTEXT OF THE MARKETPLACE IN RHODE ISLAND?

A. As noted, in a market with relatively high supply elasticity, such as the local telephone market in Rhode Island, market share is less important for assessing

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[19] Order No. 17417, at 50.

[20] The Commission evaluated demand elasticity in Docket No. 3445 in terms of price elasticity, i.e., whether customers will change their level of consumption in response to a change in price. In the

market power. The significance of market share in this context is that market share demonstrates that the assessment of supply and demand elasticity are more than just theoretical; i.e., market share for competitors demonstrates that competitors are in fact able to enter and expand in the market and that customers are in fact willing and able to switch suppliers.

In some markets, there is relatively low supply elasticity, and it is in these markets where market share is a more important factor in assessing whether a participant can exercise market power. For example, in the wholesale electric power market, it is not easy for existing or new generators to greatly expand their output in congested areas at times of peak demand. Thus, it could be profitable for a company with a high market share within a congested area to restrict its own output and thus drive up the price for its remaining sales. Such is clearly not the case in the telecommunications industry, however. Cable, wireless, and VoIP providers have shown that they are willing and able to take on a significant amount of new customers in a short period of time, so a high market share in this industry provides little or no advantage.

Q. PLEASE EXPLAIN WHY A MARKET SHARE SNAPSHOT IS NOT THE BEST TOOL FOR ASSESSING THE COMPETITIVE NATURE OF THE TELECOMMUNICATIONS MARKET.

A. Market share is a static view of any market, and thus does not provide an accurate picture of the degree of competition that may exist over time or what the response

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context of assessing market power, it is more appropriate for the Commission to evaluate whether customers would be willing to switch suppliers.

would be to an exercise of market power. Regulators often use a more dynamic view of markets in order to assess the likely response to the attempted exercise of market power. And a dynamic view of markets is even more important in industries subject to rapid technological and marketplace changes, such as the telecommunications industry. For example, the Horizontal Merger Guidelines of the Department of Justice and the Federal Trade Commission ("Merger Guidelines") note the following:

> Market concentration and market share data of necessity are based on historical evidence. However, recent or ongoing changes in the market may indicate that the current market share of a particular firm either understates or overstates the firm's future competitive significance. [21]

The importance of assessing market power using a dynamic approach has been explicitly recognized by the European Commission, stating,

> Market definition is not a mechanical or abstract process but requires an analysis of any available evidence of past market behaviour and an overall understanding of the mechanics of a given sector. In particular, a dynamic rather than a static approach is required when carrying out a prospective, or forward-looking, market analysis. [22]

Furthermore, in establishing the main criteria for defining relevant markets for the purpose of assessing whether a firm has significant market power, the European Commission notes:

> There are two main competitive constraints to consider in assessing the behaviour of undertakings on the market, (i) demand-side; and (ii) supply-side substitution. A third source of

[21] Horizontal Merger Guidelines, 1.521, "Changing Market Conditions."

[22] Commission Guidelines on Market Analysis and the Assessment of Significant Market Power Under the Community Regulatory Framework for Electronic Communications Networks and Services, 2002/C 165/03, November 7, 2002, ¶35.

> competitive constraint on an operator's behaviour exists, namely potential competition. The difference between potential competition and supply-substitution lies in the fact that supply-side substitution responds promptly to a price increase whereas potential entrants may need more time before starting to supply the market.[23]

In addition to measuring market share and/or market concentration, consideration of the elasticity of supply and demand of a market is a well established and widely used framework for determining whether a firm can exercise market power. Importantly, consideration of both the elasticity of supply and demand allows one to assess the key question in any market power investigation: *how consumers and producers will likely respond if the firm in question were to attempt to exercise market power in the form of an excessive price increase.* Such consideration is forward-looking in nature, and adds a dynamic element to a market power investigation, while a reliance on market share and/or market concentration provides only a static view of the market. Other regulatory agencies have recognized the importance of looking beyond market share. The Federal Communications Commission, for example, explicitly recognized the need to take a dynamic, forward looking, approach when it considered whether to reclassify AT&T as a non-dominant carrier, stating

> "[a]pplying well-accepted principles of antitrust analysis, the following discussion first focuses on: (1) AT&T's market share; (2) the supply elasticity of the market; (3) the demand elasticity of AT&T's customers; and (4) AT&T's cost structure, size, and resources. [24]

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[23] Commission Guidelines on Market Analysis and the Assessment of Significant Market Power Under the Community Regulatory Framework for Electronic Communications Networks and Services, 2002/C 165/03, November 7, 2002, ¶38.

[24] *In the Matter of Motion of AT&T Corp. to be Reclassified as a Non-Dominant Carrier*, Order, 11 FCC Rcd 3271, October 12, 1995, ¶ 21.

Thus, while market share and/or market concentration has remained part of most market power analyses, it is clear that other state, federal, and international regulators have moved toward a standard that also or primarily considers the elasticity of supply and demand in a market. I have already demonstrated that supply elasticity and demand elasticity for telephone services in Rhode Island are relatively high, so it is appropriate for the Commission to use a more dynamic approach to assessing market power, with a focus on supply elasticity and demand elasticity.

Q. WHAT IF THE COMMISSION FINDS THAT MARKET SHARE IS THE DETERMINING FACTOR IN ASSESSING MARKET POWER? WOULD THAT CHANGE THE CONCLUSION THAT VERIZON RI SHOULD BE GRANTED THE REQUESTED PRICING FLEXIBILITY?

A. Not at all. The Rhode Island telephone market currently is the most competitive in the nation, when measured by market share of CLECs versus market share of Verizon RI (which by definition understates competitors' market share because it does not include non-common carrier alternatives, such as wireless and VoIP providers). And the Commission has previously found that a market share below 70 was sufficient for the level of pricing flexibility requested by Verizon RI in this case.[25] Verizon RI's retail market shares for business, residential, and total in Rhode Island are all less than 70 percent.[26] Regardless of whether the Commission focuses on supply elasticity or on market share in assessing market

[25] Order No. 17417, at 49.

[26] See Kenney testimony, at 3.

power, it is evident that Verizon RI no longer possesses market power for retail telephone services in Rhode Island.

III. VERIZON RI'S PROPOSAL

Q. PLEASE SUMMARIZE VERIZON RI'S PROPOSED AFOR.

A. Verizon RI has proposed an AFOR in this case that matches the level of Commission oversight to current and expected market conditions. In essence, Verizon RI is proposing that the Commission allow market forces to control the level of Verizon RI's prices and service quality. This evolutionary change in Rhode Island would be accomplished by giving Verizon RI the same degree of pricing flexibility for residential services that it currently has in the business market, and by eliminating unneeded retail service quality plans. The details of Verizon's proposal are contained in Ms. O'Brien's testimony.

Q. VERIZON USED THE LIMITED PRICING FLEXIBILITY GRANTED TO IT IN THE LAST CASE TO RAISE RATES FOR BASIC RESIDENTIAL SERVICES. DOES THAT MEAN THAT COMPETION IS INSUFFICIENT TO PROTECT THESE CUSTOMERS?

A. No, it does not. For those who have a full understanding of historical rate setting policies in the telecommunications industry, it is expected that prices for some services would be increased in response to competition in an industry where certain prices have been held below cost and/or below efficient levels for many years, and where the traditional sources of subsidy for these low-priced services is being competed away. It is well known that prices for telephone service nationally and in Rhode Island have not been set at efficient levels. Some prices

have been set well above costs in order to keep other prices either below cost or at a level where they supply little contribution to joint and common costs.

One possible response is for regulators to specifically adjust or re-balance rates. Another response is for regulators to allow companies to make adjustments in response to competition, with historically overpriced rates allowed to be reduced and historically underpriced rates allowed to increase, which is what the Commission has done and should continue to do. Verizon RI's proposed AFOR augments this market-based pricing flexibility with added protections against anti-competitive subsidies in the form of price floors. For all of these reasons, it is appropriate to allow upward pricing flexibility as a response to competition.

Q. IN ORDER NO. 17417, at 51, THE COMMISSION STATED THAT "CURRENTLY, THE RESIDENTIAL MARKET IS PRIMARILY SERVICED BY TWO FULL FACILITIES-BASED CARRIERS, VZ-RI AND COX. A DUOPOLY MAY NOT NECESSARILY RESULT IN A COMPETITIVE MARKET AND THEREFORE, RESIDENTIAL RATEPAYERS NEED ADDITIONAL PROTECTION.". IS THE MARKET STILL A DUOPOLY FOR RESIDENTIAL CUSTOMERS?

A. No it is not. Even if one were to not include CLECs in an evaluation of the residential market, it is clear that wireless and broadband services are providing significant competitive pressure for voice services offered by both Verizon RI and Cox, especially on a forward-looking basis. Thus, there is no duopoly for residential services in Rhode Island.

Competition from wireless providers has been growing steadily in Rhode Island, and wireless services are rapidly displacing traditional voice lines and wireline usage. As noted by Mr. Kenney, the number of wireless subscribers in Rhode Island rose from about 314,000 in June 2000 to about 607,000 in December 2004.[27] Mr. Kenney also describes in his testimony how usage has increased for wireless carriers at the same time that it has decreased for wireline carriers. The tremendous growth of wireless subscribership and usage proves that customers of all ages are becoming accustomed to the rapidly diminishing drawbacks of wireless and are becoming more willing to give up wireline.

The Commission noted in Order 3445 that "some of [Verizon RI's] loss of wireline customers may be due to its gains of wireless customers."[28] This comment does not take into account the fact that Verizon is not sole owner of Verizon Wireless, and, more importantly, it does not sufficiently consider the fact that the market for wireless services is itself intensely competitive. Verizon Wireless could not expect to retain customers or attract new ones if it were to offer less attractive services and prices in an attempt to assist Verizon RI. Because each Verizon affiliate needs to compete aggressively in each of the market segments in which it operates, any suggestion that wireless competition does not constrain pricing of wireline services would be unfounded.

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[27] FCC, *Local Telephone Competition: Status as of December 31, 2004,* Table 13, "Mobile Wireless Telephone Subscribers."

[28] Order No. 17417, at 50.

Broadband also competes with wireline data service by replacing dial-up connections to the Internet, and it competes with wireline voice service both by enabling electronic communications that would have otherwise been made using voice services on the traditional wireline network and by providing the medium for VoIP service. The proliferation of the Internet has changed the way individuals communicate. The Internet, whose initial usage was in universities throughout the world, is now widely and routinely used by households and businesses. A broadband connection makes the Internet experience better, faster, and more reliable. Increasing broadband usage, prompted in large part by competition between DSL and cable modem providers, has prompted greater use of the Internet as a substitute for voice services, through such means as email and instant messaging. As Mr. Kenney demonstrates in his testimony, broadband is widely available in Rhode Island. According to FCC data, as of December 31, 2004, there were over 165,000 subscribers of high speed internet service in Rhode Island and they were spread out across every zip code in the state.[29] Every broadband line opens up the availability of many different providers of VoIP service.

Verizon RI also is making available stand-alone DSL service, so that a customer can subscribe to Verizon's DSL service even if that same customer is not also subscribed to Verizon RI's voice service. This would allow a Verizon DSL customer to obtain voice service from a VoIP provider without also maintaining traditional wireline voice service.

[29] *See* FCC High Speed Internet Access Services Report, Issued July 7, 2005 at Tables 8 & 13.

Q. PLEASE DESCRIBE VERIZON'S PLANS FOR STAND-ALONE DSL.

A. Beginning in April 2005, Verizon began offering stand-alone DSL service to existing Rhode Island customers who port their voice line to a facilities-based carrier (including a VoIP provider) or wireless carrier but who want to retain their DSL service without the voice service. In June, Verizon expanded its offering to Rhode Island customers who have never had voice service with Verizon. *See* FCC Tariff No. 1, Access Services, § 16.8(D)(4)(b); FCC Tariff No. 20, Communications Services, § 5.1.2(D)(2). Therefore, for example, Verizon's DSL customers can cancel voice service from Verizon, obtain voice service from an independent VoIP provider such as Vonage, and retain their DSL line provided by Verizon. And new customers who do not currently have Verizon voice service can purchase stand-alone DSL and, for example, obtain service from an independent VoIP provider. The last principal type of stand-alone service – for those using the commercial replacement for UNE Platform – should be implemented by September.[30]

Q. WHY SHOULD THE COMMISSION BE SATISFIED THAT THE LEVEL OF COMPETITION IS SUFFICIENT TO CONTROL VERIZON RI'S PRICES AND SERVICE QUALITY?

A. The assessment of market power in the previous section of this testimony demonstrates that Verizon RI would be unable to sustain unreasonable prices and

[30] Verizon must resolve operational technical issues for this last category of lines, which are primarily due to the fact that Verizon's DSL product is closely related to the customer's telephone number and telephone service, making it very complex to support that product on a stand-alone loop. Extensive process and systems work must be performed so that the customer's line and account number can be

inadequate levels of service quality. Rhode Island customers already have switched to other providers of telephone services in large numbers, even with regulated levels of rates and service quality. It should be apparent that they will do so in even greater numbers if Verizon RI were to charge customers unreasonable rates or offer poor service quality. In particular, Cox offers telephone services entirely over its own facilities everywhere in Rhode Island, as described in Mr. Kenney's testimony. Any customer in Rhode Island who is not satisfied with the offerings of Verizon RI can—and likely will—switch to Cox, other CLECs, wireless, VoIP, or other services. Also, the services offered by Cox, wireless, and VoIP are intermodal; thus, they are not affected by the quality of services offered by Verizon RI.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.

A. The Commission has stated that it "is moving steadily towards a fully developed competitive market with total pricing flexibility for all carriers. This process must be gradual and evolutionary in nature…"[31] Given the significant market, technological, and competitive trends in Rhode Island that Mr. Kenney has described in his testimony, it is clear that Verizon RI's proposal is an example of an evolutionary change in regulatory oversight that matches regulation with expected market conditions. The market is more than sufficiently competitive to

identified by something other than a telephone number. Verizon is currently working through these complexities.

[31] Order No. 17417, at 60.

ensure that market forces will step in where regulation recedes, enabling all customers to continue to receive the services they expect at reasonable prices.

This Commission has already created the conditions for a nation-leading evolution to fully competitive markets in communications: it now has the opportunity for a nation-leading evolution of regulatory oversight to one in which consumers, market forces, and innovation are in control of prices and service quality. The Commission should take full advantage of that opportunity by approving Verizon RI's proposal.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.