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STATE OF NEW JERSEY

BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE BOARD INVESTIGATION REGARDING THE RECLASSIFICATION OF INCUMBENT LOCAL EXCHANGE CARRIER (ILEC) SERVICES AS COMPETITIVE	)))))	DOCKET NO. TX 07110873

VERIZON

DIRECT TESTIMONY OF

PAUL B. VASINGTON

DECEMBER 14, 2007

PUBLIC VERSION

Testimony of Paul B. Vasington

I. Introduction

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 employed 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. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my testimony is to show that Verizon mass market services that have not yet been classified as competitive satisfy the statutory reclassification criteria, and should thus be reclassified as competitive. The three criteria are: (1) ease of market entry;

(2) presence of other competitors; and (3) the availability of like or substitute services in the relevant geographic area.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.

A. Verizon's mass market services that have not yet been classified as competitive meet the three-pronged statutory reclassification test. The first prong – ease of market entry – is satisfied by evidence showing that existing mass market competitors have been very successful at entering the market; expanding the scope of services they offer; and increasing the scale of their business. The second prong – presence of competitors – is met by evidence demonstrating that a wide variety of competitors, including traditional competitive local exchange carriers ("CLECs"), cable companies, wireless carriers, and voice over Internet protocol ("VoIP") providers, are competing to serve mass market customers throughout the State. The third prong – the availability of like or substitute services – is demonstrated by the array of local calling plans and feature-rich service packages for residential and small business customers offered throughout the State, as well as evidence of dramatic line losses from Verizon to intra- and inter-modal competitors.

The following are some highlights from the overwhelming evidence, discussed in detail later in my testimony, showing that Verizon's retail mass market services are competitive:

- ***Cable, wireless, VoIP, and CLEC services are widely available:***
    - Cable providers have passed over 3.37 million of the 3.47 million housing units in New Jersey, and cable telephony is available to 96.5% of those housing units.
    - Every municipality in the New Jersey has at least five wireless carriers offering service.

- *Every* zip code in New Jersey is served by at least four broadband providers, and thus VoIP over existing broadband connections is available to consumers throughout the State.

- There are now about **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** traditional CLECs offering service to customers in New Jersey.

- ***Verizon's Competitors Are Successful And On The Rise:***

  - There are now an estimated **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** cable telephony lines in the State.

  - New Jersey wireless subscribership has more than tripled from year end 1999 to June 2006, growing from 2.3 million to 8.1 million subscribers (in fact, since year end 2004, wireless subscribers have outnumbered switched access lines in the State).

  - A significant percentage of households (12 – 17%) are "cutting the cord" in favor of wireless only service and this trend is projected to increase (projected at 27% by year-end 2010).

  - Over the past five years (2001 to 2006), the CLEC share of the wireline market has grown from four to 17 percent.

- ***Mass Market Customers Are Substituting Away From Verizon:***

  - From year end 2000 to year end 2006, Verizon lost about 2.5 million retail voice lines, 1.7 million of which are residential (despite population and economic growth in the State).

  - The volume of telephone numbers ported from Verizon to its facilities-based competitors demonstrates that Verizon line losses are due to competition (Verizon has ported more than **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** numbers completely off its network as of September 2007).

  - Analysts estimate that cable, VoIP, and wireless substitution rates are growing and taking around 7 to 8% share annually from the telephone companies.

In summary, my testimony contains overwhelming evidence demonstrating that the Verizon mass market services at issue meet the statutory reclassification criteria, and should be reclassified at the conclusion of this proceeding.

II. The Relevant Services and Product Market

Q. PLEASE DESCRIBE THE VERIZON SERVICES FOR WHICH RECLASSIFICATION IS BEING SOUGHT.

A. A subset of Verizon's mass market services are not classified as competitive. These services include residential basic exchange service and single line business exchange service as well as associated local usage, vertical features, and directory assistance ("DA") services.

The relevant usage and vertical features include: (a) switched services (*i.e.*, exchange access line service; foreign exchange service; and local usage messages); (b) ancillary services – switched (*i.e.,* call block; call forward busy/don't answer; call forwarding; call trace; call waiting; caller ID; caller ID manager; caller ID with name; do not disturb; distinctive ring; priority call; remote call forwarding; repeat dialing; return call; ring count change interface; select forward; speed dialing; switched redirect; three-way call transfer; three-way calling; toll diversion, and special assistance service charge); (c) ancillary services – non-switched (*i.e.,* additional listings; joint user service; non-published listings, and non-listed listings); and usage-based services (*i.e.,* audiotext - dial-it; announcement service and local operator services, including operator-assisted and mechanized calling card, bill to third person, person-to-person collect calling, busy line verification, and customer interrupt).

The relevant DA services include: (1) residential local directory assistance or "411", which enables customers to obtain assistance in determining telephone numbers and listings of customers who are located in Verizon NJ's service area; (2) connect request[SM], which provides local directory assistance customers with the option of having the requested telephone number automatically dialed for them; and (3) list service, which provides telephone numbers in written form.

Q. ARE RESIDENCE AND SMALL BUSINESS EXCHANGE SERVICES IN THE SAME PRODUCT MARKET

A. Yes. Small business customers demand essentially the same services as residence customers, and small business services can be provided in essentially the same way as residence services, albeit with business-oriented packaging, pricing plans and marketing. Moreover, firms that compete to provide residential services typically provide similar services to small business customers. And, residence and small business services are sold using essentially the same marketing channels, and are provided using the same network platforms.[1]

Q. DO THE FCC AND STATE COMMISSIONS TREAT RESIDENCE AND SMALL BUSINESS SERVICES AS PART OF THE SAME MASS MARKET?

A. Yes. The FCC has defined "mass market customers" as "residential *and* small business customers that purchase standardized offerings of communications services,"[2] and has stated that "[d]ue to the similarities between the kinds of services that residential

[1] For example, Cablevision's "Optimum" website is the common entrance point for both residential and small business customers. *See* http://www.optimum.com/business/chooser.jsp (accessed November 26, 2007).

[2] *I/M/O Verizon Communications Inc. and MCI, Inc. Applications for Approval of Transfer and Control,* WC Docket No. 05-75, Memorandum Opinion and Order (rel. Nov. 17, 2005) ("*FCC Merger Approval Order*") at ¶ 83 n.245.

customers and very small business customers purchase, as well as how carriers market and provide service to them, we find that the economic considerations that lead to the provision of service to a residential customer are similar to the economic considerations that lead to the provision of service to a very small business customer."[3] Likewise, in the order approving the Verizon-MCI merger, the Board treated residence and small business customers as a single group of "mass market customers."[4] Similarly, when analyzing the Verizon-MCI merger, the New York Public Service Commission ("PSC") staff determined that "[t]he retail telecommunications market, including both voice and data services, should be examined in terms of two broad groups of customers: residential/small business and medium/large business, including the institutional and government customers market,"[5] and the New York PSC employed similar groupings in its order approving the merger.[6]

Q. ARE THE USAGE AND VERTICAL FEATURES ASSOCIATED WITH RESIDENCE AND SMALL BUSINESS SERVICES IN SEPARATE PRODUCT MARKETS FROM RESIDENCE AND SMALL BUSINESS EXCHANGE SERVICE?

A. No. Local usage and vertical features are ancillary (or subordinate) to the primary residence or small business exchange service. For example, a customer that wants call

[3] *Petition of Qwest Corporation for Forbearance Pursuant to 47 U.S.C. § 160(c) in the Omaha Metropolitan Statistical Area*, Memorandum Opinion and Order, WC Docket No. 04-223, FCC 05-170 (rel. Dec. 2, 2005) *("Qwest Forbearance Order")*, ¶ 28 n.78.

[4] *In the Matter of the Joint Petition of Verizon Communications Inc. and MCI, Inc. for Approval of Merger,* Docket No. TM05030189, Order (NJ BPU Apr. 12, 2006) ("*Merger Revi*ew Order") at 35-36.

[5] *Joint Petition of Verizon Inc. and MCI, Inc. for Merger Approval, Order Asserting Jurisdiction and Approving Merger Subject to Conditions,* Cases 05-C-0237 and 04-C-0242, Department of Public Services Staff White Paper (July 6, 2005) at 18 n.44.

[6] *Joint Petition of Verizon Inc. and MCI, Inc. for Merger Approval, Order Asserting Jurisdiction and Approving Merger Subject to Conditions*, NY PSC Case 05-C-0237 (Nov. 22, 2005), as revised in Errata Notice (Nov. 28, 2005)("NY MCI Merger Order") at 23, et seq.

waiting or caller ID will buy those services from the supplier of its local exchange service and cannot substitute another carrier's call waiting or caller ID service in response to a price increase for those services without also changing to another carrier's network access.

Moreover, in today's marketplace, competitors typically compete to supply customers' overall communications needs, including access and optional vertical services, local and toll services, Internet access and other data services. That is precisely why the California Public Utilities Commission ("CPUC") concluded that these services should not be included in separate product markets:

> We find that the historic practice of ***defining each telecommunications service as constituting a separate "market" is no longer relevant in today's technologically diverse telecommunications environment.*** Concepts like "Basic Local Exchange Service," "long distance service," "call waiting service," "call forwarding service," and "pay phone service," make little sense in an era dominated by telecommunications sold through bundled services.[7]

III. New Jersey's Reclassification Policy

Q. DOES THE NEW JERSEY ACT RECOGNIZE THAT COMPETITION IS PREFERABLE TO REGULATION IN A COMPETITIVE MARKETPLACE?

A. Yes. The New Jersey Act provides that "[i]n a competitive marketplace, traditional utility regulation is not necessary to protect the public interest and that competition will promote efficiency, reduce regulatory delay, and foster productivity and innovation." N.J.S.A. 48:2-21.16(b)(1).

[7] *See* CPUC Decision 06-08-030 in Rulemaking 05-04-005 (August 24, 2006) (emphasis added).

Q. WHAT CRITERIA MUST BE EVALUATED TO DETERMINE WHETHER A SERVICE IS COMPETITIVE?

A. The New Jersey Telecommunications Act of 1992 authorizes the Board to determine whether a telecommunications service is a competitive service based on, at a minimum, three criteria:

- evidence of ease of market entry;
- presence of other competitors; and
- the availability of like or substitute services in the relevant geographic area.[8]

Q. DOES THE BOARD RELY ON CRITERIA OTHER THAN THOSE SET FORTH ABOVE?

A. No. The Board has consistently and appropriately relied on only the three statutory criteria without any other proofs or tests. As the Board explained in its *PAR-2 Order*:

> ***[T]he Board has successfully reclassified or classified services as competitive in several previous cases based only on the three statutory criteria.*** Specifically, the Board has reclassified Message Telecommunications Services, Digital Data Service and Digital Connect Service as competitive; and has classified seven new services as competitive, all under the statutorily prescribed standards set forth in the [the Act]. In addition to reclassifying the above services as competitive, the Board has also approved the introduction and classification of seven new services as competitive, including Virtual Private Network Service, Frame Relay Service, Exchange Access Frame Relay Service, Switched Multimegabit Data Service, Exchange Access Switched Multimegabit Data Service, Call Restriction Service, and Phone Card.[9]

[8] *See N.J.S.A.* 48:2-21.19(b).

[9] *In the Matter of the Application of Verizon New Jersey Inc. for Approval (i) of a New Plan for an Alternative Form of Regulation and (ii) to Reclassify Multi-Line Rate Regulated Business Services as Competitive Services, and Compliance Filing*, New Jersey Board of Public Utilities Docket No. TO0102095, *Decision and Order*, August 19, 2003 ("*PAR-II Order*") (emphasis added).

The Board refused to expand the scope of its evaluation beyond the statutory criteria in its recent CLEC and Directory Assistance Services ("DAS") reclassification proceedings.[10]

IV. Verizon's Mass Market Services Satisfy the Statutory Reclassification Criteria

A. Ease of Market Entry

Q. HOW SHOULD THE BOARD ASSESS EVIDENCE OF THE EASE OF MARKET ENTRY WHEN CONSIDERING WHETHER TO RECLASSIFY SERVICES?

A. The Board should assess ease of entry by examining evidence of actual entry *and* by considering the potential for future entry in response to efforts to raise prices above competitive levels. In other words, the Board should consider the competitors that have already entered the market, whether those competitors have invested to deploy networks that can be used or expanded to provide competitive services, and the regulatory and economic conditions that affect entry.

Q. ARE THERE BARRIERS TO ENTERING THE MARKET FOR MASS MARKET CUSTOMERS IN NEW JERSEY?

A. No. This is conclusively demonstrated by the fact that existing mass market competitors have been very successful at entering the market; expanding the scope of services they offer; and increasing the scale of their business. As discussed in detail below, a multitude of CLECs, cable companies, wireless carriers, and VoIP providers have entered the mass

[10] *In The Matter Of The Board Investigation Regarding The Reclassification Of Competitive Local Exchange Carrier Services As Competitive,* Docket No. TX 06120841, Order (NJ BPU June 29, 2007) ("*CLEC Reclassification Order*"); *I/M/O The Board's Review Of The Classification Of Verizon New Jersey Inc.'s Directory Assistance Services ("DAS") As Competitive,* Docket Nos. TX06010057 and TT97120889, Telecommunications Order (NJ BPU June 28, 2007) ("*DA Reclassification Order*").

market, and have managed to wrest millions of lines and billions of minutes away from Verizon.

Q. DO VERIZON'S MOUNTING LINE LOSSES AND CORRESPONDING GAINS BY COMPETITORS DEMONSTRATE EASE OF MARKET EXPANSION AND ENTRY?

A. Yes. Verizon's line losses and the corresponding gains by competitors provide insight into competitors' ability to enter a market and compete, especially in a market that had historically been characterized by regulatory barriers to entry. Firms do not casually choose to invest large amounts to upgrade their networks to enter new markets. And, once they do enter and expand, their increased presence suggests that they have considered the future consequences of their pricing and marketing decisions and have determined that they can compete by marketing their services at competitive prices. Having incurred fixed costs to upgrade and expand their networks, competitors then face low incremental costs to add customers. Analysis of competitors' expansion and Verizon's corresponding declines, therefore, demonstrates that entry and expansion discipline the New Jersey mass market and prove there are no substantial entry or expansion barriers.

Q. HAS TECHNOLOGICAL CHANGE MADE IT EASIER TO ENTER THE MASS MARKET?

A. Yes. Advancements in the wireless industry have made wireless services an attractive alternative to mass market services, and the advent of VoIP technology has allowed cable providers to compete for mass market customers using existing cable facilities. As a result, services provided over intermodal technologies, such as cable, wireless and VoIP,

now exert intense and increasing competitive pressure on traditional mass market service providers.

Moreover, technological change has expanded the scope and extent of services that may be offered over a given platform and thereby reduced barriers to entry. As Dr. Aron explained in the CLEC Reclassification Proceeding:

> [I]nvestment in cable facilities now can be expected to generate a return not only from providing pay television services, but also from telephony and high speed Internet access. CLEC investment in mobile wireless facilities may soon generate significant revenues from Internet access. Investment in traditional circuit switches can provide service to a much larger geographic area than do switches in the traditional network architecture.[11]

Accordingly, there can be no doubt that technological advancements have made it easier to enter the mass market.

Q. HAVE POLICY DEVELOPMENTS PROMOTED ENTRY INTO THE MASS MARKET?

A. Yes. The enactment and implementation of the 1996 Act eliminated legal, regulatory and economic barriers to competitive entry into the local exchange market and opened up new entry paths – notably use of UNEs and resale. These options facilitated local telecommunications competition in New Jersey because they permitted any new entrant to use essential parts of the incumbent's network to provide competing local service, or simply to purchase the incumbent's services at a discount and resell them. The effect of these options was to greatly reduce barriers to entry into local telecommunications market

[11] Direct Testimony of Dr. Debra J. Aron, on behalf of AT&T Communications of NJ ("Aron Direct"), filed January 9, 2007 in Docket No. TX06120841, at 56-57.

and to allow rapid expansion by firms once they enter the market. The 1996 Act also required interconnection of competing networks, such as ILEC and cable networks.

Q. WHAT DID THE BOARD FIND WITH RESPECT TO EASE OF MARKET ENTRY FOR DA SERVICES?

A. In its most recent DA order, the Board found that "… barriers to entry do not exist for alternate providers seeking to offer DA services. Providers can enter the market through various means and attempt to compete with VNJ-DAS."[12]

Q. WHAT EVIDENCE DID THE BOARD RELY ON TO FIND THAT BARRIERS TO ENTRY FOR DA SERVICES DO NOT EXIST?

A. In the case of DA services, the Board decided to "address the issues of presence of competitors and ease of market entry together," so the evidence of the ease of market entry essentially was derived from the evidence provided by Verizon to show the presence of competitors.[13] Updates to that evidence are provided below in the discussion of the presence of competitors. This evidence continues to show that barriers to entry do not exist for DA services, so the Board should reaffirm its earlier finding.

B. The Presence of Competitors

Q. HOW SHOULD THE BOARD ASSESS EVIDENCE OF THE PRESENCE OF COMPETITORS WHEN CONSIDERING WHETHER TO RECLASSIFY SERVICES?

A. The evidence presented below will show that there is a wide array of competitors currently providing a full range of telecommunications services to mass market customers. Of course, these competitors are "present" in the relevant markets for the

[12] *DA Reclassification Order* at 17.

[13] *Id.* at 17.

services to be reclassified, and this evidence is more than sufficient to satisfy the criterion requiring the "presence of other competitors."

When considering the "presence of other competitors," however, the Board should assess not only those competitors that are currently providing service, but also those competitors that are capable of providing service to customers, even though they are not currently doing so. If a competitor is readily capable of providing service in response to a change in price or output by the incumbent, that competitor is properly considered "present" in the market in the sense that the competitor constrains the incumbent's ability to increase the market price.

1. Cable Companies Are Present Throughout the State and Have Emerged As Major Competitors

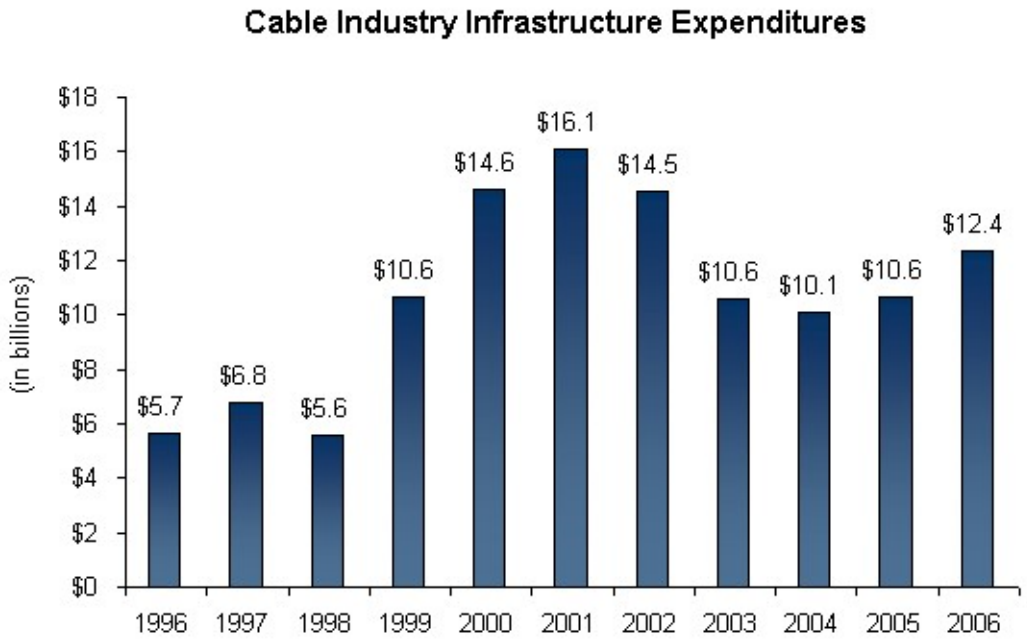
Q. HOW DO CABLE COMPANIES COMPETE WITH WIRELINE CARRIERS?

A. Cable companies have made substantial investments to upgrade their infrastructure so they can provide two-way digital services. These upgrades have enabled cable companies to provide voice telephony and broadband services that compete directly with services provided by incumbent local exchange carriers ("ILECs"). These upgrades also provide a transmission medium for VoIP suppliers to offer their voice services.

Q. PLEASE DESCRIBE THE CABLE INDUSTRY INVESTMENTS THAT YOU JUST MENTIONED.

A. The National Cable & Telecommunications Association ("NCTA") reports that cable companies have spent nearly $118 billion since 1996 rebuilding and upgrading their

networks nationwide.[14] The chart below summarizes that investment.[15]



Q. WHAT TYPES OF CABLE COMPANIES HAVE UPGRADED THEIR NETWORKS IN NEW JERSEY?

A. Both major multi-system operators ("MSOs") and smaller cable companies have invested to provide advanced services. Comcast and Cablevision, the two largest cable providers in New Jersey, serve over 2.4 million of New Jersey's 2.5 million cable subscribers and have deployed extensive advanced broadband and cable telephony services in the State.[16] However, the deployment of advanced services in New Jersey is not limited to these two

[14] http://www.ncta.com/ContentView.aspx?contentId=56, citing Kagan Research, LLC, accessed November 29, 2007. The NCTA also estimates that investment for 2007 is $13.7 billion. *See* NCTA 2007 Industry Overview, at 5.

[15] *See Id.*

[16] *See* New Jersey Board of Public Utilities, Office of Cable Television, *Cable Facts 2007* at 23. The calculation of Cablevision and Comcast subscribers includes subscribers of Patriot Media and Communications, which have been acquired by Comcast.

large providers. Time Warner, which has 56,000 New Jersey residential subscribers, has made voice and Internet services available throughout its New Jersey footprint.[17]

Q. ARE ADVANCED CABLE (MODEM AND VOICE) SERVICES WIDELY AVAILABLE IN NEW JERSEY?

A. Yes. As of September 2007, cable providers pass over 3.37 million of the 3.47 million housing units in New Jersey. Cable telephony is available to 96.5% of these homes, while cable modem service is available to 98.3% of them. Clearly, advanced cable services, including telephony, are available to the overwhelming majority of New Jersey households.[18]

Q. HAVE CABLE COMPANIES BEEN COMPETING SUCCESSFULLY WITH ILECS?

A. Yes. The cable industry itself trumpets that telephone consumers are now benefiting from "true competition":

> A quarter century after the initial breakup of the original AT&T telephone monopoly, true competition has come to the market for phone service, thanks to cable's facilities-based offering. Gaining both powerful features and cost efficiency by utilizing digital Voice over Internet Protocol (VoIP) technology on the same hybrid fiber-coaxial network that carries video and Internet data signals, cable telephone service is high in both quality and affordability.[19]

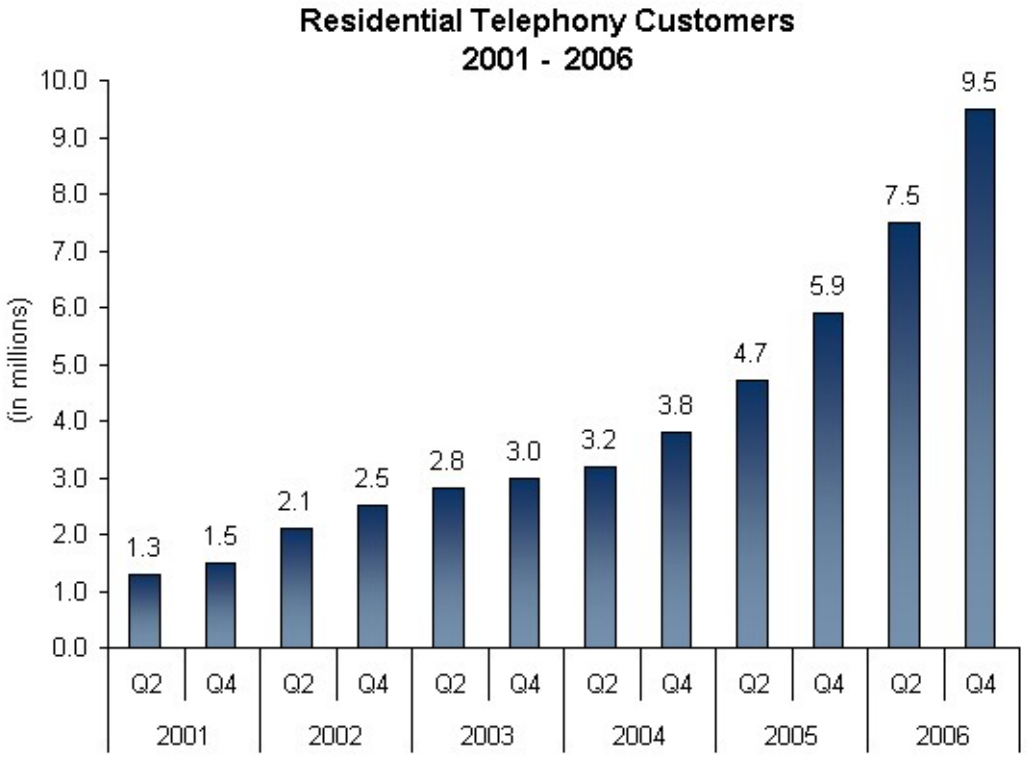
The existence of "true competition" for New Jersey phone customers cannot be disputed. On a national basis, the cable industry estimates that it served 9.5 million residential telephony customers in the fourth quarter of 2006, an annual increase of 61%

[17] http://www.timewarnercable.com/corporate/aboutus/timline2.html.

[18] Warren Communications, Television and Cable Factbook. Estimate of total housing units in New Jersey as of July 1, 2006: 3,472,643. State of New Jersey Department of Labor & Workforce Development. Http://www.wnjpin.state.nj.us/OneStopCareerCenter/LaborMarketInformation/lmi02/#state.

[19] NCTA 2007 Industry Overview at 13.

from the fourth quarter of 2005. The following table illustrates the increasing growth rate for cable telephony nationally.[20]



By the third quarter of 2007, Cablevision was serving about 1.5 million Optimum Voice customers.[21] Although it did not break out its most recent results by state, Cablevision announced that it added 91,000 Optimum Voice customers in the third quarter of 2007 – a quarterly increase of 6.5%. Cablevision also noted that it had a 12-month increase in Optimum Voice customers of 389,000, or 35.4%.[22] Moreover,

[20] http://www.ncta.com/ContentView.aspx?contentId=61 (accessed November 29, 2007).

[21] *See* Cablevision Form 10Q for the quarterly period ended September 30, 2007, at 66.

[22] Cablevision Press Release, "Cablevision Systems Corporation Reports Third Quarter 2007 Results," November 8, 2007, at 2.

Cablevision's year-to-date revenues from voice service increased 51% from the 3rd quarter of 2006 to the 3rd quarter of 2007.[23]

Comcast, another prominent cable provider in New Jersey, is now the nation's leading provider of cable telephony with over 3.7 million subscriber households reported as of September 2007.[24] According to a recent news report, "Comcast says that for every video subscriber it has lost, it has gained 10 phone subscribers. As of the end of the third quarter [2007], 9.4% of the 40.3 million homes offered phone service have subscribed, leaving considerable room for growth."[25]

The table below depicts estimated cable telephony lines using E911 listings as of September 2007 in Verizon New Jersey's service territory.

[BEGIN VERIZON PROPRIETARY]

Estimated Facilities-Based Lines for Cable Companies in New Jersey			
	Residential	Business	Total
Cable Telephony Lines	[redacted]	[redacted]	[redacted]
Note: Business E-911 listings adjusted by a factor of .63 to convert business E-911 listings to an estimate of business facilities-based lines. Residence E-911 listings and lines are assumed to be one-to-one.			

[END VERIZON PROPRIETARY]

Q. ARE CABLE COMPANIES WELL POSITIONED TO OFFER TELEPHONE SERVICES TO NEW JERSEY CONSUMERS?

A. Yes. According to Verizon's E-911 database, there are cable residential telephony lines in **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON**

[23] *See* Cablevision Form 10Q for the quarterly period ended September 30, 2007, at 65.

[24] *See* Comcast 3rd Quarter 2007 earnings release, Oct. 25, 2007. May be accessed at http://www.cmcsk.com/phoenix.zhtml?c=118591&p=irol-newsArticle&ID=1067513&highlight=.

[25] Searcey, Dionne, "Cable's Picture Gets Fuzzier," *The Wall Street Journal*, November 8, 2007, at B3.

PROPRIETARY] served by Verizon New Jersey. Therefore, there can be no question that cable companies in New Jersey are well-positioned to continue offering telephone services to customers throughout the State.

2. Wireless Competitors Are Present throughout the State and Wireless Service Is Thriving

Q. IS WIRELESS SERVICE WIDELY AVAILABLE THROUGHOUT NEW JERSEY?

A. Yes. Every municipality in New Jersey is served by at least four wireless carriers.[26] Wireless carriers serving New Jersey include AT&T, Sprint/Nextel, T-Mobile, and Verizon Wireless, among others. These four named carriers are the largest wireless carriers in the country. Moreover, as shown in the table below, almost 100 percent of households in the State are located in areas served by three or more mobile wireless carriers, and over 97 percent are in areas served by four or more wireless providers.

MSA	Total Households in Verizon's Service Area	Households Covered by 2 or more Wireless Carriers	Households Covered by 3 or more Wireless Carriers	Households Covered by 4 or more Wireless Carriers
Allentown-Bethlehem-Easton, PA-NJ	34,595	34,593	34,198	27,216
Atlantic City, NJ	104,683	104,281	102,421	99,396
New York-Northern New Jersey-Long Island, NY-NJ-PA	2,229,465	2,229,136	2,213,473	2,173,509
Ocean City, NJ	40,626	40,624	40,184	38,631
Philadelphia-Camden-	481,351	481,176	479,791	475,573

[26] Federal Communications Commission, *Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services, Eleventh Report*, September 29, 2006, Map 1.

Wilmington, PA-NJ-DE-MD				
Trenton-Ewing, NJ	147,313	147,312	146,768	145,351
Vineland-Millville-Bridgeton, NJ	54,441	54,436	52,741	49,862
Total	3,092,474	3,091,558	3,069,576	3,009,538

As will be explained in more detail later in this testimony, wireless carriers are experiencing tremendous growth in lines and usage, and a significant number of customers subscribe exclusively to wireless service, i.e., no wireline in the household.

3. VoIP Providers Have Emerged As Significant Competitors

Q. WHAT IS VOIP?

A. Voice over Internet Protocol ("VoIP") allows customers to make and receive local and long distance calls over broadband connections using adapters with ordinary telephone equipment and ordinary dialing patterns. VoIP can be used in at least three basic ways:

- Cable companies use VoIP technology over their own networks to provide "cable telephony" without requiring customers to subscribe to broadband service;[27]
- Companies such as Vonage provision VoIP service as a software application over customers' existing (DSL or cable) broadband connections that use the public Internet to transport calls; and
- Businesses use VoIP on their private networks and switching systems in place of traditional telephone services.

[27] *See, e.g.*, Cox Communications FAQs "*Will My House Need to be Rewired*?" and "*Will My Current Telephones Work*?" at http://www.cox.com/Telephone/FAQs.asp#P25_5970 accessed March 29, 2005. Typically, the customer is not required to buy specific equipment to use the VoIP service and can use her existing telephones with adapters provided by the cable company.

Q. ARE STAND ALONE VOIP SERVICES WIDELY AVAILABLE IN NEW JERSEY?

A. Yes. Because 100% of the zip codes in New Jersey are served by at least one broadband provider, VoIP over existing broadband connections is available to mass market customers throughout New Jersey.[28] Significantly, 62% of the broadband lines provided in New Jersey are purchased by residential customers.[29]

Q. WHAT IS THE IMPLICATION OF THE WIDESPREAD USE OF BROADBAND INTERNET ACCESS IN NEW JERSEY?

A. As discussed below, because about 2.1 million mass-market customers in New Jersey already subscribe to broadband services, they need only compare the incremental cost of VoIP to the cost of Verizon local and long distance service when purchasing local service.

Q. ARE VOIP PROVIDERS COMPETING SUCCESSFULLY FOR MASS-MARKET CUSTOMERS?

A. Yes. VoIP providers are increasing their customer bases. Vonage reports that it serves approximately 2.45 million lines nationally.[30] Client-based VoIP services such as Skype are also successful. According to one recent article:

> The VOIP tracker service reported that the top five client-based VOIP service providers used by U.S. households are Skype (2.1 million households), MSN (1.1 million households), Yahoo

[28] Vonage provides VoIP over broadband services to New Jersey households and businesses. Other VoIP providers include AT&T, Lingo, Net2Phone, BroadVox (a Transeo Wireless authorized distributor), and Level 3.

[29] Federal Communications Commission, Industry Analysis and Technology Division, Wireline Competition Bureau, *High-Speed Services for Internet Access: Status as of December 31, 2006*, Table 13.

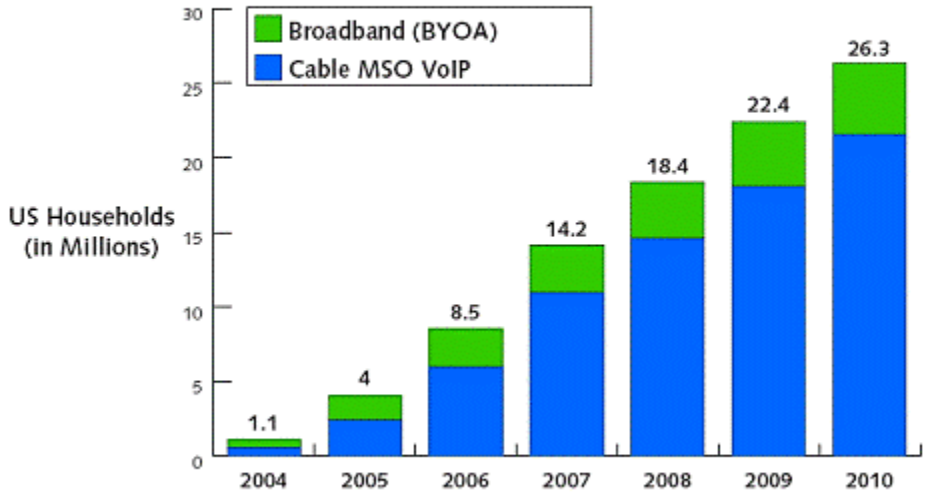
[30] http://files.shareholder.com/downloads/VAGE/200999590x0x56424/ad50fa02-58fb-4dc5-abfc-5bd1100ce9be/FactSheet.pdf.

Messenger with Voice (1 million households), Google Talk (658,000 households) and AOL Phoneline (266,000 households).[31]

Q. IS VOIP USAGE EXPECTED TO INCREASE IN THE NEAR FUTURE?

A. Yes. Analysts agree that VoIP usage will grow significantly over the next few years. As illustrated in the bar graph below, Yankee Group expects non-cable VoIP to continue to gain lines.

2004 to 2010 US Consumer Broadband VoIP Forecast
Source: Yankee Group, 2006



4. Broadband Providers Are Present Throughout the State

Q. HOW DO INTERNET AND BROADBAND TECHNOLOGIES AFFECT MASS-MARKET COMPETITION?

A. These technologies have spurred an irreversible, fundamental change in the communications industry. Broadband has replaced a large number of dial-up connections to the Internet and provides the medium for VoIP services. The improving speeds and

[31] Patrick Hoffman, "VoIP Use in U.S. Households Is on the Rise," eWeek.com, December 27, 2006 http://www.eweek.com/article2/0,1895,2077571,00.asp, accessed January 7, 2007.

reliability of broadband and the competition between cable, DSL, and other providers has led to lower prices and higher demand for broadband services. These pricing and demand developments have, in turn, stimulated even greater use of the Internet as a substitute for voice services.

Q. IS BROADBAND SERVICE AVAILABLE THROUGHOUT NEW JERSEY?

A. Yes. There are a substantial number of broadband service providers in New Jersey.[32] As of December 2006, 97 percent of zip codes in the State were served by five or more broadband providers,[33] and *every* zip code was served by at least four broadband providers.[34] Both cable modem and DSL service are ubiquitous in the State, with 100 percent of customers passed by cable systems having access to cable modem service and 87 percent of ILEC lines having access to DSL service.[35]

Q. IS COMPETITION FOR BROADBAND INCREASING?

A. Yes. FCC broadband data show that cable modem and DSL services are continuing their substantial growth, and that new forms of broadband using different last mile technologies—such as wireless (fixed and mobile) and satellite—are growing even more rapidly.[36] Mobile wireless broadband added more lines than DSL and cable modem combined from June 2005 to December 2006, and grew by over 5,670 percent in that time. And such trends may accelerate: It was recently reported that "iPhone owners

[32] In total, there are 41 high-speed providers serving New Jersey.Federal Communications Commission, Industry Analysis and Technology Division, Wireline Competition Bureau, *High-Speed Services for Internet Access: Status as of December 31, 2006,* rel. October 2007, Table 8.

[33] *Id.*, Table 17.

[34] *Id.*

[35] *Id.*, Table 14.

[36] FCC, Industry Analysis and Technology Division, Wireline Competition Bureau, High Speed Lines for Internet Access: Status as of December 31, 2006. Table 1, High Speed Lines.

were responsible for nearly one out of every 1,000 Web page views last month [i.e., November 2007]."[37] The following table summarizes the most recently available FCC data on broadband Internet access lines and their growth since June 2005.

Growth of US High Speed Internet Access Lines: June 2005 to December 2006

Technology	June 2005	December 2006	Change from June 2005 to December 2006	Percent Change
ADSL	16,316,309	25,417,359	9,101,050	55.8
SDSL and Traditional Wireline	898,468	1,031,781	133,313	14.8
Cable Modem	24,017,442	32,097,223	8,079,781	33.6
Fiber	315,651	1,030,119	714,468	226.3
Satellite	376,837	571,980	195,143	51.8
Fixed Wireless	208,695	484,073	275,378	132.0
Mobile Wireless	379,536	21,910,340	21,530,804	5672.9
Power Line and Other	4,872	4,776	-96	-2.0
Total Lines	42,517,810	82,547,651	40,029,841	94.1

Q. DO FIXED WIRELESS SERVICES OFFER AN ALTERNATIVE TO DSL AND CABLE MODEM SERVICES?

A. Yes. In New Jersey, fixed wireless services offer mass market customers broadband services at prices starting at $29.95 per month. In addition, these fixed wireless carriers bundle VoIP with their offerings. Towerstream claims that "unlike most cable and DSL, we guarantee the performance of our service with an industry-leading Service Level Agreement (SLA) that guarantees uptime, latency and throughput."[38]

[37] Worthen, Ben, "Web Surfing on iPhone Erases Doubts of Mobile Devices' Future Online Role," *The Wall Street Journal*, December 11, 2007, at B4.

[38] http://www.towerstream.com/content.asp?smallbusiness.

Q. DO THESE FIXED WIRELESS TECHNOLOGIES FACILITATE MARKET ENTRY AND EXPANSION?

A. Yes. They provide the ability to cover large areas in a relatively short time. Carriers need only collocate their wireless antennas on existing cell sites to serve households and businesses in the surrounding area, thus eliminating the need to build expensive last mile facilities. Furthermore, the extensive unlicensed spectrum in 2.4GHz, 5.3GHz, and 5.8GHz allows providers to offer service without purchasing any spectrum. In sum, fixed wireless can be used by competitors to inexpensively expand their reach into less densely populated areas, as well as in urban areas.

Q. PLEASE DESCRIBE SOME OF THE COMPANIES THAT PROVIDE FIXED WIRELESS IN NEW JERSEY.

A. There are several large fixed wireless companies that operate in New Jersey, and there are also many small ISPs.

- Towerstream has established pre-WiMAX networks in such markets as New York City (and surrounding areas), Los Angeles, Chicago, San Francisco, Seattle, Boston, Providence and Newport, R.I., and continues to expand coverage throughout the country.[39] In New Jersey, Towerstream covers roughly 200,000 households and 22,000 businesses in Verizon's service area using fixed wireless technology.[40] It offers service ranging from 1.5Mbps – 1000Mbps targeting both small and large businesses. Prices start at $175 per month.

- Jersey Shore Wireless serves southern New Jersey and the Jersey Shore. It offers an array of services, including wireless Internet access, voice and video over IP, and point-to-point networks. It covers roughly 76,000 households and 7,100 businesses in Verizon's service area using WiFi, WiMax, UHF/VHF, and microwave fixed wireless technology. It offers 1Mbps Internet access and two email accounts for about $50 per month for residential accounts in New Jersey.[41]

[39] http://www.towerstream.com/content.asp?pc:67.

[40] http://www.towerstream.com/content.asp?serviceareas and US Census Bureau.

[41] http://www.jerseyshorewireless.com/AboutUs.html, http://www.jerseyshorewireless.com/Coverage.html and US Census Bureau.

- NearYou Networks covers northern New Jersey (nearly 1.4 million households and 170,000 businesses) with fixed wireless. It offers 3.5Mbps Internet access, email addresses, web hosting, and domain name registration.[42]

- SuperNet WISP covers 36,000 households and 4,000 businesses[43] in Verizon's northern New Jersey shore service area using fixed wireless technology that operates in an unlicensed 2.4Ghz spectrum. This company advertises that its "wireless system connects to our remote sites at a maximum of 11 mbps (11,000 kbps)…up to 50 times faster than an analog modem, up to 12 times faster than a dual-channel ISDN connection, and up to 5 times faster than cable or DSL."[44] SuperNET WISP's residential service packages, which provide broadband access and multiple email accounts, range in price from $29.95 to $79.95 per month.[45]

- Reynwood Communications provides both business and residential fixed wireless service in Monmouth County, New Jersey. Its business-focused T1 services start at $275 per month and offer dial-up access for travel, 24x7 support and monitoring, multiple email accounts, web hosting, and speeds up to 4.5 Mbps.[46]

Q. HAVE NEW JERSEY CONSUMERS RAPIDLY ADOPTED BROADBAND SERVICES?

A. Yes. By December 2006, there were about 3.4 million broadband lines in service in New Jersey. New Jersey has more broadband lines per capita than any other state in the country.[47] Cable Modem is the largest single technology providing broadband service in New Jersey. Of the 3.4 million total lines: 1.4 million are served by cable modem, 710,000 by DSL, and the remainder by other technologies. The figure below shows the growth of total high speed Internet access lines in New Jersey from 2000 to 2006.[48]

[42] http://www.nearyou.net/services.

[43] http://www.supernetwisp.net/Coverage.htm and US Census Bureau.

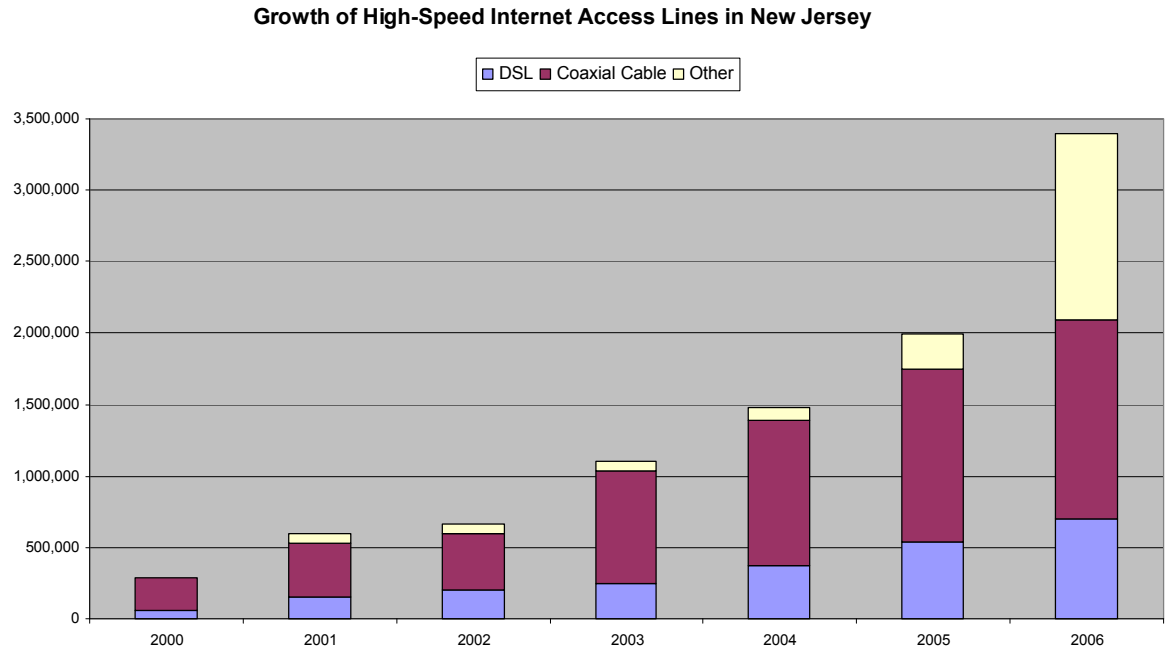
[44] http://www.supernetwisp.net/SuperNetfaq.htm#1.

[45] http://www.supernetwisp.net/snetrates.htm.

[46] http://www.reynwood.com/services/is_wireless_pricing.html

[47] FCC, Industry Analysis and Technology Division, Wireline Competition Bureau, High Speed Lines for Internet Access: Status as of December 31, 2006, Table 9. US Census, population by state for 2005.

[48] Note that these data include all residential and business high speed lines. Residential and small business lines account for the vast majority of those lines.



Note: "Other" assumed to be zero in 2000, as actual breakdown with cable is unavailable.
Source: FCC, *High-Speed Services for Internet Access: Status as of December 31, 2006-2006.*

Q. DOES BROADBAND PROMOTE THE USE OF OTHER ALTERNATIVES TO TRADITIONAL VOICE PHONE SERVICE?

A. Yes. The availability of broadband and the growth in Internet usage generally result in widespread usage of e-mail and "instant messaging" ("IM") services. One source estimates that there are about 9 billion e-mails per day in the US alone.[49] Another study reports that 80 million people use IM in the US, and about 7 billion IMs are sent each day worldwide.[50] These new services substitute for a substantial number of phone calls that formerly would have been carried by wireline providers. In-Stat/MDR confirms that

[49] Legal Tech Newsletter, "E-Mail and Records Management in the Legal Environment," 11/14/03, cited in UNE Fact Report 2004, October 2004, p. I-6.40. See also SenderBase, http://www.senderbase.org/search, which reports 12 billion messages.

[50] http://www.webpronews.com/news/ebusinessnews/wpn-45-20040824AOLAnnouncesthatInstantMessagingisMorePopularthanEver.html, cited in UNE Fact Report 2004, October 2004, p. I-6.

"[c]onsumers are using e-mail and instant messaging in place of a phone call."[51] Furthermore, an analysis presented to the FCC in the *Triennial Review Order* proceedings indicates that "if just 5 percent of [e-mail and IM messages] substitute for a 90 second voice call, this data traffic has displaced more than 10 percent of the voice traffic that would otherwise have been handled by the incumbents' networks."[52]

5. CLECs Are Present and Active Throughout New Jersey

Q. ARE TRADITIONAL CLECS STILL FORMIDABLE COMPETITORS IN NEW JERSEY?

A. Yes. In New Jersey, there are currently about **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** traditional CLECs, including AT&T, IDT, and Cavalier.[53] Many of these CLECs serve mass-market customers in the Garden State – including **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** that serve residential customers and **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** that serve both residential and business customers. A number of these competitors serve substantial numbers of lines. **[BEGIN VERIZON PROPRIETARY]** [redacted]

[51] *State of the U.S. Carrier Market*, In-Stat/MDR, Oct. 2003, p. 6.

[52] UNE Fact Report (2004), p. I-6.

[53] Verizon records show **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** CLECs were serving residential or business customers in New Jersey as of September 2007.

Competitors Serve Substantial Numbers of Lines				
	Cumulative Number of Competitors			
Line Category	Estimated Facilities-Based Listings	Wholesale Adv.	Resale	Total
100,000 or more	[redacted]	[redacted]	[redacted]	[redacted]
50,000 or more	[redacted]	[redacted]	[redacted]	[redacted]
10,000 or more	[redacted]	[redacted]	[redacted]	[redacted]
5,000 or more	[redacted]	[redacted]	[redacted]	[redacted]
1,000 or more	[redacted]	[redacted]	[redacted]	[redacted]
100 or more	[redacted]	[redacted]	[redacted]	[redacted]
fewer than 100	[redacted]	[redacted]	[redacted]	[redacted]
Source: Verizon data files as of September 2007. Note: Business E-911 listings adjusted by a factor of .63 to convert business E-911 listings to an estimate of business facilities-based lines. Residence E-911 listings and lines are assumed to be one-to-one.				

[END VERIZON PROPRIETARY]

Of the estimated **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** million lines served by CLECs in Verizon's New Jersey service area, approximately **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** lines are served by traditional CLECs.

6. Presence of Competitors for DA Services

Q. WHAT DID THE BOARD FIND WITH RESPECT TO THE PRESENCE OF COMPETITORS FOR DA SERVICES?

A. In its most recent DA Order, the Board agreed with Verizon's assertion that there are other means to obtain a telephone number, finding that "Verizon has identified examples

of other providers who have entered the market and who provide telephone numbers both nationally and locally to consumers."[54]

Q. WHAT EVIDENCE DID THE BOARD RELY ON TO MAKE THAT FINDING?

A. Verizon provided evidence that there are a variety of alternative providers currently offering DA services in New Jersey. These providers include, among others, free DA service providers, wireless carriers, CLECs, inter-exchange carriers ("IXCs"), alternative directory assistance providers ("ADAPs"), directory publishers, Internet-based DA providers, and electronic media companies. As demonstrated below, all of these providers remain present in the market today, and thus the Board should reaffirm its earlier finding that DA competitors are present in New Jersey.

Q. PLEASE DESCRIBE THE IXCS THAT ARE PRESENT IN THE DA MARKET TODAY.

A. IXCs continue to provide competitive DA offerings to business and residence customers throughout New Jersey. National IXCs, such as AT&T and Sprint, continue to provide DA services that provide local and national directory listing information. These services are available not only to the IXCs' presubscribed local and intra/interLATA customers, but also to casual dialers not presubscribed to the IXCs. Other IXCs offer DA services to customers at lower rates than the national IXCs. The table below shows several IXCs operating in New Jersey, their rates, and their access numbers (if applicable):

IXC	Rate	Access Number
AT&T	$ 1.99	NPA-555-1212, 10-10-att-00

[54] DA Reclassification Order at 17.

Sprint	$ 2.49	NPA-555-1212 or 411
Cogniphone	$ 0.60	NPA-555-1212
VarTec/Comptel[55]	Varies	10-10-297-NPA-555 1212
IDT	$ 0.95	NPA-555-1212
XO	$ 1.25	411

Sources: Girishankar, Saroja, "Northern American DA: Wireline and Wireless Markets in Transition", The Pelorus Group, January 2005, at 70,94,99; IDT America, Corp. Interstate and International Long Distance Service Manual, Version 1.14, January 25, 2006, Section 4.6; CogniPhone Frequently Asked Questions, "Is operator and or directory assistance available through CogniPhone?" available at http://ld.net/products/faq.cgi?cogid=jdtn001&refid=vlds&product=cogphone &page=FAQ#1386, accessed December 4, 2007; and information from company customer representatives

Q. WHAT IS AN ADAP?

A. An alternative directory assistance provider or ADAP is a company that offers a suite of local and national directory assistance services to retail customers (e.g., end user business customers) and wholesale customers (e.g., CLECs, IXCs, and wireless providers).

Q. PLEASE PROVIDE AN OVERVIEW OF THE ADAPS THAT OFFER DA SERVICES IN NEW JERSEY TODAY.

A. A wide variety of ADAPs provide competitive DA offerings that are available to carriers and end user customers. The table below provides an overview of ADAPs that provide DA services in New Jersey:

ADAPs					
Company	**National/ Regional Service**	**Offers**	**Wholesale/ Retail**	**Type of Customers**	**Other**
DA America (formerly 411Saver LLC)	National	Discount of 55-85%	Retail	Business (Financial Institutions, Healthcare, Education,	"Compared to the $1.25 SBC, Verizon and BellSouth charge or the $2.49 rate from Sprint and MCI, we can easily show you a cost reduction of 55% to 85%" Advertises itself as "Corporate

[55] On April 21, 2006, Comptel acquired VarTec from Excel. See http://www.vartec.com/En/Comtel_Acquisition_FAQs.htm, accessed on December 4, 2007.

ADAPs					
Company	**National/ Regional Service**	**Offers**	**Wholesale/ Retail**	**Type of Customers**	**Other**
				Government)	America's 411"
AT&T Wholesale	National and International	Not Specified	Wholesale	Business	"AT&T Wholesale Customer-Branded Directory Assistance accommodates both U.S. domestic and international listings."
Consolidated Comm.	National	Not Specified	Wholesale/ Retail	"Wholesale customers include IXCs, ILECs and CLECs; … retail… include large corporations, financial institutions, hospitals, universities, and large retail chains."	"Consolidated's Wholesale National Directory Assistance offers an accurate, easy-to-use, and affordable option. Just by dialing 411 or 555-1212, your customers get access to the industry's most accurate directory, with more than 160 million listings nationwide including Canada and Puerto Rico, and our live operators are available to assist callers 24 hours a day, seven days a week."
Corporate Telecom Solutions	National	Not Specified	Retail	Business	Offers voice-based, corporate, Internet-based and batch directory assistance services. Offers savings. Customer testimonial on website states "AT&T is now charging $1.95/DA call! For our Moline Centrex alone, I estimate we could save over $1700/month slashing our directory assistance expense by 2/3!"
Directory Net	National	Offer discounts	Retail	Business	"ID Plus VOICE is a directory assistance service that offers immediate access to the most current telephone company supplied data. We offer four levels of service, from automated interface to dedicated operators, giving you price and service flexibility"
Excell Services	National	Offer Savings	Wholesale	VOIP and other telecom providers	"You have the option to reduce the amount of money your company spends on directory assistance." Vonage uses Excell for its DA needs.

ADAPs					
Company	**National/ Regional Service**	**Offers**	**Wholesale/ Retail**	**Type of Customers**	**Other**
Info Partners Corp.	National	Not Specified	Wholesale/ Retail	Telecom carriers and businesses	"Cost is dependent upon the Info Partners services required and your monthly call volumes. Charges are typically on a per call basis, which means that the services are only billed and paid as your subscribers utilize them."
INFONXX	National	"Fraction of the cost charged by a local [telco]"	Wholesale/ Retail	Wireless and landline carriers, corporations, and educational institutions throughout North America.	Has 411 Plus service. "With 411 Plus, carriers become more competitive and profitable, boosting per-customer revenue and helping retain customer bases. Corporations save money by providing employees with the highest-quality information services at a fraction of the cost charged by a local telephone company." INFONXX provides "innovative customer-focused solutions, flexible service transport options, and industry-leading products."
NCIC Operator Services	National and International	Not Specified	Wholesale	Wholesale Directory Assistance Provider for CLECs, ILECs, LECs, Carriers, Long Distance Phone Companies, IXCs, Telecom Providers and Wholesale Carriers.	"Demand for Telephone Directory Assistance is growing fast. The Pierz Group, who does information market analysis, estimates that Directory Assistance in the US alone will exceed over $8 Billion in 2007. This supports the concept that immediate demands for listings is growing exponentially with the growing use of wireless technologies, both cellular and now VOIP/Wimax. NCIC's Global Wholesale Telephone Directory Assistance is the solution for this demand."
1-800-TeleDeal	National	$0.35 for NJ	Retail	Large Business Customers	"TeleDeal has a solution to save Large Business customers over 80% on 411 calls."
Sources: www. DAAmerica.com http://www.business.att.com/service_overview.jsp?repoid=Product&repoitem=w_customer-branded_directory_assistance&serv=w_customer-branded_directory_assistance&serv_port=w_international&serv_fam=w_card_and_info_svcs&segment=whole http://www.consolidated.com/ http://www.corporatetel.com/					

ADAPs					
Company	**National/ Regional Service**	**Offers**	**Wholesale/ Retail**	**Type of Customers**	**Other**
http://www.directorynet.com/voice.htm http://www.excellsvcs.com/direct_assist.htm http://www.infopartnerscorp.com/telecom/brochures/WhyPartnerwithIPC.pdf http://www.infonxx.com/products/411-plus.asp http://www.ncic.com/Telephone-Directory-Assistance.html http://1800teledeal.com/ (Accessed on December 4, 2007)					

Q. DO ADAPS PROVIDE DA OFFERINGS THAT ARE COMPETITIVE WITH VERIZON'S DA OFFERINGS?

A. Yes. The following examples demonstrate the competitive nature of ADAP DA services:

- INFONXX maintains that 411 Plus cuts corporate costs by providing employees with the highest-quality DA services at a fraction of the cost charged by local telephone companies. The INFONXX DA plan includes enhanced features such as information on traffic and transportation, movie listings and dining information, sport scores, stock quotes, and text direct and SMS directory assistance (which allows a requested name, phone number and address to be sent to a mobile device).[56]

- DA America (formerly 411Saver) offers companies, organizations and government entities nationwide DA in monthly agreements with no set-up or maintenance charges. This provider programs the customer's PBX to dial a toll-free DA number whenever an employee calls "411" or "NPA-555-1212". Comparing its plan to those offered by Verizon, BellSouth and Sprint, DA America claims that it "can easily show … a cost reduction of 55% to 85%."[57]

Q. DO WIRELESS CARRIERS COMPETE WITH VERIZON'S DA SERVICES?

A. Yes. Wireless carriers, such as AT&T, Sprint/Nextel, T-Mobile, Verizon Wireless, and a number of smaller companies,[58] compete with Verizon's DA services. Moreover, wireless DA is a widespread and potent substitute for Verizon's DA services with important advantages such as ease of use and convenience. The FCC reports that every

[56] See Torres, Johanne, "VoIP 411: INFONXX Offers Call Completion Services," TMCnet. October 28, 2005 & http://www.infonxx.com/products/411-plus.asp.

[57] http://www.DAAmerica.com.

[58] Other wireless competitors serving New Jersey include Prexair Mobile (formerly Amp'd, as of August 15, 2007), Boost and Virgin Mobile, all of which provide DAS.

municipality in the State has at least five wireless carriers offering service.[59] Not only are wireless carriers prevalent throughout the state, New Jersey wireless subscribership has more than tripled from 2.3 million at year end 1999 (when the Board originally reclassified DA services) to 8.1 million by June 2006. In fact, by year-end 2004, wireless subscribers outnumbered switched wireline (ILEC + CLEC) access lines in the State.[60] And many of these wireless carriers offer Internet access and text messaging, which permits subscribers to obtain low cost or free DA information in text form.

Q. DO CLECS OFFER DA SERVICES THAT COMPETE WITH VERIZON'S DA SERVICES?

A. Yes. As noted above, there are about **[BEGIN VERIZON PROPRIETARY]** ■ **[END VERIZON PROPRIETARY]** traditional CLECs active in New Jersey. Verizon provides local DA services to **[BEGIN VERIZON PROPRIETARY]** ■ **[END VERIZON PROPRIETARY]** of them. The others either self-provision local DA services for their end-users, or obtain local DA services from another competitive provider. In addition, there are approximately **[BEGIN VERIZON PROPRIETARY]** ■ **[END VERIZON PROPRIETARY]** telecommunications carriers in New Jersey reselling Verizon's DA services, and **[BEGIN VERIZON PROPRIETARY]** ■ **[END VERIZON PROPRIETARY]** former UNE-P CLECs providing service using Verizon facilities. Thus, at least **[BEGIN VERIZON PROPRIETARY]** ■ **[END VERIZON PROPRIETARY]** competing carriers provide DA services in competition with Verizon,

[59] FCC, *10th AnnualCMRS Competition Report*, September 30, 2005, Map 1.

[60] FCC, *Local Telephone Competition: Status as of December 31, 2004*, Table 13, "Mobile Wireless Telephone Subscribers." Notably, by year end 2004, there were over one million more wireless subscribers than combined ILEC and CLEC switched access lines in the State. FCC, *Local Telephone Competition: Status as of December 31, 2004*, Table 6, "End-User Switched Access Lines Served by Reporting Local Exchange Carriers, (As of December 31, 2004)."

and at least **[BEGIN VERIZON PROPRIETARY]** ■ **[END VERIZON PROPRIETARY]** do not use Verizon's DA platform. Those who do use that platform (e.g., Verizon's wholesale DA customers) are able to access Verizon's directory assistance database and provide customers with the same directory information that Verizon provides to its retail customers. Furthermore, Verizon continues to offer customized routing on a non-discriminatory basis as required by the FCC to CLECs who provide their own DA services. Verizon's customized routing enables a CLEC's end users to dial "411" and have the CLEC provide DA services through the CLEC's own operator services or via a third party (e.g., an ADAP).

Q. DO ANY OTHER TELEPHONIC DA PROVIDERS COMPETE WITH VERIZON'S DA SERVICES?

A. Yes. Since its launch in September 2005, Jingle Networks, Inc. (1-800-FREE-411) has been providing Free Nationwide 411 Directory Assistance. This service is supported by advertising revenues and allows residence and business customers to make free directory assistance calls from any wireline or wireless telephone by simply dialing 1-800-FREE411 (i.e., 1-800-373-3411). A PR Newswire News and Information Release, dated October 14, 2005, provides:

> Jingle Networks' 1-800-FREE411 service revolutionizes the 411 (directory assistance) marketplace by offering a FREE alternative to the high cost service provided by traditional carriers. In addition, FREE411.COM on the Internet provides consumers with an easy to use Web-based destination for telephone number lookups. National and local merchants subsidize this service with a 10-second audio advertisement about their services, which are played to consumers making a request for a business in their yellow pages category. Customers requesting residential listings do not hear any audio announcements or receive any marketing solicitations when placing directory requests. For more information visit http://www.free411.com.[61]

[61] http://www.prnewswire.com.

Q. WHAT IS THE PROJECTED GROWTH OF FREE DA SERVICES?

A. Jingle Networks, Inc. estimates that, in just over two years, its free DA service has captured at least six percent of the total phone DA market in the US.[62] As demonstrated in the chart below, free DA call volumes have risen considerably since 2005. Notably, between 2005 and 2007, this new free DA medium experienced **[BEGIN PIERZ GROUP PROPRIETARY]** [redacted] **[END PIERZ GROUP PROPRIETARY]** growth. This growth is expected to continue, and, by 2011, free DA call volumes are predicted to climb to approximately **[BEGIN PIERZ GROUP PROPRIETARY]** [redacted] **[END PIERZ GROUP PROPRIETARY]** million.

[BEGIN PIERZ GROUP PROPRIETARY]

[END PIERZ GROUP PROPRIETARY]

Annual free DA revenues are also expected to increase from $14 million in 2007 to $462 million in 2012.[63] Furthermore, demand analysis for wireline DA shows that the

[62] Jingle Network Press Release dated March 15, 2007.

[63] The Kelsey Group Press Release, dated August 21, 2007.

continued growth of free DA services will contribute to the steady decline of wireline DA call volumes and revenues over the next few years.[64] The Pierz Group chart below

predicts that over the next five years free DA services will become the dominant method of telephonic lookups by consumers.

[BEGIN PIERZ GROUP PROPRIETARY]

[END PIERZ GROUP PROPRIETARY]

Q. ARE OTHER DA PROVIDERS OPERATING IN NEW JERSEY?

A. Yes. As noted above, VoIP providers have entered the New Jersey telecommunications marketplace, bringing with them new directory assistance service alternatives. Vonage, for example, offers "Enhanced 411". On its website, Vonage touts the benefits of its DA service:

[64] Frost and Sullivan, "North American Directory Assistance and Other Operator Services," at 1-32 (2006).

> It's not just 411- it's Vonage 411. …For just $.99 per call, you get access to any listings in the U.S., Canada, and Puerto Rico. Each 411 call that you make from a Vonage phone gets you up to two listings. Our operators are bilingual (English and Spanish).[65]

Other VoIP providers offering residential and business DA include: Packet 8 -$.75 per call; Via Talk – a *free* VoIP DA service that allows you to get information for any listed business or home address in the United States or Canada; and VoiceWing - $1.00 per call.

C. Availability of Like or Substitute Services in the Relevant Geographic Area

Q. WHAT IS THE RELEVANT GEOGRAPHIC AREA?

A. A leading industrial organization text properly defines the geographic market as follows:

> The geographic limit of a market is determined by answering the question of whether an increase in price in one location substantially affects the price in another. If so, then both locations are in the same market.[66]

Q. PLEASE EXPLAIN HOW THE ANALYSIS OF GEOGRAPHIC MARKETS FOR COMMUNICATIONS SERVICES DIFFERS FROM THAT FOR OTHER SERVICES.

A. Analysis of the relevant geographic market for communications services differs from a typical geographic market analysis because communications carriers have switches or other technologies that can reach large geographic areas, allowing them to sell their services throughout the geographic market. Since carriers can serve customers

[65] http://www.vonage.com.

[66] Dennis W. Carlton and Jeffrey M. Perloff, *Modern Industrial Organization*, 3rd Edition, Boston, MA: Addison-Wesley, 2000, at 615.

throughout the State using their existing facilities,[67] attempts by one carrier to raise prices above competitive levels in an area where it has a large proportion of customers would induce entry from other carriers operating elsewhere in the State, and thus render the price increase unprofitable.

Q. WHAT IS THE RELEVANT GEOGRAPHIC AREA FOR MASS MARKET SERVICES?

A. The relevant geographic area should be defined (at a minimum) as the entire State for several reasons.

First, many competitors already offer statewide or even nationwide pricing plans and market their services on broad scales, and consequently a competitive threat does not have to be present throughout the entire state to constrain behavior. As the New York PSC Staff recently explained:

> Most service packages are offered by carriers on a territory- or region-wide basis, as opposed to by wire center. . . . To the extent carriers offer packages on a region-wide or territory-wide basis, the competitive threat need not be ubiquitous nor uniform to effectively constrain carrier pricing decisions. For these reasons, Staff believes it is appropriate to gauge competition on a carrier's overall territory and to recalibrate regulatory policies in view of, and consistent with that perspective.[68]

Second, given the variety and geographic dispersal of competitors across the State, there is little doubt that supra-competitive pricing in any area would generate a

[67] Cable companies can rapidly upgrade to voice service once they have deployed broadband access—as is the case for the vast majority of the customers in Verizon's service area in New Jersey; VoIP providers can locate their switches almost anywhere and serve customers in New Jersey using what has become virtually ubiquitously available broadband connections; and both fixed and mobile broadband carriers can expand their service areas by adding additional radio towers and transmitters to their existing networks. CLECs frequently offer service (using resale, UNEs or commercial agreements) in geographic areas where they have no local access facilities.

[68] Case 05-C-0616*, Proceeding on Motion of the Commission to Examine Issues Related to the Transition to Intermodal Competition in the Provision of Telecommunications Services*, White Paper Prepared by the State of New York Department of Public Service Staff ("PSC Staff White Paper"), dated September 21, 2005, at 30 – 31.

competitive response from carriers operating in that area, adjoining areas, or elsewhere in New Jersey (*e.g.*, through resale, UNEs or wholesale purchases from other carriers, or through new services using rapidly-deployable technologies, such as cable telephony added to existing cable infrastructures). In its *CLEC Reclassification* Order, the Board emphasized the fact that "CLECs face competition from the ILEC in any given market in which they serve."[69] The same holds true for Verizon, which faces competition from CLECs, wireless, cable, and VoIP in any given area in New Jersey.

Third, New Jersey is the most densely populated state in the country – *less than one percent* of households reside in wire centers with population densities below 100 people per square mile (a threshold that the FCC has used to identify rural areas), and thus there are very few "rural" areas in New Jersey.[70] And, in almost all of the "rural" areas in New Jersey, cable companies have upgraded their networks to provide advanced (voice and data) services. Thus, competitive conditions are generally similar across the State.

Fourth, technological factors, such as the advent of IP-based technology and VoIP, allow competitors with switches located hundreds of miles away to serve a New Jersey customer.

In sum, the presence of competitive facilities and new and innovative technologies ensure that competitors can serve customers in any part of the state in response to an effort to charge supra-competitive prices, and competitive conditions are similar enough in all parts of the state to treat the entire state as a single geographic market. Therefore, for purposes of this proceeding, the relevant geographic area should be at least the entire State.

[69] *CLEC Reclassification Order* at 10-11.

Q. WHAT IS THE SIGNIFICANCE OF DEFINING THE GEOGRAPHIC AREA AS AT LEAST THE ENTIRE STATE?

A. Although the actual geographic market extends beyond the State's boundaries, defining the geographic area as the entire State makes clear that the Board's analysis should focus on data for the entire State, rather than on data for smaller geographic areas. It also makes clear that customers in any part of the State will benefit from competitive forces operating elsewhere in the State. As a result, it is not necessary for every single customer to have access to every competitive alternative for Verizon to be constrained by competition, so long as competition prevents Verizon from differentiating between customers who do and do not have access to a given alternative.[71]

Q. WHAT EVIDENCE IS THERE THAT COMPETITION EXISTS THROUGHOUT NEW JERSEY?

A. Verizon's internal data demonstrate that competition for residential customers exists in **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** where Verizon is the ILEC. And, as previously noted, almost all households in the State are located in areas served by four or more mobile wireless carriers.

Q. WHEN IS A SERVICE CONSIDERED A "LIKE OR SUBSTITUTE SERVICE?"

A. The test of whether one service (X) is a substitute for another service (Y) is whether an increase in the market price of the first service (X) would cause the overall demand for the second service (Y) to increase and a decrease in the market price of the first service

[70] FCC, 10th CMRS Report, p. 37.

[71] The Board noted in its *CLEC Reclassification Order* that it had previously found that "there is no statutory or other requirement that every means of competing be used in every wire center to provide each of the like or substitute services for which reclassification is sought." *CLEC Reclassification Order* at 11.

(X) would cause demand for the second service (Y) to decrease, holding all other factors fixed. It is not necessary for customers to abandon their use of an incumbent's service for a competitor's service to be considered a "substitute." All that matters is that consumers consider the competitor's service to be similar enough that consumers would increase their use of the competitor's service in response to an increase in the incumbent's price above competitive levels (or a decrease in the incumbent's service quality or output).

Q. MUST SERVICES BE IDENTICAL TO BE CONSIDERED SUBSTITUTES FOR EACH OTHER?

A. No. Two services can be considered substitutes for each other if consumers view them as being *similar enough* that in the face of a significant and non-transitory increase in the price of one, consumers would switch to the other. The key is whether two services are similar enough in the eye of the customer, not whether the two services have identical characteristics. If a sufficient number of customers would shift to one or more like services in response to an increase above the market level in the price of the service at issue, then those services are considered substitutes, even if they are not identical to the service at issue.[72] In such circumstances, the availability of the like services would render the price increase unprofitable, and the firm would not be able to sustain prices above

[72] In the CLEC Reclassification Proceeding, Dr. Aron recommended that the "reasonable interchangeability of use" test be used to evaluate whether products should be considered as part of the same marketed. Under this test, the factors used to determine whether services are "reasonably interchangeable in use" include:

> Whether the services appear to serve the same or similar function from the customers' standpoint; whether customers view them as reasonably equivalent; and/or whether they are objectively similar from a technical standpoint. Other relevant evidence includes whether the services are sold in the same marketing channels, or whether competitors market their services as a substitute for one another.

Aron Direct Testimony at 20.

competitive levels. In short, the question is whether enough customers can purchase a service or services from other providers that would fulfill the same functions for them as the incumbent's service(s).

Q. HAVE OTHER REGULATORY AUTHORITIES COMMENTED ON WHETHER ALTERNATIVES HAVE TO BE PERFECT SUBSTITUTES IN ORDER TO PROVIDE A COMPETITIVE IMPACT?

A. Yes. The Horizontal Merger Guidelines of the Department of Justice and the Federal Trade Commission include a provision for considering the effects of the "next best substitute" in the relevant market, which "refers to the alternative which, if available in unlimited quantities at constant prices, would account for the greatest value of diversion of demand in response to a 'small but significant and nontransitory' price increase."[73] Similarly, the European Commission has made clear that products or services do not have to be identical to be substitutes:

> [I]n order for products to be viewed as demand-side substitutes it is not necessary that they are offered at the same price. A low quality product or service sold at a low price could well be an effective substitute to a higher quality product sold at higher prices. What matters in this case is the likely responses of consumers following a relative price increase.[74]

In addition, the European Commission observed that the convergence of technologies is increasing the number and type of products and services that can substitutes for traditional voice telephony services:

> [P]roduct substitutability between different electronic communications services will arise increasingly through the convergence of various technologies. Use of digital systems leads

[73] Department of Justice 1992 Horizon Merger Guidelines, n. 9.

[74] 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, ¶¶46-47.

> to an increasing similarity in the performance and characteristics of network services using distinct technologies. A packet-switched network, for instance, such as Internet, may be used to transmit digitized voice signals in competition with traditional voice telephony services.[75]

Q. CAN MARKETING REVEAL THAT OFFERINGS ARE SUBSTITUTES?

A. Yes. When entrants compare their offerings to those of the incumbents – *e.g.*, promote their services as being higher quality and/or lower cost than Verizon's – such comparisons are convincing evidence that the offerings are substitutes (and certainly demonstrate that the competitive supplier regards its offerings as substitutes for Verizon's). As discussed below, Cablevision states that its telephone services are superior to "the phone company" and are a better value, and Comcast makes similar claims.

Q. DOES VERIZON HAVE TO LOSE A "LARGE" SHARE OF CUSTOMERS TO ANOTHER SERVICE FOR THAT ALTERNATIVE SERVICE TO BE CONSIDERED A SUBSTITUTE FOR VERIZON'S SERVICE?

A. No. Even "small" losses to an alternative service provider can have a significant effect because wireline telephone companies, like Verizon, have cost structures disproportionately dominated by fixed costs or sunk costs.[76] For these firms, small losses of volume to competitors result in a large reduction in profits. The basic reason is straightforward: firms with high fixed or sunk costs must charge prices that are well in excess of their marginal costs in order to pay for those large fixed or sunk costs and earn normal profits. When such firms lose customers to competitors—especially to facilities-

[75] *Id.*

[76] Hausman, Jerry A., "Regulated Costs and Prices in Telecommunications," in Gary Madden (ed.), *International Handbook of Telecommunications Economics, Volume 2: Emerging Telecommunications Networks*, 2003.

based competitors like cable companies—their revenues erode more quickly than their costs, since fixed costs remain the same. If these firms attempt to increase prices above competitive levels, the lost profits (lost revenue minus avoided cost) from even a small decrease in customers could easily exceed the extra revenue obtained from the price increases on the remaining customers.

However, while Verizon does not have to lose a "large" share of customers to another service for that service to be considered a substitute for Verizon's service, I demonstrate below that the alternative service providers, including DA service providers, have in fact taken a very significant share of Verizon's business.

Q. DOES INTERMODAL COMPETITION CONSTRAIN PRICING FOR VERIZON'S SERVICES?

A. Yes. The widespread availability of cable telephone, wireless, broadband, and VoIP alternatives constrains Verizon's pricing.

Depending on the services purchased and the provider, the incremental cost of voice service for a cable subscriber can range from a *net savings* of $12.31 to a cost of $44.95 per month. For a Cablevision customer purchasing a "double play" bundle that includes video and voice service, the incremental cost of the cable telephony component would be $34.95 per month. However, because of promotional offers, the purchase of a "triple play" bundle that includes video, data, and voice service would actually cost an average of $4.95 less per month than the double play bundle for the first twelve months. After the first twelve months, the incremental charges for voice service would increase to only $9.95 per month.

The following table presents the rates and the implied incremental charges for voice services offered by Cablevision, Comcast, and Time Warner for a variety of packages:

Service	**Cablevision**	**Comcast**	**Time Warner**
Stand Alone Video	$54.40	$59.69	$49.95
Stand Alone Data	$46.95	$57.95	$29.95
Double Play (video & voice)	NA	$103.69	$89.90
Double Play (data & voice)	$84.90	$90.90	$69.90
Double Play (video & data)	$104.35	$117.64	$79.90
Triple Play (video, data, & voice)	$102.85	$129.95	$114.85
Incremental Charges for Voice as Part of:			
Double Play (data & voice)	$34.95	$44.95	$39.95
Double Play (video & voice)	NA	$44.95	$39.95
Triple Play (video, data, & voice)	$9.95	$12.31	$39.95
Triple Play (promotional period)	Save $4.95	$12.31	$4.90

For existing wireless customers, the incremental cost of "cutting the cord" or substituting wireless minutes for wireline minutes is relatively low (*e.g.,* the added charges for a larger calling plan or adding another phone). Because of the current ubiquity of wireless subscribers, Verizon must compete with wireless on the basis of the lower incremental cost of adding more usage or another wireless phone, as opposed to the charges for the entire wireless plan.

Likewise, because so many mass-market customers in New Jersey subscribe to broadband service (over 2.1 million),[77] when considering VoIP service, many consumers will compare only the incremental charges for VoIP with the costs that they will avoid if

[77] December 2006 FCC High Speed Services for Internet Access, Table 13, shows that about 2.1 million residential customers in New Jersey have broadband service.

they cancel their Verizon landline service. Thus, Verizon's prices must compete with the incremental charges (if any) for VoIP, not the full cost of broadband plus VoIP.

Q. DOES PRICE COMPETITION FOR BUNDLED SERVICES ALSO DEMONSTRATE THAT VERIZON'S PRICES ARE CONSTRAINED BY MARKET FORCES?

A. Yes. For a number of years, Verizon has been competing with cable and wireless providers for a growing set of bundled services. That competition has constrained Verizon's prices and forced Verizon to introduce and regularly enhance its own bundled service offerings.[78] For example, in response to wireless buckets of minutes and CLEC "unlimited" local, long distance and feature offerings, Verizon introduced bundled services such as its Freedom packages. CLECs, cable companies and wireless companies responded by lowering prices and offering enhanced features.

Q. DO BUNDLED PACKAGES CONSTRAIN PRICES FOR "À LA CARTE" SERVICES?

A. Yes. Consumers that purchase "à la carte" services generally purchase a number of services, such as vertical services, toll services and long distance services. In effect, even if they don't purchase a formally marketed "bundle", they build their own homemade bundles. The average primary line subscriber in Verizon's New Jersey footprint purchases approximately **[BEGIN TNS PROPRIETARY]** [redacted] **[END TNS PROPRIETARY]** vertical features. As a result, the charges for telephone services incurred by many Verizon "à la carte" customers are comparable to the charges for bundled offerings, which make bundled offerings attractive to many "à la carte"

[78] Although enhanced wireless offerings may be primarily attributable to competition within the wireless industry, one of the effects has been the increased substitution of wireless service for wireline.

customers. That more than **[BEGIN TNS PROPRIETARY]** [redacted] **[END TNS PROPRIETARY]** of residential wireline customers in Verizon's New Jersey service area have transitioned to some form of bundled service package (wireline with one or more of high-speed Internet, dial-up Internet, video, wireless phone, or satellite TV) is strong evidence that bundled packages compete with "à la carte" services.

Q. DO WIRELINE VOICE SERVICES ACCOUNT FOR THE MAJORITY OF TODAY'S COMMUNICATIONS PURCHASES IN NEW JERSEY?

A. No. Wireline telephone services are generally a small part of the New Jersey customers' communications purchases. According to data from the TNS Telecoms Bill Harvesting® survey, the average New Jersey household spent approximately **[BEGIN TNS PROPRIETARY]** [redacted] **[END TNS PROPRIETARY]** on wireline services per month (including taxes and surcharges) as of the third quarter of 2007. Wireline spending for the average New Jersey household represents less than **[BEGIN TNS PROPRIETARY]** [redacted] **[END TNS PROPRIETARY]** percent of total spending for communications (*i.e.*, wireline, wireless, video and Internet) services.

[BEGIN TNS PROPRIETARY]

Average Monthly Spend per New Jersey Household on Communications Services

Service	Average Monthly Spend	Share of Spending
Wired Line	[redacted]	[redacted]
Wireless	[redacted]	[redacted]
Video	[redacted]	[redacted]
Internet	[redacted]	[redacted]
Total	[redacted]	[redacted]

Note: Data are a rolling average for the four quarters ending 3Q07. Numbers do not add to the totals because some spending is allocated to other packages.
Source: TNS Telecoms Bill Harvesting®.

[END TNS PROPRIETARY]

Q. WHAT IS THE SIGNIFICANCE OF THE FACT THAT WIRELINE TELEPHONE EXPENDITURES ARE ONLY A SMALL PERCENTAGE OF OVERALL COMMUNICATION EXPENDITURES?

A. Because competitors offer more than just one communications product, there is substantial profit opportunity for competitors that can provide all or most of a customer's communication needs. These profit opportunities imply that cable companies, CLECs and others that offer the triple or quadruple play will continue to find it attractive to compete for mass market customers throughout the State.

1. Cable Services Substitute for Verizon's Mass Market Services

Q. DO CABLE COMPANIES CLAIM THAT THEIR SERVICES SUBSTITUTE FOR ILEC MASS-MARKET SERVICES?

A. Yes. Cablevision claims that its Optimum Voice Service is ranked by J.D. Power as "Highest in Residential Telephone Customer Satisfaction in the Mid-Atlantic Region."[79] Cablevision also claims that it provides customers with unlimited calling and "13 calling features at no extra charge and other advanced services." Based on these claims, Cablevision also urges customers to "join the thousands hanging up on the phone company every day and switching to Optimum Voice."[80]

[79] http://www.optimum.com/voice/index.jsp (accessed November 30, 2007).

[80] http://www.optimum.com/voice/why.jsp (accessed November 30, 2007).

Cablevision emphasizes the reliability and savings of its Optimum Business offerings. In an explicit comparison with Verizon's Freedom for Business bundle, Cablevision estimates that it is 57 percent less expensive for a single-line customer and 60 percent less expensive for a four-line customer.[81]

Similarly, Comcast advises consumers to "save big over the phone company" by switching to Comcast Digital Voice and emphasizes that subscribers will get more features from Comcast Digital Voice than from traditional phone service "without sacrificing any of your current phone features or call clarity you expect." Comcast also emphasizes that "you can even keep your same phone number and use your existing phones."[82]

Q. DO CABLE COMPANIES COMPETE FOR SMALL BUSINESS CUSTOMERS IN NEW JERSEY?

A. Yes. Cablevision offers several Lightpath packages to small and home offices as well as small and medium-sized businesses. These include toll-free calling, voice mail, business class Optimum Online services, ISDN PRI, digital centrex, frame relay, private line, Lightpath.net, managed firewall and VPN services.[83] Cablevision has "identified over 600,000 businesses inside our footprint that we passed with cable that were serviceable today," using Cablevision's existing plant that was originally deployed to serve residential customers.[84]

[81] http://www.optimum.com/business/ool/compare.jsp (accessed December 7, 2007).

[82] https://www.comcast.com/Localization/Localize.ashx?Referer=/shop/buyflow/default.ashx#.

[83] http://www.lightpath.net/Interior14.html and http://www.lightpath.net/Interior15.html.

[84] Thomson StreetEvents, *CVC – Cablevision Systems Corp. at Banc of America Media, Telecommunications & Entertainment Conference*, Transcript at 7 (Mar. 28, 2007). Cablevision determined this by "build[ing] a database" by "collect[ing] various business databases and … physically walk[ing] out [its] plant and identif[ying] all the small businesses inside [its] footprint and cross-referenc[ing] them against all the various databases." *Id.*

Comcast offers Workplace Standard and Enhanced packages for a monthly service charge of $95-$160.[85] The standard package includes broadband connections of up to 5.0 Mbps downstream and up to 512 Kbps upstream, seven comcast.net e-mail addresses, one dynamic IP address, firewall, domain name service and priority business class support. Comcast claims that Workplace was ranked #1 in small business broadband customer satisfaction. Recently, Comcast's COO explained that it is serving commercial customers "now" and that this "business is going to ramp up very substantially" because it already has "all the systems in place," including an "existing footprint [that] goes against many, many small and medium-sized businesses" that enables Comcast to "provide th[e] wire" to these businesses.[86]

Q. WHAT HAS HAPPENED TO VERIZON'S LINE COUNT AS CABLE TELEPHONY HAS EXPANDED?

A. As shown in the figure and table below, the availability of cable telephone services has increased dramatically in Verizon's New Jersey service area since year-end 2005—from about 1.0 million households at the end of 2005 to almost 3.3 million households by 3Q 2007. Between year-end 2005 and 3Q 2007, Verizon has lost over **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** residential lines in the State.

[85] *See* http://work.comcast.net/smallbusiness.asp.

[86] Thomson StreetEvents, *CMCSA – Comcast Corporation at Goldman Sachs Communicopia XVI Conference*, Transcript at 3 (Sep. 18, 2007 (statement of Stephen Burke, COO, Comcast).

[BEGIN VERIZON PROPRIETARY]

Verizon Residential Lines Have Declined and Competitor Residential Facilities-Based Lines Have Increased as Cable Voice Availability Has Grown in New Jersey

	Households With Cable Voice Available	Verizon Retail Residential Lines	Competitive Residential Facilities Based Lines
December 2005	[redacted]	[redacted]	[redacted]
December 2006	[redacted]	[redacted]	[redacted]
September 2007	[redacted]	[redacted]	[redacted]
Source: Data provided by Verizon (Cable and CLEC); Data derived from Warren Communications News, *Cable Fact Book,* GIS Format.			

[END VERIZON PROPRIETARY]

2. Wireless Services Are Viable Substitute Services for Wireline Mass Market Services

Q. IS WIRELESS SERVICE A VIABLE SUBSTITUTE FOR WIRELINE SERVICES IN NEW JERSEY?

A. Yes. Customer usage data demonstrates that wireless services compete with wireline services and that consumers frequently choose wireless service over wireline alternatives. FCC data show that wireless subscription and minutes of use have grown dramatically while wireline has continued to decline. As of June 2006, there were about 8.1 million wireless subscribers in New Jersey, a State with a population of about 8.7 million. This number of wireless subscribers far exceeds the approximately 5.8 million (about 4.8 million ILEC + 1 million CLEC) switched wireline access lines in the State. Further, as of January 2007, there were almost 230 million US wireless subscribers, or about 40 million more than in June 2005. In addition to the increase in lines, the increase in wireless minutes is staggering. The CTIA reports that wireless minutes of use exceeded one trillion by June of 2007, and roughly doubled in only three years since June of 2004.[87]

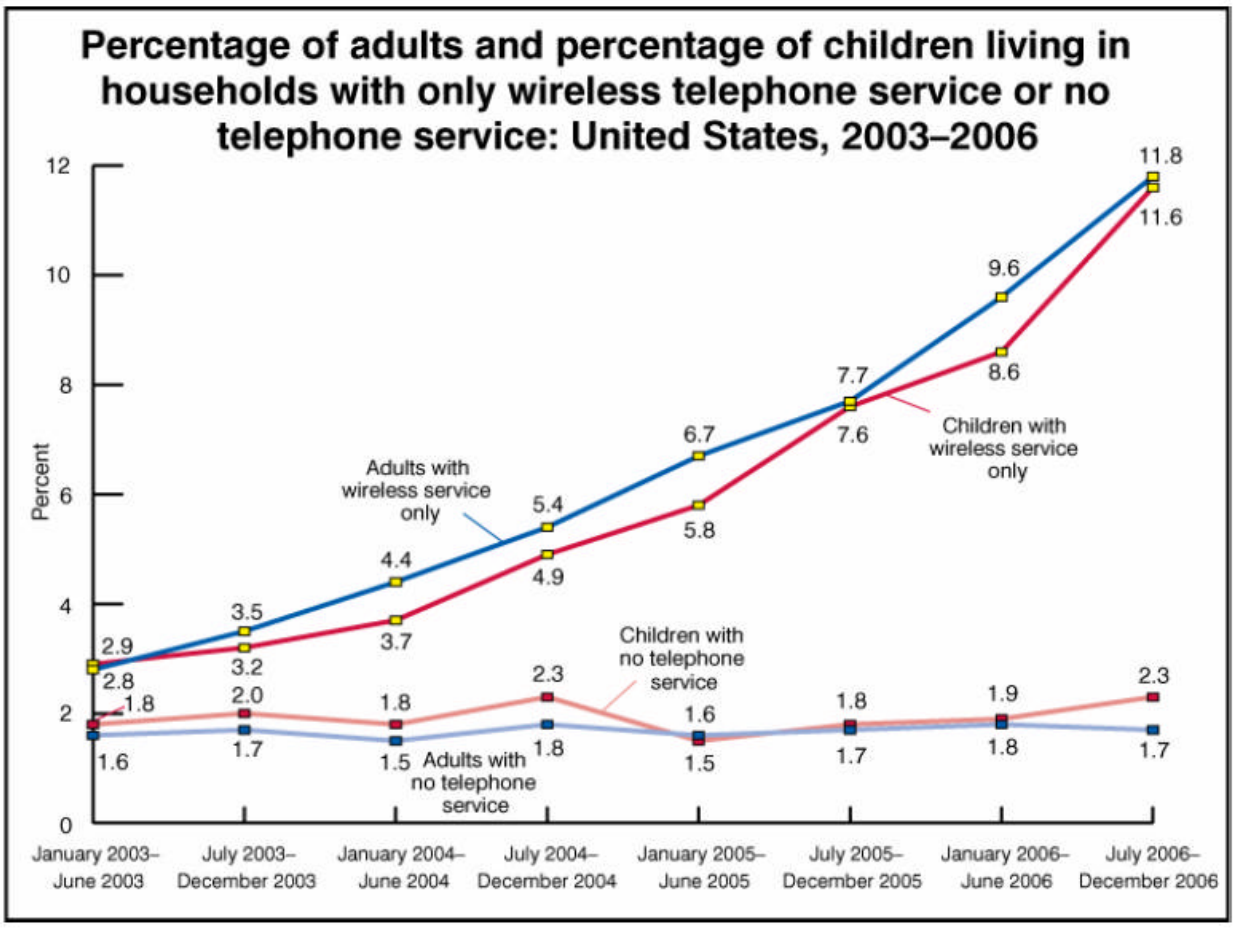
Q. IS THERE ANY EVIDENCE THAT SOME CUSTOMERS ARE COMPLETELY REPLACING WIRELINE WITH WIRELESS SERVICE

A. Yes. The United States Centers for Disease Control and Prevention ("CDC") conducted a survey in the second half of 2006 in order to determine the level of wireless substitution.[88] That survey determined that 12.8 percent of households had only wireless

[87] http://files.ctia.org/pdf/CTIA_Survey_Mid_Year_2007.pdf (accessed November 30, 2007).

[88] Blumberg SJ, Luke JV. Wireless substitution: Early release of estimates based on data from the National Health Interview Survey, July – December 2006. National Center for Health Statistics. Available from http://www.cdc.gov/nchs/nhis.htm. May 14, 2007.

phones, and that this trend has been increasing. The following chart shows these results.[89]



The CDC survey also demonstrated that wireless substitution is more pronounced among those below the age of 30 and those living in poverty:[90]

- One-half of all wireless-only adults were less than 30 years of age. One in four adults aged 18-24 years (25.2%) lived in households with only wireless telephones. Nearly 30% of adults aged 25-29 years lived in households with only wireless telephones.

[89] *Id.* at 2.

[90] Id. at 2 and 7. The CDC survey noted that the rate of wireless substitution is higher in the South (14%) than it is in the Northeast (8.6%), but also found that the rate in Metropolitan (i.e., MSA) areas is more than 50% higher than in non-Metropolitan areas. The entire state of New Jersey is within MSAs.

- Adults living in poverty (22.4%) were more likely than higher income adults (between 11.3 and 15.7%) to be living in households with only wireless telephones.

A recent report by Citi Research estimates the current level of wireless substitution as even higher than that estimated by the CDC: 17% at year-end 2007, projected at 27% by year-end 2010.[91] Other sources estimate that 14.4 percent of the households use wireless phones as their primary phones, and that among those consumers still using a landline phone, 26.4 percent would consider replacing it with a wireless phone.[92]

Q. WHY ARE CUSTOMERS REPLACING WIRELINE ACCESS AND USAGE WITH WIRELESS?

A. Major technological advances and cost reductions have enabled wireless carriers to improve service quality, diversify their service offerings, and make them price-competitive with wireline services.[93] In 1998, AT&T introduced its wireless "one rate" plan that offered large volumes of usage and no added toll charges. Now all wireless providers typically offer free long-distance, large bundles (or "buckets") of usage with free night and weekend minutes, and large local calling areas. And many providers offer free "in-network" calling. As the table below demonstrates, since AT&T's one rate plan was introduced in 1998, wireless usage has grown dramatically and average revenue per minute has declined by approximately 75 percent.

[91] Citi Investment Research, "Teleconomy Update – Consumer Wireline Forecast," December 9, 2007, at 6.

[92] As early as February 2004, 14.4 percent of consumers in the United States were using wireless phones as their primary phone. In-Stat MDR, Cutting the Cord: Consumer Profiles and Carrier Strategies for Wireless Substitution, (February 2004) ("February in-Stat/MDR Report") at 1-2.

[93] There are two ways in which customers can use wireless services in lieu of fixed wireline services: (1) existing traffic shifts from fixed to mobile networks or when traffic growth occurs on mobile networks instead of fixed networks; or (2) when customers "cut the cord" (*i.e.*, discontinue fixed-line services) and use only mobile phone service.

	Average Local Monthly Bill	Minutes of Use Per Month	Average Revenue Per Minute	Annual Change
1993	$61.49	140	$0.44	
1994	$56.21	119	$0.47	8%
1995	$51.00	119	$0.43	-9%
1996	$47.70	125	$0.38	-11%
1997	$42.78	117	$0.37	-4%
1998	$39.43	136	$0.29	-21%
1999	$41.24	185	$0.22	-23%
2000	$45.27	255	$0.18	-20%
2001	$47.37	380	$0.12	-30%
2002	$48.40	427	$0.11	-9%
2003	$49.91	507	$0.10	-13%
2004	$50.64	584	$0.09	-12%
2005	$49.98	740	$0.07	-22%

Source: FCC 11th CMRS Report

The combination of wireless one-rate plans and declining wireless per-minute prices undoubtedly contributed to wireless substitution and ultimately to the pressure on ILECs to offer discounted wireline bundled service plans. The 11th CMRS Report observes:

> Even when not "cutting the cord" completely, consumers increasingly are choosing wireless service over traditional wireline service, particularly for certain uses. For example, according to one analyst, customers in nearly a third of American households make at least half their long-distance calls at home from their cell phones rather than from their landlines. In the early 2006 survey of cellphone users described above, an additional 42 percent of cellphone users said that they also had a landline phone, but that they used their cellphones "most."
>
> These trends appear to be due to the relatively low cost, widespread availability, and increased use of wireless service. As we discussed in past reports, a number of analysts have argued that wireless service is competitive or cheaper than wireline, particularly if one is making a long-distance call or when traveling. As one analyst wrote, "[a]t currently effective yields, we continue to believe wireless pricing is competitive with traditional wireline pricing (especially relative to long-distance calling). Lower yields, combined with the convenience of

mobility, should continue to drive wireline displacement.[94]
[Footnotes excluded]

Thus, taken together, inherent mobility, low per-minute prices, "free-minute" allowances, flat-rated pricing, no long distance or roaming charges, and nationwide coverage have positioned wireless carriers to capture a significant portion of demand traditionally met by wireline service providers.

Wireless services have also become more attractive as providers have modified their networks and manufacturers have improved customer equipment to incorporate features such as enhanced data capability, text messaging, color screens, PDAs, greater availability of push-to-talk capability, voice activated speed dialing, and speaker phones.

Q. WHAT ARE THE IMPLICATIONS OF THE WIDESPREAD AVAILABILITY AND USE OF MOBILE WIRELESS SERVICES IN NEW JERSEY?

A. The millions of consumers that already have wireless service can readily switch all or a substantial part of their wireline usage to wireless services for a small or non-existent incremental cost. For example, AT&T offers a plan with 450 nationwide daytime minutes (and 5000 night and weekend minutes) for $39.99 per month.[95] T-Mobile charges only about $10 to add 400 "daytime" minutes to its popular "Get More," 600-minute plan, and only $20 to add 900 minutes. T-Mobile charges about $9.99 for a second "line," and only $9.99 per month/line for up to three additional family share lines.[96] As a result, wireline prices are constrained by the low incremental cost of adding wireless minutes or another wireless phone.

[94] *See:* ¶206-207.

[95] http://www.wireless.att.com/cell-phone-service/cell-phone-plans/individual-cell-phone-plans.jsp?_requestid=158235 (accessed December 7, 2007).

[96] https://www.t-mobile.com/shop/plans/.

Q. IS WIRELESS DISPLACEMENT OF WIRELINE SERVICE EXPECTED TO INCREASE?

A. Yes. There are three compelling reasons to conclude that increased displacement will occur: (1) the proliferation of wireless services has grown substantially in every one of the last 20 years and shows no sign of abating; (2) a growing number of young people, especially those on college campuses, are displacing wireline phones with wireless phones, and are likely to continue this trend after graduating;[97] and (3) as more consumers become accustomed to the characteristics of wireless services – *e.g.*, slightly lower voice quality offset by greater convenience, portability and more features — they will become even more willing to displace wireline services.[98]

3. Broadband and VoIP Are Viable Substitutes for Verizon's Mass-Market Services

Q. IS BROADBAND A SUBSTITUTE FOR VERIZON MASS MARKET SERVICES?

A. Yes. As discussed above, there are a substantial number of broadband providers, and broadband service is widely available throughout the State. VoIP services, e-mails, data communications, and Internet usage – all of which are carried over broadband – are substitutes for Verizon's mass market services.

[97] S. Ellison, IDC, U.S. Wireless Displacement of Wireline Access Lines Forecast and Analysis, 2003-2007 at 4 (August, 2003) ("[c]ultural awareness and acceptance of wireless as an acceptable/preferred communication medium is growing.")

[98] *See, e.g.*, R. Talbot, RBC Markets, Battle for the Broadband Home at 7 (Jan. 27, 2004) (Wireless "has gained a general level of acceptance among consumers. Consumers 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)."); *see also* Testimony of Frank Louthan, Vice President, Equity Research, Raymond James, 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 to emerge, as evidenced by the significant numbers of consumers that already view wireless as an acceptable alternative to a landline phone.")

Q. DO VOIP PROVIDERS OFFER A FULL ARRAY OF SUBSTITUTES FOR VERIZON'S MASS MARKET SERVICES?

A. Yes. VoIP service is widely available throughout Verizon's service area, and VoIP providers offer a panoply of voice services that compete directly with Verizon's residence and small business services. The table below lists a sampling of VoIP providers, their area codes, and their residence and small businesses offerings. All of the providers listed offer vertical features and unlimited local and long distance calling plans priced under $30/month for residential customers, excluding the cost of the broadband connection (which has already been incurred for two million lines statewide).

New Jersey VoIP Plans

Provider	Plan	Area Codes Offered	Monthly Price	Anytime Minutes	Additional Minutes	Long Distance
Vonage	Premium Unlimited	201, 609, 732, 848 856, 862 908, 973	$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	201, 609, 732, 848, 856, 908, 973	$24.99	Unlimited	N/A	Included
AT&T	CallVantage Local		$19.99	Unlimited Local	N/A	$0.04
AT&T	All In One Advantage (for business)		$50.00	Unlimited	N/A	Included
Lingo	Link	201, 609, 732, 856, 908, 973	$7.95	Unlimited In-Network	$0.03	Unlimited In-Network
Lingo	Basic		$14.95	500	$0.03	Included
Lingo	Unlimited		$21.95	Unlimited	N/A	Included
Lingo	Business Buzz[1]		$49.95	Unlimited	N/A	Included
Net2Phone	US/Canada Unlimited	201, 609, 732, 848, 856, 862, 908, 973	$29.99	Unlimited	N/A	Included
Net2Phone	US/Canada 500		$14.99	500	$0.039	Included
Net2Phone	VoiceLine Basic[2]		$8.99	Unlimited Inbound	N/A	$0.05

Sources: Provider websites.

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

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

Lower priced plans are also available. Skype, for example, is offering unlimited nationwide calling in the U.S. and Canada for only $3.00 per month.[99] Vonage's Residential Basic 500 Minutes Plan includes 500 minutes of calling to anywhere in the U.S., Canada, and Puerto Rico for only $14.99 per month.[100]

4. CLECs Services Are Viable Substitutes for Verizon's Mass Market Services

Q. ARE CLEC-PROVIDED SERVICES SUBSTITUTES FOR VERIZON'S MASS MARKET SERVICES?

A. Yes. More than **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** CLECs serve *both* residential and business customers in New Jersey, and these CLECs typically offer a full array of mass market services comparable to those offered by Verizon. Moreover, CLEC line counts show that these companies are particularly strong competitors in the mass market. About **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** of the estimated **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** total (traditional and cable CLEC) lines are residential.[101] The table below breaks down competitors' lines (traditional and cable CLEC) by category.

[99] http://www.skype.com/allfeatures/skypepro/ (accessed December 7, 2007).

[100] http://www.vonage.com/services.php.

[101] Cable companies have a particularly strong presence in residential service. As of September 2007, they served nearly **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** of the **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** residential E911 listings.

[BEGIN VERIZON PROPRIETARY]

Estimated Lines Served by Verizon Competitors: September 2007 Note: Excludes MCI Wholesale Volumes	
Res Resale	[redacted]
Bus Resale	
Res Whsl Adv	
Bus Whsl Adv	
Res E911	
Bus E911	
Total CLEC	

Note: Business E-911 listings adjusted by a factor of .63 to convert business E-911 listings to an estimate of business facilities-based lines. Residence E-911 listings and lines are assumed to be one-to-one.

[END VERIZON PROPRIETARY]

Q. IS THERE ADDITIONAL EVIDENCE THAT CLECS HAVE BEEN A MAJOR SOURCE OF COMPETITION FOR MASS MARKET CUSTOMERS IN NEW JERSEY?

A. Yes. Competition among wireline service providers is evidenced by the ILEC line loss, and corresponding CLEC line gains in the State. According to the FCC's latest Local Competition Report,[102] from June 2000 to June 2006:

- ILEC retail lines in the State *fell* by almost two million lines or almost 30 percent.
- CLEC retail lines (including those served by cable companies) *grew* by almost 700,000 lines or about 240 percent.
- CLEC share of wireline access lines increased rapidly—from only 4 percent in mid 2000 to 17 percent at the end of June 2006.

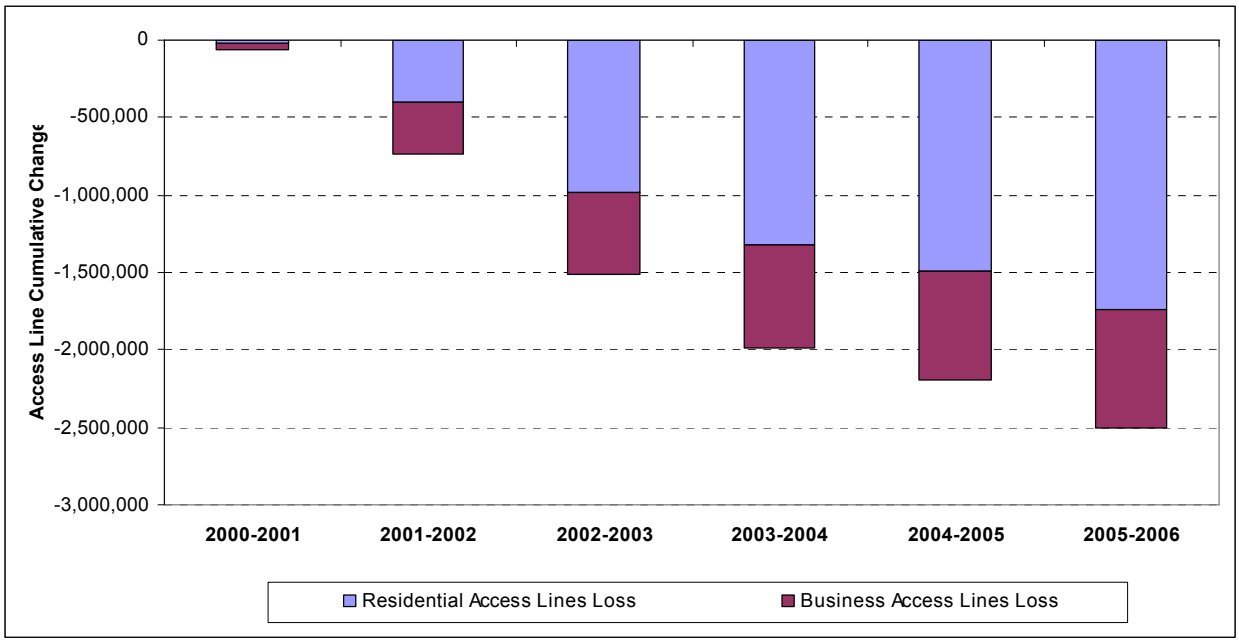
[102] FCC, "*Local Telephone Competition: Status as of June 30, 2006*," rel. January 2007.

These data provide a conservative measure of competition since FCC data do not capture scenarios where the customer has opted out of its wireline telephone service for VoIP or wireless service.

5. Verizon's Competitive Losses Provide Clear Evidence That Viable Substitutes for Verizon's Services Are Widely Available.

Q. DOES INFORMATION REGARDING VERIZON'S LINE LOSSES AND ITS REDUCTION IN LOCAL USAGE PROVIDE FURTHER EVIDENCE THAT SUBSTITUTES FOR VERIZON'S SERVICES ARE READILY AVAILABLE?

A. Yes. Verizon's dramatic decline in wireline usage and subscription proves that it faces increasing competition for traditional voice services. As shown in the graph below, Verizon's switched retail lines have been declining since the end of 2000. Despite population and economic growth in the State, according to FCC ARMIS data, Verizon lost about 2.5 million or more than 38 percent of its retail voice lines from year end 2000 to year end 2006.



Those losses have continued to mount in 2007.

Q. HOW MANY RESIDENTIAL LINES HAS VERIZON LOST SINCE YEAR END 2000?

A. Verizon ARMIS data show that it lost about 1.7 million residential lines from year 2000 to year end 2006.

Q. HOW MANY MASS MARKET LINES HAS VERIZON LOST?

A. In New Jersey, total Verizon residential and general business lines have declined by about **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** since year end 2003.

[BEGIN VERIZON PROPRIETARY]
Residential and General Business Retail Lines

[END VERIZON PROPRIETARY]

Q. ARE VERIZON'S LINE LOSSES IN NEW JERSEY DUE PRIMARILY TO A REDUCTION IN SECOND LINES FOR CONSUMERS?

A. No. From December 2003 through the end of September 2007, Verizon's primary residential line count decreased over **[BEGIN VERIZON PROPRIETARY]** [redacted] lines (approximately a 20% reduction) [**END VERIZON PROPRIETARY]**.

Q. ARE VERIZON'S LINE LOSSES IN NEW JERSEY DUE PRIMARILY TO COMPETITON?

A. Yes. The volume of telephone numbers ported from Verizon to its facilities-based competitors demonstrates that Verizon line losses are due to competition. Verizon's local number portability ("LNP") data for New Jersey demonstrates that more than **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** numbers have been ported completely off Verizon's network as of September 2007, with an average of almost **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** numbers being ported off Verizon's network each month. The volumes of ported numbers for the most recent five quarters for which Verizon has data are follows:

[BEGIN VERIZON PROPRIETARY]

NJ LNP Data Ported Out Numbers		
Date	Total Ported Out Numbers	Quarterly Change
Sep 2006	[redacted]	
Dec 2006	[redacted]	[redacted]
Mar 2007	[redacted]	[redacted]
Jun 2007	[redacted]	[redacted]
Sep 2007	[redacted]	[redacted]
Note: Excludes Numbers Ported Out to VZ Affiliates (MCI & VZ Wireless)		

[END VERIZON PROPRIETARY]

Q. HOW MANY LINES HAS VERIZON LOST TO INTERMODAL COMPETITORS?

A. There is no precise way to calculate this number. However, both FCC and Verizon data show that intermodal competition is responsible for a substantial share of Verizon losses. From December 2003 through September 2007, the number of retail lines sold by Verizon declined by nearly **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]**. But traditional and cable CLECs added only about **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** estimated lines during the same period. Cable companies now account for about **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** percent of the **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** competitive residential E911 listings.

Q. HAS COMPETITION DIMINISHED BECAUSE OF DECLINING DEMAND FOR THE UNBUNDLED NETWORK PLATFORM ("UNE-P")?

A. No. Although demand for "UNE-P" (i.e., Wholesale Advantage) has declined, it has been offset by the substantial gains made by facilities-based providers, notably cable companies and other intermodal competitors. This can be seen in the table below, showing the number of lines served by competitors in Verizon's New Jersey service area from December 2003 to September 2007. While the number of resale and wholesale lines fell by about **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** lines in that time period, facilities based competitors added over **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** estimated lines.

[BEGIN VERIZON PROPRIETARY

Change in Estimated Wireline Access Lines
December 2003 – September 2007

Verizon Retail	[redacted]
Estimated Cable Telephone Lines	[redacted]
Estimated CLEC Facilities-Based	[redacted]
Resale Lines	[redacted]
Wholesale Advantage	[redacted]
Total (Verizon + Cable + CLEC) Wireline	[redacted]

Note: Total wireline change includes MCI. CLEC Facilities-Based and Cable Telephone Lines are based on listings.

Note: Business E-911 listings adjusted by a factor of .63 to convert business E-911 listings to an estimate of business facilities-based lines. Residence E-911 listings and lines are assumed to be one-to-one.

[END VERIZON PROPRIETARY]

Q. DO INDUSTRY ANALYSTS EXPECT COMPETITION TO CONTINUE TO ERODE ILEC PRIMARY RESIDENTIAL LINE COUNTS?

A. Yes. J.P. Morgan predicts that competition will cause the ILECs, particularly Verizon, to continue to lose primary residential lines:

> **Cable and Other VoIP Should Capture 34% Share of Primary Lines by 2011.** We expect cable and other VoIP providers to increase share of primary consumer voice lines from 12.5% at the end of 2006 to 33.8% by 2011. We believe the ILECs' share will decline from 81% to 64%, while the CLECs' share should decline from 7% to 3%. We estimate that Comcast will gain the most share among the MSOs, with 10.8% share of primary lines by 2011 followed by Time Warner with 5.9%. We estimate that Verizon will lose the most share among the major ILECs, while AT&T and Qwest should see less pressure than peers.[103]

Citi Research recently issued similar projections:

[103] J.P. Morgan, "Telecom Services/Wireline, State of the Industry: Consumer," March 7, 2007, at 4.

> [C]able/VoIP and wireless substitution rates are sustaining and taking around 7-8% share annually from the Telcos.
>
> **Expect Wider Line Loss in '08** — We are widening our residential line loss forecasts for AT&T, Verizon, and Qwest to reflect further share loss to wireless and cable competition as the penetration of wireless-only households should deepen to 27% and cable/VoIP penetration should deepen to 25% by 2010.[104]

6. Intermodal Service Offerings Are Viable Substitutes for Verizon's Mass Market Services

Q. ARE INTERMODAL SERVICES VIABLE SUBSTITUTES FOR VERIZON'S MASS MARKET SERVICES?

A. Yes. The dramatic growth of intermodal providers and Verizon's substantial line losses demonstrate that consumers consider intermodal alternatives, such as cable telephony, wireless and VoIP, to be substitutes for Verizon's services. Clearly, the telecommunications market has been transformed by network convergence and, from a consumer's viewpoint, technological distinctions between service providers have evaporated.

Cable companies and other broadband providers compete with traditional telephone services, and facilitate competition by VoIP providers. Wireless mobile companies now compete for voice services, as well as for data services. As a result, local exchange carriers have lost access lines and usage, while wireless subscribers and broadband lines have shown dramatic growth and now exceed the number of traditional switched access lines. According to FCC data, just in the past five years (2001 to 2006), the number of wireless subscribers in New Jersey more than doubled; the number of

[104] Citi Investment Research, "Teleconomy Update – Consumer Wireline Forecast," December 9, 2007, at 1.

high-speed lines increased by about 2.8 million, from half a million to almost 3.3 million; the number of wirelines (ILEC and CLEC) shrunk from seven million to 5.8 million, a decrease of 18 percent; and CLEC share of the wireline market has grown from four to 17 percent.[105]

Q. DOES THE INFORMATION REPORTED BY THE FCC REFLECT THE FULL EXTENT OF CABLE TELEPHONE COMPETITION IN NEW JERSEY?

A. No. The FCC "rejected suggestions that it add questions soliciting information about local telephony service as provided by entities exclusively utilizing VoIP."[106] As a result, a significant number of cable telephony lines in New Jersey have not been reported. Indeed, Cablevision alone reported that it served approximately 987,542 voice customers in its part of the Tri-State area (northern New Jersey, parts of New York and a small part of Connecticut) as of June 2006, while the FCC reported only 1.23 million *total* "CLEC-owned" lines for the entirety of all three states.[107]

Q. DOES PUBLICLY AVAILABLE CABLE INDUSTRY INFORMATION CONFIRM THAT THE FCC DATA UNDERSTATES THE NUMBER OF VOICE CUSTOMERS SERVED BY CABLE PROVIDERS?

A. Yes. Earnings releases and other publicly available data provided by the nine largest U.S. cable MSOs[108] show these nine firms had 7.03 million cable telephone subscribers. This is over 1 million (about 15 percent) more voice *subscribers* than the FCC reported

[105] FCC, *Local Telephone Competition: Status as of June 30, 2006*, rel. January 2007. FCC, *High-Speed Services for Internet Access: Status as of December 31, 2006,* rel. October 2007.

[106] See FAQ#13 at http://www.fcc.gov/broadband/broadband_data_faq.html#overview.

[107] As noted, by the third quarter of 2007, Cablevision was serving about 1.5 million Optimum Voice customers in the Tri-State region.

[108] The nine cable MSOs are Comcast, Cablevision, Time Warner Cable, RCN, Charter, Cox, Mediacom, Bright House Networks, and Insight Communications. The second quarter 2006 cable telephony subscribers are taken from the individual company financial earning press releases.

for total coaxial cable switched access *lines* as of June 2006. If one were to assume that just 10 percent of cable telephone subscribers purchased a second cable telephone line, the nine companies would have almost 22 percent more voice lines than the FCC reported for all cable companies.[109] A similar discrepancy can be illustrated using data reported by the NCTA for year end 2006. The NCTA reported that "[m]ore than 8.5 million households have chosen cable phone service with more than 100% growth (4.6 million homes) since December 2004,"[110] whereas the FCC reported that cable telephone lines grew from about 3.7 million at year end 2004 to about 5.97 million in June 2006. The implied growth rates for cable telephony are about 48 percent per year according to the NCTA and 38 percent per year based upon the FCC's incomplete data.[111]

Q. DOES RECENT GROWTH IN COMPETITION SUPPORT THE CONCLUSION THAT VERIZON'S LINE LOSSES ARE ATTRIBUTABLE TO COMPETITIVE GAINS MADE BY VERIZON'S COMPETITORS?

A. Yes. Line growth by Verizon's competitors coupled with Verizon's line losses shows that competitors are taking customers from Verizon in New Jersey. Verizon's data for residential cable lines shows that cable telephone providers have experienced a gain of nearly **[VERIZON PROPRIETARY BEGINS]** [redacted] **[VERIZON PROPRIETARY ENDS]** facilities-based residential lines from December 2005 to

[109] 7.03 million cable telephone subscribers *1.1 lines per subscriber = 7.73 million lines. (7.73 million – 5.99)/5.99 = 22.8 percent.

[110] National Cable Television Association, "Competition Works. Consumers Win! Competition, Choice and Value Shape Today's Communications Marketplace," at 9. http://i.ncta.com/ncta_com/PDFs/ConsumersWinHandoutsFinal1-07.pdf, accessed February 14, 2007.

[111] The two-year period covered by the NCTA data show that about 3.9 million (*i.e.*, 8.5 million – 4.6 million) households had cable telephone service in December 2004. These data demonstrate a growth rate of 48 percent per year for two years.

September 2007. The table below depicts the number of facilities-based competitive lines serving New Jersey residential customers.[112]

[BEGIN VERIZON PROPRIETARY]

	Households With Cable Voice Available	Cable Telephone Residential Lines	Other Facilities-Based Residential Lines	Total Competitive Residential Facilities Based Lines
December 2005	[redacted]	[redacted]	[redacted]	[redacted]
December 2006	[redacted]	[redacted]	[redacted]	[redacted]
September 2007	[redacted]	[redacted]	[redacted]	[redacted]
Source: Data provided by Verizon; Data derived from Warren Communications News, *Cable Fact Book,* GIS Format.				

[END VERIZON PROPRIETARY]

Other New Jersey competitors also believe that competitive losses for ILECs are due to customers substituting the services of competitors. In the CLEC Reclassification case, Dr. Aron testified for AT&T that:

> After nearly a century of steady growth of incumbent wireline lines, interrupted only briefly by the Great Depression, wireline telephone lines in the United States started declining in 1999 and have declined significantly ever since …
>
> Where are these lines going? … subscribers are substituting services offered by cable companies, wireless companies, VoIP companies, and non-voice modes of communications over broadband. All of these are non-regulated technologies.
>
> To state it most simply, customers are "voting" with their feet to leave ILECs and CLECs in favour of unregulated competitors. …[113]

[112] Data provided by Verizon; Data derived from Warren Communications News, *Cable Fact Book,* GIS Format.

[113] Aron Direct Testimony at 10-13.

Q. HAVE OTHER REGULATORS CONCLUDED THAT INTERMODAL COMPETITORS OFFER VIABLE SUBSTITUTES TO VERIZON'S SERVICES?

A. Yes. In a recent order in its intermodal competition proceeding, the New York Public Service Commission stated that:

> [o]ur experience and the record in this proceeding reveal that competition in New York's telecommunications markets has evolved dramatically over just the past few years.
>
> . . . Every month tens of thousands of customers in New York switch from their incumbent local exchange service providers to intermodal competitors to obtain savings and innovative, value-added services. (p. 4)
>
> . . . We find that these services are widely available in New York and that from the perspective of customer demand *they are sufficiently close substitutes* for traditional wireline local service. (p. 33)[114] (emphasis supplied)

The intermodal substitutes available in New York are widely available in New Jersey. Like the New York Public Service Commission, the Board should find that intermodal options are competitive substitutes for Verizon mass market services.

7. Availability of Like or Substitute Services for DA Services

Q. WHAT ARE SOME OF THE LIKE OR SUBSTITUTE SERVICES FOR VERIZON'S DA SERVICES?

A. In addition to the telephonic services provided by the competitors listed earlier in this testimony, like or substitute services include print services (e.g., standard and specialized

[114] CASE 05-C-0616 – Proceeding on Motion of the Commission to Examine Issues Related to the Transition to Intermodal Competition in the Provision of Telecommunications Services. Statement Of Policy On Further Steps Toward Competition In The Intermodal Telecommunications Market And Order Allowing Rate Filings (Issued and Effective April 11, 2006).

telephone directories), computer-based services (e.g., Internet, on-line directory services), and electronic media services (e.g., CD-ROM telephone databases).

Q. ARE THERE STILL LIKE OR SUBSTITUTE PRINT SERVICES READILY AVAILABLE TO RESIDENCE AND BUSINESS CUSTOMERS THROUGHOUT NEW JERSEY?

A. Yes. Paper white and yellow page listing telephone directories are provided free of charge to business and residence customers. For example, Idearc directories are distributed free of charge to *every* Verizon NJ residential and business customer subscribing to Verizon NJ services, and to *every* CLEC customer subscribing to CLECs' telecommunications services throughout New Jersey. Moreover, the YellowBook company provides at least 24 local or community directories throughout the State, and has a statewide circulation of 3.4 million directories as of 2006 (an increase of over one million directories since 2001). Thus, these two paper directory sources alone account for almost 9 million directories being distributed free of charge to business and residence customers across the State.

Market research has shown that the vast majority of consumers are aware of printed telephone directories. According to a BAMRI survey, 98% of respondents were aware that printed directories provide DA information, compared to 90% for 411 services. In addition, the study found that many more people relied on printed directories than 411 to obtain directory listings. The BAMRI survey shows that 94% of respondents had used printed telephone directories compared to 76% for 411 services. When asked what method(s) they had used to obtain directory assistance information in the past month, 83% of the respondents cited the printed telephone directories, compared to only 54% for 411. Also, more listings were obtained from printed directories than from 411.

Last, the study concluded that "by almost a 2 to 1 margin," printed telephone directories are preferred to 411.[115]

The yellow pages sections of phonebooks, like the numerous Internet DA alternatives discussed below, also provide value added features that telephonic DA do not provide to their customers. In addition to basic local business listing information (i.e., business name, address, and telephone number), many business yellow page directories include information such as hours of operation, services performed/products provided, and alternative telephone numbers for customer contact. Importantly, they also permit a consumer to browse multiple listings, a feature unavailable to a DA caller.

Q. DO LIKE OR SUBSTITUTE INTERNET-BASED SERVICES COMPETE WITH VERIZON'S DA SERVICES?

A. Yes. Internet-based alternatives (accessed through wireline and wireless enabled personal computers, wireless handsets and personal data assistants) compete with Verizon's DA services. Consumers obtain DA information from a host of web sites. These sites provide access to a multitude of free "on line" directory assistance database directories.

Competitive pressure on Verizon's DA services from Internet-based DA services is significant because Internet usage and capabilities have grown in New Jersey, as described earlier in this testimony.

The high and growing penetration of Internet access is noteworthy because a recent study by the Pew Center for Internet and the Public Interest found that 54 percent of Internet users employed the Internet to search for telephone numbers or addresses.[116]

[115] Bell Atlantic Directory Assistance Competitive Assessment, BAMRI Market Research, August 2000; Updated Direct Testimony of Michael S. Falkiewicz, October 21, 2002 ("Falkiewicz Update"), at 9, 11 (citing First Market

Q. PLEASE IDENTIFY EXAMPLES OF FREE WEB SITES THAT CONSUMERS CAN ACCESS FOR DIRECTORY INFORMATION.

A. New Jersey consumers can obtain white and yellow page listings and other enhanced directory assistance services from web sites such as AT&T's Anywho.com, Switchboard.com, Reach411.com, Four11.com, InfoSpace.com, Whitepages.com, WhoWhere.com(a/k/a Lycos), 411Locate.com, 411metro.com, and free411.com – just to name a few. Further, web search engines such as Google, Yahoo, and Ask.com, among others, all have web links to free directory assistance listings and services web sites. In fact, consumers use of Internet search engines to find telephone numbers is expected to grow from **[BEGIN PIERZ GROUP CONFIDENTIAL]** 19 **[END PIERZ GROUP CONFIDENTIAL]** billion telephone number lookups in 2007 to **[BEGIN PIERZ GROUP CONFIDENTIAL]** 33 **[END PIERZ GROUP CONFIDENTIAL]** billion telephone number lookups in 2011, according to The Pierz Group.

Q. DO INTERNET-BASED DA SERVICES PROVIDE GREATER SEARCHING FLEXIBILITY AND INFORMATION CONTENT THAN TELEPHONIC DA SERVICES?

A. Yes. Like paper directories (but even more so), Internet DA services are in many ways superior to the DA services offered by Verizon. In addition to providing directory listings, Internet-based DA services provide web-site and e-mail addresses, cell phone numbers, driving directions, reverse lookup, maps, toll-free number search, and links to web sites related to the requested business or residence listing. Moreover, Internet-based DA services provide category searches that allow users to identify numerous businesses

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Research, "The Consumer Sources of Listing Information Study: A Multi-Subscriber Study (October 2000)).

[116] Pew Internet & American Life Project, "Usage Over Time" spreadsheet, latest survey entry on May-June, 2005, found at http://www.pewinternet.org/trends.asp (accessed March 27, 2006).

or professional service providers by product or service type and by distance from the user's location. This type of searching flexibility is especially important because at least one study found that about 85 percent of DA calls are made to obtain business telephone numbers.[117] Other enhanced features include travel searches and reservations, weather forecasting, and lottery results, among others.

Q. IS THERE SIGNIFICANT DEMAND FOR INTERNET-BASED DA SERVICES?

A. Yes. Their prominent placement on many major web portals demonstrates the significant demand for these directories. For instance, on Yahoo, the "People Search" directory option occupies a prominent position on the screen, as does the "Yellow Pages" option on AOL's portal and the "White Pages" and "Yellow Pages" links on MSN's home page, as well as on Google. This indicates that the directory is a popular option for users of Yahoo! and AOL would not allocate precious portal space to it. It also means that users can get to the telephone directory with very little trouble or inconvenience. These observations – combined with the data discussed above showing that 54 percent of Internet users search for telephone numbers and addresses online – support the common sense notion that there is significant demand for Internet directories.

Q. DO ELECTRONIC MEDIA DA SERVICE PROVIDERS OFFER LIKE OR SUBSTITUTE SERVICES THAT COMPETE WITH VERIZON'S DA SERVICES?

A. Yes. Companies such as Info USA provide a variety of white and yellow page phonebooks on CD-ROM. In addition to such listings, these products also provide reverse search and automatic telephone connection to the requested listing, and provide

[117] The Pelorus Group, "Enhanced Directory Assistance: Strategies For The New Directory Assistance Landscape," at 8 (September 2001).

additional advanced features not available from Verizon NJ DA services. These products have been heavily marketed as cost-effective and widely used alternatives to telephonic directory assistance.[118]

Q. DO CABLE COMPANIES, SUCH AS CABLEVISION AND COMCAST, HAVE A SIGNIFICANT EFFECT ON DA COMPETITION IN NEW JERSEY?

A. Yes. Cable companies have a significant effect on DA competition in New Jersey because they have greatly expanded their cable telephony and broadband services in the State, as described in detail earlier in this testimony. Both Comcast and Cablevision offer directory assistance services. Several months ago, Cablevision announced that its local and national DA service would be offered to its customers for *free*. Cablevision announced its free DA service through radio, TV and advertising media.[119] Comcast provides various DA services, including assistance for local, long-distance, and international numbers, assistance for access and connection to local and long-distance numbers, and assistance to information on movie show times, interactive, turn-by-turn directions to any destination by a live operator, or the name of the nearest cross street of any listing requested.[120]

Q. PLEASE PROVIDE AN OVERVIEW OF THE DA COMPETITORS AND LIKE OR SUBSTITUTE SERVICES DISCUSSED ABOVE.

A. The table below affords an overview of the DA competitors and like or substitute services that compete with Verizon's DA services. (Of course, current Verizon customers also have the option of switching to a CLEC, cable provider or VoIP provider for some or all

[118] http://www.infousa.com, and http://www.lexisnexis.com/infopro/zimmerman/disp.aspx?z=1163.

[119] See, e.g., Optimum advertising brochure insert in Sunday Newark Star Ledger and New York Post, December 1, 2007.

[120] http://www.comcast.com/Support/Corp1/FAQ/FaqDetail_3138.html.

of their local lines, and those that use both Verizon and a second carrier can easily use which ever one has the lowest priced DA services.)

	Wireless Mobile	**Print Directories**	**IXC DA**	**Free Internet DA**	**Free Telephonic DA**	**Free Text Message DA**	**Alternative Information Services**
Number Competing with VZ NJ	At least 7	YellowBook, Superpages	At least 8	At least 16	At least 3	At least 3	At least 4
Accessed by	Mobile Phone, Wireless PDA	Free Delivery	Tele-phone	Any device with Internet Access	Telephone	Mobile Phone, Wireless PDA	Telephone, Internet, Mobile Phone/Wireless PDA
Access Code	411	None	"00"; 555-1212; 800 XXX-XXXX	None	None	Text address	Various
Price Range: Low: Median: High	$1.29: $1.49: $1.75	Free	$0.60: $1.25: $2.49	Free	Free	Free	Various Flat Rates
Category Search	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Reverse Search	Yes	No	Yes	Yes	No	No	Yes
Call Completion	Yes	No	Yes (often extra charge)	NA	Yes	No	Yes
Movie Listings	Yes	No	No	Yes	No	Yes	Yes
Driving Directions	Yes	No	No	Yes	No	Yes	Yes
Weather Forecast	Yes	No	No	Yes	No	Yes	Yes
Sports Scores	Yes	No	No	Yes	No	Yes	Yes
Stock Quotes	Yes	No	No	Yes	No	No	Yes

Sources: Company websites, trade press articles.
Note: For purposes of this table, "Alternative Information Services" are firms that provide a flat rate, unlimited or high usage DA service. These providers seek to serve high volume DA customers by allowing access to private national DA databases.

Q. DO TRENDS IN VERIZON DA CALLING VOLUMES SUGGEST THAT SUBSTANTIAL SUBSTITUTION HAS IN FACT OCCURRED?

A. Yes. Even before the recent gains by wireless DA services, Internet-based DA services, and free DA service providers, Verizon had already seen substantial declines in its DA volumes. The long-term trend from 2002 to 2006 shows that:

- DA calling volumes have declined by about **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** percent overall;
- Billed residence DA volumes have declined by about **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON NJ PROPRIETARY]** percent;
- Billed business DA volumes have declined by about **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** percent; and
- Unbilled DA volumes declined by **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** percent.

These volumes include only ILEC totals.

[BEGIN VERIZON PROPRIETARY]

	2002	2006	Change	% Change
	----------Verizon NJ DA Calls (Millions)----------			
Billed DA Calls				
Residence	[redacted]	[redacted]	[redacted]	[redacted]
Business	[redacted]	[redacted]	[redacted]	[redacted]
Total Billed	[redacted]	[redacted]	[redacted]	[redacted]
Total Unbilled	[redacted]	[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]	[redacted]	[redacted]

[END VERIZON PROPRIETARY]

Q. DO THE DATA SUMMARIZED ABOVE FULLY CAPTURE VERIZON'S LOST DA CALLING VOLUMES?

A. No. While Verizon's total DA calling volume declined by over **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON NJ PROPRIETARY]** calls, or about **[BEGIN VERIZON PROPRIETARY]** [redacted] **[END VERIZON PROPRIETARY]** percent from 2002 to 2006, telephone lines in Verizon NJ's service area (Verizon plus CLEC resale and UNE-P lines) decreased by about 24 percent during that same period. Thus, Verizon DA usage per line declined at a significantly higher rate than we would have expected given the recent rate of decline in access lines.

Q. WHAT CONCLUSIONS SHOULD THE BOARD DRAW FROM THE CHANGE IN VERIZON NJ DA USAGE?

A. The changing pattern of DA service calls appears to reflect competition for DA and communications services in general and from both CLECs and intermodal competitors. As noted above, wireless subscription has grown dramatically, and, as people have come to use their wireless phones for more and more calls,[121] it is natural for them to substitute wireless DA services in place of wireline DA services. Similarly as noted above, the Internet has become more accessible, more widely used, and thus it too is a more potent threat than it was in 1999 or even in 2002.

[121] Users averaged 584 minutes of use per subscriber per month in the second half of 2004, up from 427 and 185 in the same periods in 2002 and 1999, respectively. FCC, Commercial Mobile Radio Services, ("CMRS") Tenth Report, Released September 30, 2005 at 63 & Seventh Report, Released July 3, 2002, at 21.

Q. HAVE YOU BECOME AWARE OF ANY NEW EVIDENCE BEARING ON DA COMPETITION IN NEW JERSEY SINCE THE CONCLUSION OF THE LAST DA RECLASSIFICATION PROCEEDING?

A. Yes. As discussed below, Verizon has gathered new evidence demonstrating the presence of like or substitute services that compete with Verizon's DA services. Moreover, Verizon has conducted a consumer survey demonstrating that New Jerseyans are aware of, and have been using, a wide array of DA services that compete with Verizon's DA services.

Q. WHAT NEW EVIDENCE DEMONSTRATES THE PRESENCE OF LIKE OR SUBSTITUTE SERVICES THAT COMPETE WITH VERIZON'S DA SERVICES?

A. In recent months, AT&T, Google, and Microsoft have begun providing free DA services to New Jersey residents. The entry of these established companies in the free DA market lends credibility to the growing influence of free DA as a successful business model in the phone-based DA market.

AT&T recently began providing free local and nationwide residential and business DA to residential and business customers throughout the state.[122] Customers can access AT&T's free DA service by dialing 1-800-YELLOWPAGES (1-800-935-5697) from their wireline and wireless telephones, regardless of carrier, and may obtain listing information by residential or business name or by business category in the exact same manner as offered by Verizon's DA services.

Tellme™®, a Microsoft subsidiary, also recently began providing free nationwide local and national DA services. Tellme DA service is available to New

[122] 1-800-YELLOWPAGES (1-800-935-5697) accessed on November 30, 2007, and found to provide comparable service to Verizon NJ's local and national residential and business DA services.

Jersey residence and business customers from their wireline and wireless telephones throughout New Jersey by dialing 1-800-555-TELL.[123] In addition to traditional DA services, Tellme also offers the followings services:

-Business Search
-Driving Directions
-Ringtones
-Restaurant Reviews
-Sports
-Weather
-News Center
-Stock Quotes
-Movies
-Entertainment
-Travel

According to Tellme's VP of Marketing, "All operators are exploring the possibility of setting up free services."[124]

Google™ also recently entered the free local and national DA marketplace with 1-800-GOOG-411 (1-800-466-4411). Google's website describes its DA service as follows:

> **You don't need a computer**, an Internet connection, or even the keypad on your phone or mobile device. GOOG-411 is voice-activated, so you can access it from any phone (mobile or land line), in any location, at any time. For free.
>
> **Dial (1-800) GOOG-411.** Say where. Say what you're looking for. GOOG-411 will connect you with the business you choose.
>
> **If you are calling from a mobile device**, GOOG-411 can even send you a text message with more details and a map. Simply say "Text message" or "Map it."[125]

[123] 1-800-555-TELL (8355), accessed on November 30, 2007, and found to provide comparable service to Verizon NJ's local and national business DA services.

[124] Srivastava , Samar, "Mobile Search is Dialing Up Voice Recognition," The Wall Street Journal, May 31, 2007.

[125] www.google.com/goog/411/about.html, accessed on November 30, 2007.

Google's free DA service is available to New Jersey residence and business customers from their wireline and wireless telephone service throughout New Jersey.[126] Google even provides marketing and instruction for using its 1-800-GOOG-411 service on its YouTube subsidiary, the video for which has been viewed more than 500,000 times as of December 5, 2007.[127]

With some of the largest and most influential technology and media companies in the world—AT&T, Microsoft, and Google—among others, offering DA alternatives in New Jersey, it is evident that consumers have access to like or substitute services to those offered by Verizon.

Q. PLEASE DESCRIBE THE SUCCESS OF JINGLE NETWORKS'S 1-800-FREE411 SERVICE?

A. Since market introduction in September 2005, Jingle Networks has surpassed the *200 million call* milestone with its free local and national directory assistance service available to residence and business customers' wireline and wireless telephones throughout New Jersey.[128] Citing rapid adoption of its free DA service, Jingle Networks claims to process over 700,000 free calls a day, and over 20 million calls a month, and its service has grown more than 400 percent from January 2006. Jingle Networks attributes its rapid growth to "consumer's passion for saving money on directory assistance."[129]

[126] 1-800-GOOG-411(1-800-466-4411), accessed on November 30, 2007, and found to provide comparable service to Verizon NJ's local and national business DA services.

[127] http://youtube.com/watch?v=cN0q8SvlQAk, accessed December 5, 2007.

[128] Jingle Networks, Inc. Press release dated April 25, 2007, found at www.free411.com/index.php, accessed November 29, 2007. Jingle Networks also states that more than 1000 companies have utilized the 1-800-FREE411 network as a "unique and powerful advertising medium for reaching customers when they are in a ready to buy mode." Advertisers referenced include: Avis, American Express, AutoNation, CBS, Comcast, Joe Nerd, McDonald's, Nivea, Paramount, Progressive Insurance, RCN, Saxton-Ferris, Service Magic and Service Master, 1 800-FLOWERS, 1 800-DENTIST, and 1 800-MATTRESS.

[129] *Id.*

The success of Jingle Networks may also be due to strategic partnerships and alliances forged with key technology companies supporting DA services. On July 16, 2007, Jingle Networks and Idearc announced a strategic alliance that allows Idearc to place its network of Superpages.com advertisers with 1-800-FREE 411's consumers. In August 2007, Metro One, a wholesale developer and provider of Enhanced Directory Assistance (EDA) services, was selected as the primary DA provider for 1-800-FREE411.

Jingle Network's free DA service has also leveraged several of Verizon's competitors to increase its popularity. For example, 1 800 –RECONEX and CLOSECALL AMERICA, two local service providers offering telephone service throughout New Jersey, make potential customers aware of their own DA services and *also* Jingle Networks' 1-800–FREE 411 service as a money-saving alternative.[130] Consumers have also learned about 1-800-FREE411 because it is regularly featured on consumer segments of major network news programs across the country, including NBC's The Today Show and CBS' The Early Show, as well as in *O, The Oprah Magazine*.[131]

Jingle Networks' success has not gone unrecognized in the DA industry. In January 2007, Jingle Networks was presented with the Frost & Sullivan 2006 Award for Growth Strategy Leadership in the North American Directory Assistance Market. The award is given each year to the company that has exceeded expectations within an

[130] Based on new service inquiries made to 1 800 RECONEX (1 800 732-6639) and Closecall America (1 800 845-2215) on November 28, 2007. RECONEX advises its DA charges range from $1.50 up to $3.50 per local and/or national DA calls and there are there is no free monthly residential call allowance. Closecall America advises its local residential DA service costs $.95 for each residential local DA call and there is no free monthly residential call allowance. Both of these referenced providers provide DA access via the "411" access method.

[131] Press Releases from Jingle Networks website (accessed on November 27, 2007).

industry and demonstrated an exceptional growth strategy that will have a lasting impact on the market.[132]

The growth experienced by Jingle Networks in a short timeframe is compelling evidence that free DA services are substitutes for Verizon's DA services.

Q. PLEASE DESCRIBE THE PURPOSE OF THE CONSUMER SURVEY AND SUMMARIZE THE CONSUMER SURVEY RESULTS.

A. In its most recent DA Order, the Board found that Verizon did not present sufficient New Jersey-specific data to demonstrate that DA alternatives are like or substitute services in the state. The Board stated further that it would consider in the future the results of a consumer survey that demonstrate consumer awareness of DA alternatives. In order to address the Board's concerns, Verizon contracted with Mr. William Newman, an independent consultant with expertise and experience in these matters, to oversee such a survey in order to assess the level of consumer awareness and usage of DA alternatives in New Jersey. Verizon also asked Mr. Newman to assess whether there is a difference in awareness between customers who are income eligible for pharmaceutical assistance to the aged and disabled ("PAAD") and those who are not.

The survey methodology and results are detailed in the Direct Testimony of William Newman. Mr. Newman's survey results conclusively demonstrate that New Jersey consumers are well aware that they have access to DA alternatives and that they are using these alternatives, leading to the unmistakable conclusion that Verizon's declines in DA volumes primarily are explained by customers' usage of alternative means

[132] Frost & Sullivan, "North America Directory Assistance and other Operator Services Market Awards" at 1-9 (2006).

to access information. And the survey results further demonstrate that PAAD-eligible customers also are aware of and make use of DA alternatives.

In particular, the consumer survey results demonstrate that a majority of New Jersey consumers are aware of and have used DA alternatives in the past 6 months. Ninety-nine percent of customers surveyed are aware of at least one other option for getting telephone numbers in addition to their local telephone company, and almost 90% of this group have used alternatives in the past six months. Ninety-seven percent of PAAD-eligible customers are aware of at least one other option for getting telephone numbers in addition to their local telephone company. Also, the survey results demonstrate that a large majority of consumers are aware of DA alternative that do not require use of a computer, such as paper directories (94% customer awareness) and wireless phones (75% customer awareness). There is also a significant level of awareness of free DA services, such as those provided by 1-800 numbers, with more than a third of consumers aware of these services. More than one out of four PAAD-eligible customers are aware of these free DA services. These survey results demonstrate that if Verizon were to attempt to charge unreasonable prices for its own DA services, a significant number of customers are aware of alternatives and are willing to use them. Thus, Verizon would be unable to profitably sustain an above-market price for its services.

V. Conclusion

Q. PLEASE SUMMARIZE YOUR TESTIMONY

A. I have shown that Verizon's mass market services meet each of the three statutory criteria for determining whether a telecommunications service is competitive in New Jersey. Therefore, Verizon respectfully submits that the Board should reclassify these services and reduce the level of regulatory oversight applied to them in order to obtain the competitive benefits of efficiency, productivity and innovation. *See* N.J.S.A. 48:2-21.16(b)(1).

Q. PLEASE EXPLAIN WHY APPROVAL OF VERIZON'S REQUEST WILL BENEFIT CONSUMERS.

A. It is generally accepted (and integrated in New Jersey statutes) that a competitive, unregulated market structure maximizes consumer welfare and thus is in the best interest of consumers. Regulation arose in certain markets to replicate—to the extent possible—the effects of a competitive market.[133] 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. With the conclusive demonstration that Verizon's mass market and DA services meet the statutory criteria for

[133] 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."

reclassification, the Board should move quickly to approve Verizon's request in this case, for the benefit of New Jersey consumers.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.