

SOURCE: XO Communications

Apr 22, 2008

Leading Competitors to FCC: Dismiss Qwest's Use of "Wireless Substitution" to Justify Forbearance Bids

Independent Analysis Shows Wireless Substitution Not Relevant -- No Downward Pressure on Wireline Prices Found When Customers "Cut the Cord"

WASHINGTON, DC--(Marketwire - April 22, 2008) - A group of competitive telecommunications companies today filed independent studies with the Federal Communications Commission ("FCC") refuting Qwest's claim that wireless competition has in any significant way reduced the Baby Bell's market power. The studies repudiate Qwest's effort to use so-called "wireless substitution" as a factor in determining competitive inroads in its current bids for regulatory forbearance in Denver, Minneapolis, Phoenix and Seattle.

Eleven competitive local telecom companies including Integra Telecom, One Communications and XO Communications (OTCBB: [XOHO](#)) filed the two studies: "Properly Estimating the Size of the Wireless-Only Market," by Gillan Associates, and "Mobile Wireless Service to 'Cut the Cord' Households in FCC Analysis of Wireline Competition," by Economists Incorporated. Economists Incorporated investigated the economic validity of Qwest's wireless substitution claim. The study demonstrates that wireless is not a substitute for wireline, and that data on residential wireless should not be considered in a forbearance proceeding. In particular, residential wireless data is irrelevant to the enterprise market.

Further, Economists Incorporated examined whether wireless usage has fueled common measures of competition such as price reductions. The study found "no evidence that landline service providers are altering their prices or services to compete with mobile wireless services." Competitive local telecom companies urged that if the Commission does decide to consider wireless data in the Qwest forbearance proceeding, that it must use the correct data. Findings of the Gillan Study show that Qwest is using incorrect data presenting a distorted view. According to the Gillan analysis:

- Nationwide, just 11.84% of residential customers have switched to wireless only. In the West, where Qwest seeks forbearance in three markets, only 9.54% of customers are wireless-only. Slightly more, 12.35%, have "cut the cord" in Minneapolis.
- Even these low numbers are skewed upwards by reliance on data for population groups that may have never had a wireline service to "cut" in the first place. Nearly one-third (27.9%) of wireless-only customers are college-age adults with unique purchasing patterns and behavioral choices that do not represent the adult population as a whole.

"Citing wireless substitution as evidence of competition is the Baby Bells' latest ploy to end run the pro-competitive pricing rules of the Telecom Act," said Heather B. Gold, senior vice president of external affairs for XO Communications. "Qwest is blowing smoke, but no reliable economist can find the fire."

"Every forbearance proceeding is a serious issue that determines the fate of competition and consumer choice in a market," said Russell C. Merbeth, federal counsel for Integra Telecom. "Qwest's reliance on data using non-representative population groups is frivolous, and demonstrates the weakness of its petitions."

The Gillan study notes that the Commission recently denied that wireless service is a substitute for traditional wireline service, and concludes that if the Commission considers residential wireless data

to estimate competitive market share in a forbearance proceeding, the estimate of wireless-only subscribers must meet four criteria:

- Neutral Source: The estimate should be developed from the best-available data gathered by a neutral party. In the absence of a broader study by the Commission, data from the semi-annual National Health Interview Survey released by the Centers for Disease Control (CDC) may best satisfy this criterion.
- Regional Variation: In the absence of individual market-specific data, the estimate should at the very least reflect regional differences in wireless acceptance
- Accuracy with "Confidence": The CDC Survey employs a sample average to estimate population, and a second measure called "confidence intervals" which encompass the range of values within which the actual mean is likely to reside. By relying on the lower bound of this interval estimate, the FCC will avoid potentially adopting an inflated estimate of the actual number of wireless-only subscribers.
- Elimination of Non-Representative Groups: The estimate should exclude identifiable groups such as college-age respondents that exhibit wireless preferences that are not representative of the population as a whole.

Contact:

Jim Crawford

Crawford Public Relations

T: 703-753-4480

M: 703-498-7315

jcrawford@crawfordpr.com