

QSI ECONOMIC IMPACT STUDY SHOWS FORBEARANCE WILL LEVY \$1.14 BILLION ANNUAL “NEW TELECOM TAX” ON CUSTOMERS IN FOUR QWEST MARKETS

Without Adequate Competition to Curb Qwest Price Increases, Household Telecom Expenditures Will Rise an Average 25% Across Four Qwest Markets

WASHINGTON, D.C., APRIL 29, 2008 – A new study by the economic consulting firm QSI Consulting finds that Qwest’s bid for local deregulation will unleash \$1.14 billion in higher charges annually for customers in four major Western markets if approved by the Federal Communications Commission (FCC).

The *QSI Study*, “**An Analysis of Qwest’s Petition for Forbearance: A Quantification of the Impact of Forbearance**,” examines the economic harms that will result if the FCC grants Qwest’s petitions for regulatory forbearance from wholesale pricing rules in Denver, Minneapolis, Phoenix and Seattle. The QSI Study was commissioned by XO Communications and is endorsed by competitive telecom companies and public interest groups.

Under the 1996 Telecom Act, Congress requires incumbent Bell operating companies to provide wholesale loop and transport facilities to competitors at economically fair rates, to ensure choice and savings for customers of all types. If Qwest wins its latest forbearance bid, the Baby Bell will immediately raise wholesale rates in the four markets – which the study predicts will squeeze out competitors and trigger average 25% retail rate increases of \$115 annually per household.

Across the four markets, the study projects Qwest’s \$1.14 billion annual tax on consumers will range from \$153 million annually in Seattle, to over \$503 million annually in Phoenix. The following chart shows the overall annual cost increase per market, and the new, higher charges that will be paid annually by households if Qwest’s forbearance requests win approval.

Annual Wireline Expenditure Increase Resulting from Qwest Forbearance

Market	Denver	Minneapolis	Phoenix	Seattle
Overall Increase	\$241.7 M	\$242.2M	\$503.4M	\$153M
Per Household	\$100	\$117	\$131	\$96
% Increase	21%	26%	28%	20%

Heather B. Gold, Senior Vice President of External Affairs at XO Communications, said, “Customers in these markets rely on competitors for choice, savings and innovation. The FCC needs to do the right thing and reject these petitions.”

Gold continued, “If Qwest wins approval of its forbearance petitions, it will do what monopolies always do – exert massive market power to squeeze out competition and raise rates. Qwest has already established a pattern of raising rates when it wins forbearance.”

The Commission’s approval of an earlier Qwest forbearance petition in Omaha triggered a chain reaction leading to less competition and higher prices. If the Commission grants Qwest’s new

forbearance petitions, competitors and customers in the four new markets can expect an encore of the Omaha scenario:

- Wholesale Rates Rise to Access Tariff Levels. Forbearance will immediately induce upward pressure on wholesale prices. Qwest, like other Bell monopolies, has repeatedly advocated that competitors obtain local loops and transport services out of the incumbent's much higher-priced special access tariff. With its forbearance petitions granted, Qwest will be incented to raise prices for local loops and transport to special access price levels.
- Competitors Have No Alternatives. Competitors use Qwest's wholesale facilities extensively because no economically viable alternative is available. For example, cable companies' networks are not designed to provide wholesale loop and transport services, and reach mainly residential customers, not competitive providers' core market – business customers. Further, wireless services are not yet a viable wholesale alternative because they lack the bandwidth, functionality, and reliability that competitive wireline telcos require.
- Competitors Leave or Stay Away. The rise in wholesale prices will force competitive telcos to raise their retail rates or leave the market. In Omaha, Qwest's successful forbearance bid made it uneconomic for one competitor to continue offering service to residential and small business customers, and forced another to abandon plans to enter the market.

Gigi B. Sohn, president and co-founder of Public Knowledge, said, “The FCC made the right call late last year when it turned down Verizon's petitions for forbearance. It should do the same with Qwest's. This study shows, as did a previous one analyzing the Verizon markets, that the result of Qwest's petitions would be less competition and higher prices for consumers. Rather than deal with the forbearance issue on a market-by-market basis, the FCC should look instead for ways to increase competition, which would result in lower prices and more choices for consumers.”

The QSI Model

Using publicly-available demand data, the *QSI Study* focused on the impact of a grant of forbearance in the following three markets:

1. Mass market measured by residential and single line business switched access lines;
2. Enterprise market measured by multi-line switched access lines; and
3. High-speed broadband Internet market.

QSI collected Qwest's current UNE and special access recurring rates for key network elements, such as local loop and transport. QSI then calculated the difference between UNE-based and special-access based rates for various network element combinations under which end-user markets in the study are typically served.

The *QSI Study* is available at www.freetocompete.com

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Contact:

Jim Crawford

Crawford Public Relations

T: 703-753-4480

M: 703-498-7315

jcrawford@crawfordpr.com