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BEFORE THE ARIZONA CORPORATION COMMISSION

AZ CORP COMMISSION
DOCKET CONTROL

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Commissioner

Arizona Corporation Commission

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**IN THE MATTER OF THE APPLICATION OF
QWEST CORPORATION D/B/A CENTURYLINK-
QC ("CENTURYLINK") TO CLASSIFY AND
REGULATE RETAIL LOCAL EXCHANGE
TELECOMMUNICATIONS SERVICES AS
COMPETITIVE, AND TO CLASSIFY AND
DEREGULATE CERTAIN SERVICES AS NON-
ESSENTIAL**

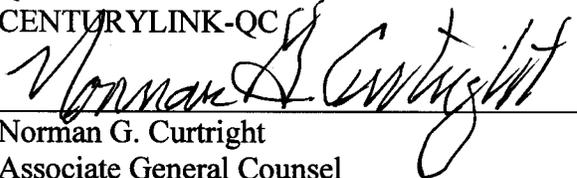
DOCKET NO. T-01051B-11-0378

NOTICE OF FILING

Qwest Corporation d/b/a CenturyLink-QC hereby files the attached report in compliance with section 2.3 of the Settlement Agreement between and among Qwest Corporation, the Utilities Division Staff, RUCO, and AIC as approved in Decision No. 73354. This report provides data and information relative to the current state of competition for telecommunications services in the State of Arizona.

RESPECTFULLY SUBMITTED, this 21st day of February, 2014.

QWEST CORPORATION d/b/a
CENTURYLINK-QC


Norman G. Curtright
Associate General Counsel
20 E. Thomas Road, 1st Floor
Phoenix, Arizona 85012
Telephone: (602) 630-2187

1 ORIGINAL and thirteen (13) copies filed
this 21st day of February, 2014, with:

2 Docket Control
3 ARIZONA CORPORATION COMMISSION
1200 West Washington Street
4 Phoenix, Arizona 85007

5 Copy of the foregoing sent via
U.S. Mail this 21st day of February, 2014, to:

6 Steve M. Olea, Director
7 Utilities Division
ARIZONA CORPORATION COMMISSION
8 1200 West Washington Street
Phoenix, Arizona 85007

Janice Alward, Chief Counsel
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

9 Maureen A. Scott, Senior Staff Counsel
10 Legal Division
ARIZONA CORPORATION COMMISSION
11 1200 West Washington Street
Phoenix, Arizona 85007

Jane Rodda
Hearing Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

12 Lyn Farmer
13 Hearing Division
ARIZONA CORPORATION COMMISSION
14 1200 West Washington Street
Phoenix, Arizona 85007

Stephen S. Melnikoff
General Attorney
Regulatory Law Office (JALS-RL/IP)
Office of the Judge Advocate General
U. S. Army Legal Services Agency
9275 Gunston Road
Fort Belvoir, VA 22060-5546

16 Joan Burke
17 1650 North First Avenue
Phoenix, AZ 85003

Gary Yaquinto
Arizona Utility Investors Association
2100 North Central Avenue, Suite 210
Phoenix, AZ 85004

19 Michael Grant
20 2575 East Camelback Road
Phoenix, AZ 85016-9225

Daniel Pozefsky
RUCO
1110 West Washington, Suite 220
Phoenix, AZ 85007

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23 
24

ARIZONA COMPETITIVE REPORT

2-21-14

Introduction

In Decision 73354, released on August 21, 2012, the Commission approved a settlement reached by CenturyLink, the Arizona Corporation Utilities Staff (“Staff”), the Residential Utility Consumer Office (“RUCO”) and the Arizona Investment Council in Docket T-01051B-11-0378 (In the Matter of the Application of Qwest Corporation dba Century Link QC to Classify and Regulate Retail Local Exchange Telecommunications Services as Competitive and to Classify and Deregulate Certain Services as Nonessential). Section 2.3 of the Settlement Agreement states:

CenturyLink will file semi-annual reports with the Commission, Staff, and RUCO for a period of three years, commencing six months after the date of the Order Approving Settlement, setting forth data to be agreed with Staff and RUCO showing the state of competition in the State.

In addition, Section 2.4 of the Settlement Agreement specifies the competitive information that will be used to evaluate whether competition remains vibrant in the Arizona telecommunications market in the future:

After the expiration of at least 30 months from the date of the Order Approving Settlement, CenturyLink may make an additional submission in this docket, demonstrating that competition for voice services in Arizona is the same or greater than the levels CenturyLink’s testimony and evidence claim exist at the time of the filing of the Application in this docket. CenturyLink’s additional submission shall be based on competitive reports, data and statistics, including but not limited to the National Center for Health Statistics Wireless Substitution Report, the Federal Communications Commission (“FCC”) Local Competition Report, and the FCC Internet Access Services Report. CenturyLink in such filing shall demonstrate that:

- a. The percentage of consumers who have no landline voice connection as specified in the National Center for Health Statistics Report, shall be 30% or greater;
- b. Wireless connections, as set forth in the FCC’s Local Competition Report, shall represent 65% or greater of total voice connections in Arizona; and

- c. Access to VOIP providers shall be measured by xDSL broadband availability in Arizona, as set forth in the FCC Internet Access Services Report, and shall be 88% of households or greater.

The purpose of this third semi-annual report is to report on the current status of these competitive indicators, in order to meet the requirements of Condition 2.3. As demonstrated below, the impact of competition in the Arizona telecommunications market continues to increase, as customers move from CenturyLink and other ILEC services, to wireless, cable/CLEC and other alternatives. CenturyLink access lines in Arizona declined from 999,339 in June 2013 to 947,258 in December 2013, representing an annualized decrease of more than 10%.

Most Recent Competitive Data

- A. *The percentage of consumers who have no landline voice connection as specified in the National Center for Health Statistics Report.*

In December, 2013 the National Center for Health Statistics (“NCHS”) released its most recent estimates of the percentage of households in the United States that have “cut the cord” and have only wireless telephones. For the time period of January-June 2013, the NCHS reported that 39.4% of American homes had only wireless service.¹ This represents a continued increase, from 38.2% in the previous study (July-December, 2013) and 33.4% in the study that was referenced in Docket T-01051B-11-0378 (July-December, 2011). In December 2013, the NCHS released its most recent state view of wireless substitution, and found that for the period January-December 2012, 41.2% of Arizona adults over 18 were living in households without wireline telephone service.² As noted in the August report, the NCHS previously found that for the period January-December 2011, 38.2% of Arizona adults over 18 were living in households with wireless only telephone service.³ The NCHS state-level report that was referenced in Docket T-01051B-11-0378, found that for the July 2009-June 2010 time period, 29.4% of adult Arizona wireless households were “wireless only.” Thus the level of “cord-cutting” in Arizona has continued to increase at a significant rate—from 29.4% in 2010 to 41.2% in 2012—and is well above the 30% level defined in the Settlement Agreement.

- B. *Wireless and Wireline connections, as set forth in the FCC’s Local Competition Report.*

¹ *Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, January-June 2013*, Centers for Disease Control and Prevention, National Center for Health Statistics, released December 2013, p. 1.

² *Wireless Substitution: State-level Estimates From the National Health Interview Survey, 2012*, Centers for Disease Control and Prevention, National Center for Health Statistics, released December 18, 2013, Table 1.

³ *Wireless Substitution: State-level Estimates From the National Health Interview Survey, 2010-2011*, Centers for Disease Control and Prevention, National Center for Health Statistics, released October 12, 2012, Table 1.

The FCC released its most recent Local Competition Report in November 2013, reflecting December 2012 data. The last two columns in the table below provide the number (*in thousands*) of ILEC wireline, non-ILEC wireline and wireless connections in Arizona for December 2012, as well as the share percentages.⁴ For comparison purposes, this table also shows the number of connections and percentages for December 2010 and December 2011.

	December 2010		December 2011		December 2012	
ILEC	1,476	18.4%	1,345	16.6%	1,224	14.8%
Non-ILEC	1,254	15.6%	1,228	15.1%	1,278	15.4%
Wireless	5,285	65.9%	5,532	68.3%	5,774	69.8%

This table demonstrates that the wireless share of voice connections in Arizona continues to increase, and remains well above the 65% level defined in the Settlement Agreement. Also note that in December 2012, for the first time, non-ILEC wirelines exceed ILEC wirelines in Arizona.

C. xDSL broadband availability in Arizona, as set forth in the FCC Internet Access Services Report

The FCC released its latest Internet Services Report in December 2013, reflecting data as of December 31, 2012. With this report release, *the FCC no longer provides the percent of xDSL availability for local telephone customers* or the percent of cable modem availability for local cable customers in Arizona (formerly in Table 22 of the report). Therefore, we cannot update the percentage of xDSL broadband availability for this report.

The latest FCC Internet Services Report does however include other data that demonstrates the growth of broadband, including the number of ADSL and Cable Modem connections. The chart below shows the increase in ADSL and Cable Modem connections (in thousands) in Arizona between 2010 to 2012.⁵ Each of these subscribers has a high speed internet connection that can be used as a substitute for traditional voice services.

	Dec. 2010	Dec. 2011	Dec. 2012
ADSL	552	590	625
Cable Modem	1,161	1,169	1,210
Total*	1,713	1,759	1,835

⁴ *Local Telephone Competition: Status as of December 31, 2012*; Industry Analysis and Technology Division, Wireline Competition Bureau, November 2013, tables 9 and 18.

⁵ *High Speed Services for Internet Access: Status as of December 31, 2012*, FCC Industry Analysis and Technology Division, Wireline Competition Bureau, December 2013, Tables 19 and 20.

*Does not include fiber or wireless connections.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Rob Brigham". The signature is fluid and cursive, with a large initial "R" and "B".

Robert Brigham
Director - Regulatory Operations
CenturyLink