

Update on Telecommunications Competition and the Qwest AFOR Settlement

Presented to the:

**Information Technology and Telecommunications Oversight
Committee**

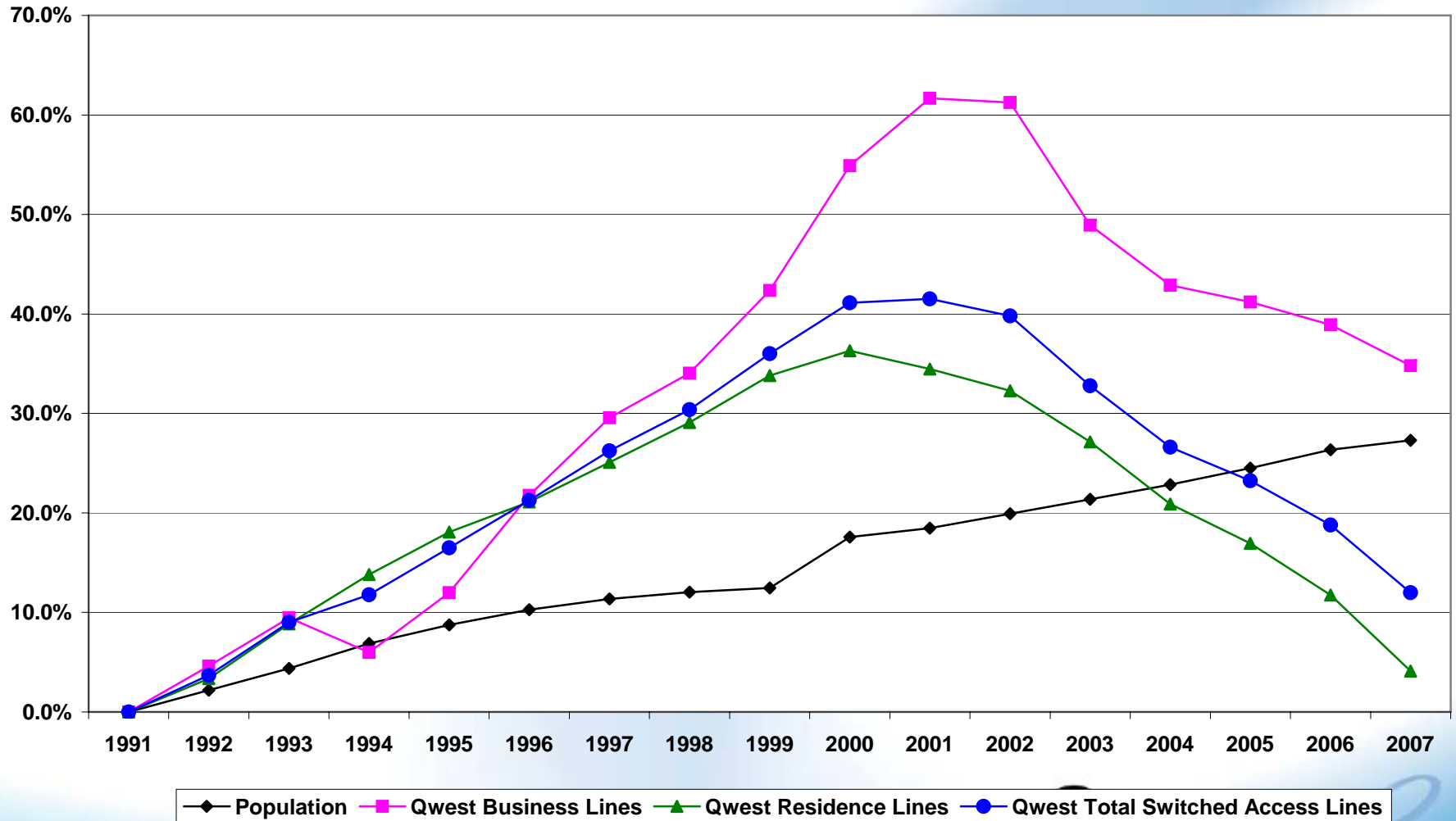
Thursday September 18, 2008

Rio Rancho, New Mexico

Presented by: **Leo Baca and Dennis Pappas**

Qwest. 

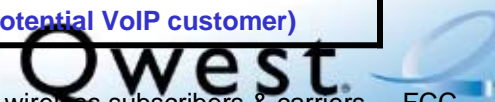
**NEW MEXICO - CUMULATIVE PERCENTAGE GROWTH IN
POPULATION vs. QWEST SWITCHED ACCESS LINES
1991 - 2007**



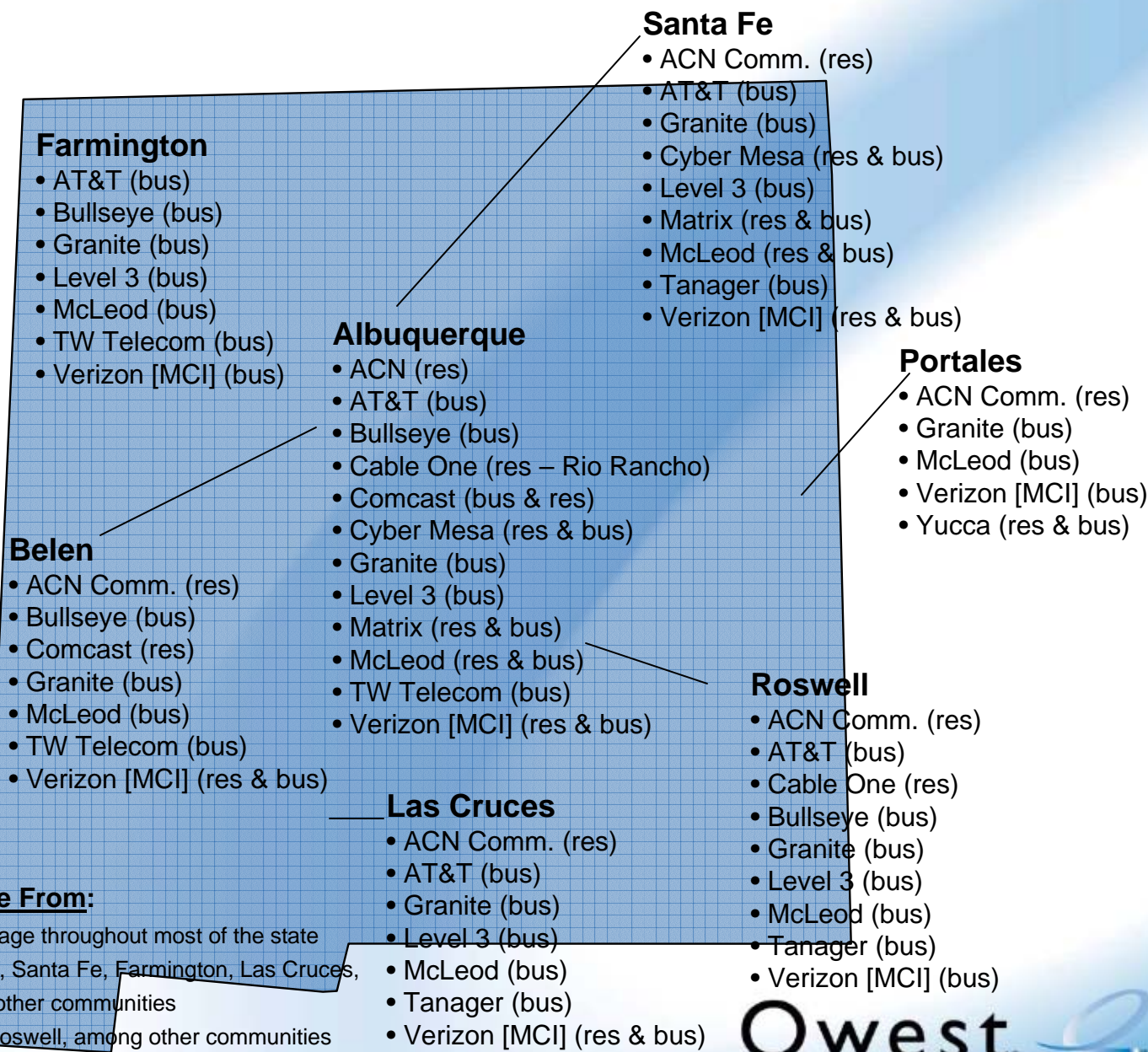
The Impact of Telecom Competition Is Significant

	<u>2000</u>	<u>2007</u>
Qwest NM access lines	853,911	677,949
NM wireline competitor access lines <u>reported</u> (VoIP-based lines exempt)	N/A	76,701
Number of wireline competitors <u>reporting</u> access lines in NM (VoIP-based providers exempt)	2	24
Number of NM wireless customers	395,111	1,415,726 (exceeds all wireline carriers by 55%)
Number of NM wireless carriers	5	9
Wireless revenue per minute (<u>national</u>)	\$0.18	\$0.07 (2006)
Residential VoIP customers (<u>national</u>)	150,000 (2003)	15.9 million
NM high speed lines	2,671	544,706 (each a potential VoIP customer)

(Sources: Qwest access lines – ARMIS 43-08; CLEC access lines, number of CLECs, number of wireless subscribers & carriers – FCC Local Competition Report; wireless revenue per minute – FCC Trends in Telephone Service; residential VoIP subscribers – Telecom Industry Assoc. Market Review & Forecast; high speed lines – FCC High Speed Internet Access Report)



New Mexico Consumers Have Choices For Their Telecom Provider



Wireless Service Available From:

Alltel, Sprint & Verizon – Coverage throughout most of the state

AT&T & T-Mobile - Albuquerque, Santa Fe, Farmington, Las Cruces, Belen, Roswell, among other communities

Plateau Wireless – Portales & Roswell, among other communities

Cricket Wireless – Albuquerque, Santa Fe, Las Cruces & Belen, among other communities



New Mexico Telecom Regulation

Cable companies:	No regulation by PRC on either pricing or service quality
Internet companies:	No regulation by PRC on either pricing or service quality
Wireless companies:	No regulation by PRC on either pricing or service quality
Voice over Internet (VOIP) companies:	No regulation by PRC on either pricing or service quality
Competitive Local Exchange Carriers (CLECs):	PRC certification requirement; no regulation by PRC on either pricing or service quality
Qwest:	Price Cap Regulation – pricing rule with limited flexibility to respond to competitors' promotions; service quality rule with stringent standards and rapidly escalating customer credit requirements.

Unequal regulation is unfair to consumers because it denies the full benefits of competition in the form of lower prices and better service. In addition, it is unfair to Qwest because Qwest cannot effectively retain its customers by matching the offers of unregulated competitors, resulting in lost business, lost jobs, and stranded facilities.



AFOR Settlement Overview

■ Project Expenditures

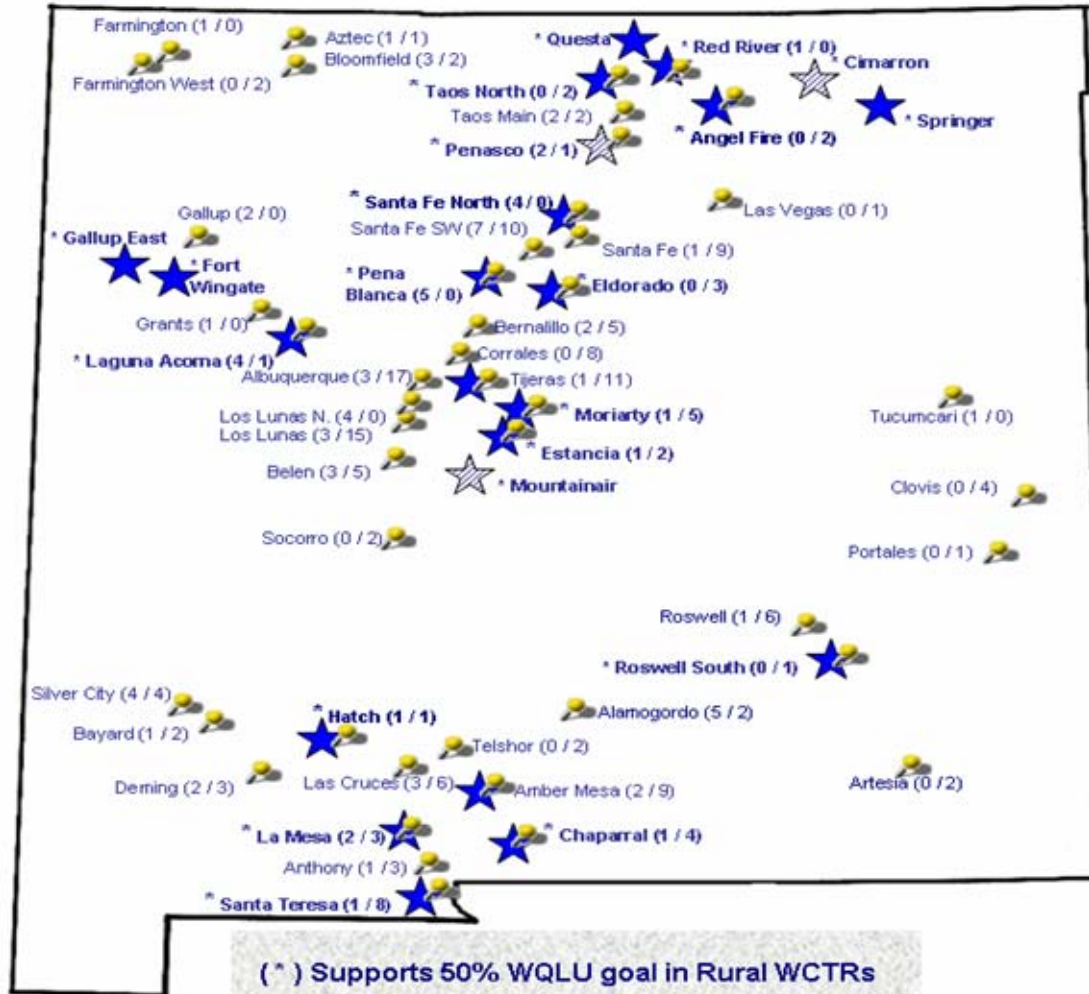
– Capital 2007	\$ 46,371,000
– Expense 2007	<u>\$ 2,977,000</u>
– Total Spend for 2007	\$ 49,348,000
– Capital 2008 YTD *	\$ 77,868,000
– Expense 2008 YTD *	<u>\$ 4,931,000</u>
– Total Spend 2008 YTD *	\$ 82,799,000
– Total capital spend over the life of the SASA	\$ 124,239,000
– Total expense over the life of the SASA	<u>\$ 7,908,000</u>
– Total spend over the life of the SASA YTD *	\$ 132,147,000

NM AFOR Settlement requirement: \$127,500,000 by October 31, 2008



*Spend data as of September 3, 2008

AFOR Settlement Overview by Category



- 4a – High Speed Internet
 - More than \$61M spent.

Summary

★	CO Expansions Completed	-----	20
☆	CO Expansions Planned for 2008	-----	3
👤	RTs (Candidates Planned / Sites Completed)	-----	(77 / 167)



AFOR Settlement Overview by Category

■ 4b – Redundant and Diverse Routes Project

- More than \$14M spent since 2/1/07
- Farmington project completed during 1Q08 (2/18/08)
- Also completed diverse routes for: Angel Fire; Cimarron; Las Vegas; Los Alamos; Springer; Taos Main

■ 4c – Cable Improvement Project

- Almost \$19M spent since 2/1/07; completed 58 characterization jobs and replaced:
 - 33.14 miles of cable, 780 terminals and upgrade 17 systems

■ 4d – Advanced Telecommunications Technologies Project

- More than \$17M spent since 2/1/107 on Advanced Telecommunications Technology and more than \$6M spent on fiber feeder jobs

■ 4e – Network Improvement and Capacity Augment Projects

- More than \$13M spent since 2/1/107
- Inter-Office Facility (IOF) Jobs across New Mexico to facilitate expansion of Qwest's high speed internet service and Qwest Metropolitan Optical Ethernet (QMOE) deployments

AFOR Settlement Overview

■ Second half initiatives

- Completion of remaining High Speed Internet build by end of 3Q09.
- Expand Fiber to the Node (FTTN) deployments.
- Increase central office diversity and redundancy.
- Continue to replace sections of aerial and buried facilities and upgrade the associated network elements.
- Continue to build out fiber feeder jobs to meet the required \$10M investment in category 4d.
- Complete the Qwest CyberCenter build at 400 Tijeras during the 3rd quarter in 2009.

FIBER and SPEED BREAKDOWN

