

Dec. 2003

Hello WUTC,

There is some conversation in the industry that Qwest's recent tariff applications plan to reduce DSL circuit prices for the end user. While I don't know what exactly Qwest has in mind, I am hopeful that Qwest aims to lower the prices to customers and continues to foster mutually beneficial partnership with competitive ISPs.

By reducing the end user's price and not engaging in anti-competitive behavior, Qwest will improve their standing as responsible ILEC within the industry. Further, by cooperating rather than competing with competitive ISPs, Qwest will enhance market position against the major competitors, specifically the cable Internet providers who are not obliged to allow competition on their municipally franchised right of ways.

While there are notable technical differences, these two high-speed Internet options are similar enough to be considered substitute products with normally positive cross elasticities of demand.

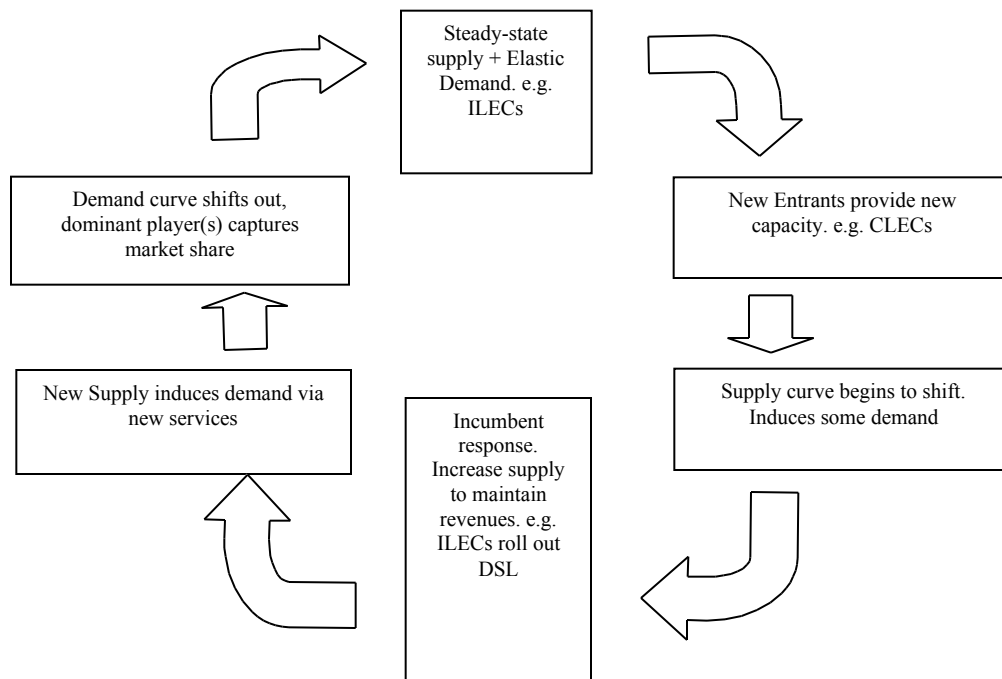
With the USA's broadband adoption rate approaching 16% (in comparison Korea and Japan are both over 50%), a decrease in end-user pricing of DSL will afford more rapid growth of adoption at the expense of Cable Internet whose pricing seems to be on rising trend.

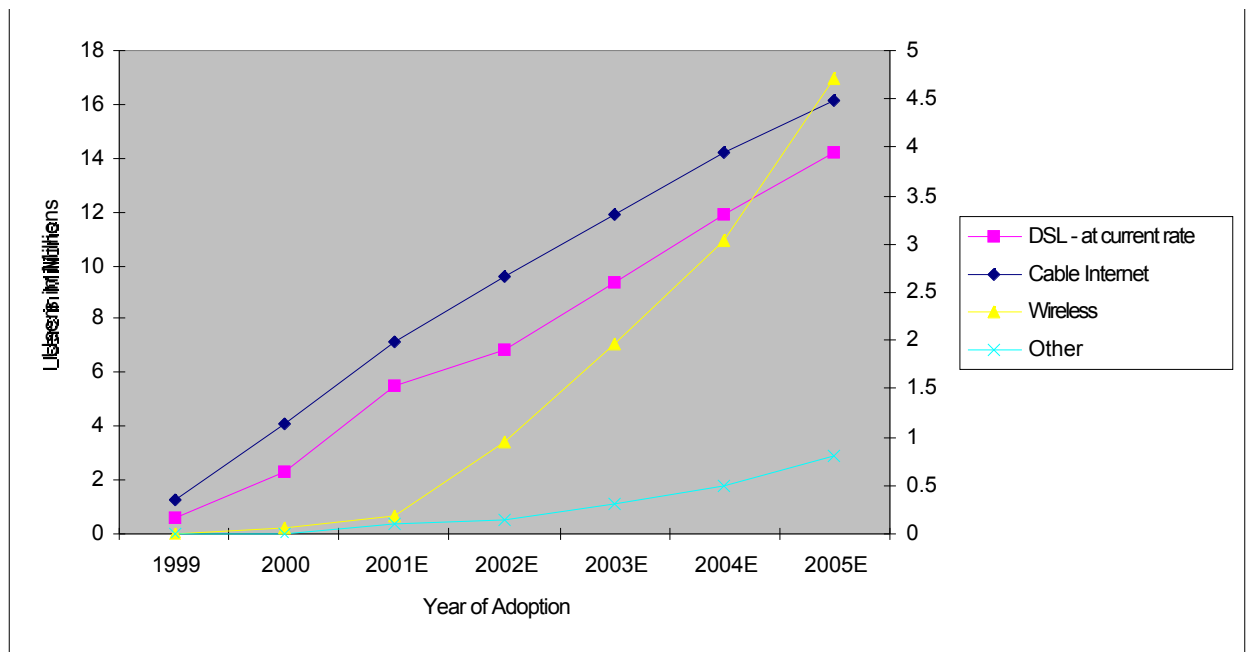
In the Internet access market, most all companies charge a fixed-rate, "all your can eat" price. In the past, more users were accustomed to using Internet at universities, offices or the like where they had little or no knowledge of the actual cost thus their preference was based only on performance.

With two major substitute broadband Internet products (DSL, Cable) now available to more and more consumers, potential customers are becoming more aware of the price and features of the two access options and researching price, service and performance at sites like dslreports.com.

While the past monopolistic history of the telecommunications industry means perfect competition is a ways off, if a fair oligopoly competition exists in the industry, consumer sophistication will foster increased price competition with the lower prices passed along to the end user. Conversely, if little or no competition exists, then efficiencies gained through economies of scale by the ILEC are less likely be passed along to the end-user.

Regardless, the ILEC holds a huge advantage over both CLECs and ISP who serve customers via the ILEC's network. This chart illustrates the cyclical effect of the new product/service competition in Internet/Telco industry.





Broadband Demand Forecast	1999	2000	2001E	2002E	2003E	2004E	2005E
DSL - at current rate	0.58	2.3	5.5	6.88	9.38	11.87	14.22
Cable Internet	1.25	4.11	7.12	9.57	11.88	14.19	16.13
Wireless	0.01	0.06	0.19	0.95	1.96	3.04	4.71
Other	0	0.01	0.1	0.15	0.3	0.5	0.8

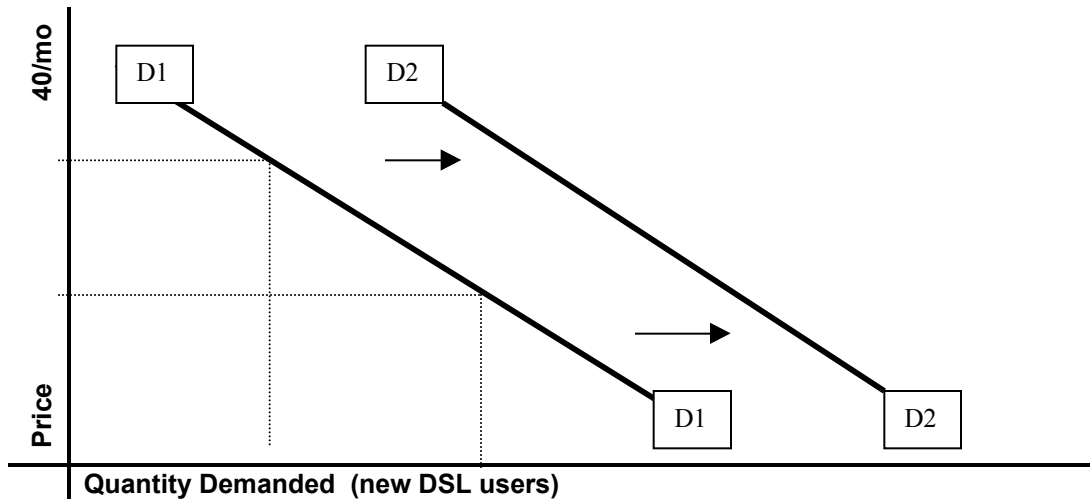
Source: The Strategis Group, except 2000 and 2001 DSL figures which are more recent figures from DSL Prime News

Cable currently enjoys a market advantage. I feel the primary reasons are; 1) established right of ways; 2) access to existing customers with a "one bill" product; 3) aggressive promotional pricing campaigns (though with increases after initial term).

Though launched in 1998, DSL is still a "more confusing" service to purchase due to the two-bill distinction between the DSL circuit provider (ILEC or CLEC) and the ISP. Additionally, deployment is another issue slowing adoption in some neighborhoods which are unable to qualify for DSL (often new developments further from downtown cores).

With recently expanded coverage, if Qwest reduces price and encourages sales participation by independent ISPs, the result will be increased demand (D1).

Additionally, by a lower prices speeding adoption, DSL can gain significant consumer preference over Cable in the marketplace. Coupled with users moving from dial-up access to DSL, the demand curve will eventually experience a shift to the right (D2).



In closing, as an Internet consumer and partner in an independent ISP, I heartily encourage Qwest to reduce pricing for the end-user circuit.

All for now,

Daveo

© 2003 ~ Letter to WUTC regarding DSL tariff adjustment