

1/27/06

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Senate Commerce Committee
“Creating Consumer Choice and Competition in the TV Marketplace”

January 31, 2006

Chairman Stevens, Ranking Member Inouye, and members of the committee, thank you for the opportunity to testify today. We appreciate this chance to discuss what Verizon is doing to bring consumers true video choice through our investment in broadband, and what Congress can do to bring the benefits of competition to more Americans, faster, through reform of today’s outdated franchising laws.

Today, Verizon is the single largest investor in broadband technology in America. We now have the most extensive wireless broadband network in the U.S., which is stimulating a wave of innovation in multimedia applications. We’re also deploying the nation’s most advanced fiber network, which is transforming customers’ broadband experience.

We are deploying our fiber network directly to homes in almost 800 communities in 16 states. As of the end of 2005, we passed our 3 millionth home. By this time next year, we intend to double that, to 6 million, or somewhere around 20 percent of current Verizon households. By 2010, we expect to deliver fiber facilities to around 18-20 million homes and businesses.

This next-generation network equips us to compete through innovation, as other technology companies do. We are using it today to deliver broadband capacity to customers of 5, 15, and 30 megabits per second for internet access and data services. That’s the fastest mass-

market broadband service in the country. In addition, our fiber investment means that we now have the technology to deliver something for which customers have been clamoring for a long time – true video competition.

Last September, Verizon began offering our new video service, called FiOS TV, to customers in Keller, Texas, outside of Dallas. Since our launch in Keller, we've entered the video market in communities in New York, California, Massachusetts, Florida, and Virginia, while greatly expanding in Texas where we have statewide franchise authority. Because of our fiber network, we enter the market with a highly competitive product that's as good as or better than anything in the market today:

- We have hundreds of digital video and music channels, more HDTV content than any incumbent cable operator, and 2000 on-demand titles.
- We have a diverse, line-up of channels, including more than 50 channels targeted to African-American, Hispanic, and other ethnic audiences.
- And we're using IPTV today to deliver video on demand and an interactive program guide.

It's early in the game, but so far we've learned one thing for sure: *customers love this service*. In Keller, 20 percent of the market has signed up for the service in the first three months alone.

Actually, even consumers who don't have FiOS TV like it. That's because, where FiOS TV competes with cable, consumers see their cable bills go down. That's happened in Keller, where cable prices have dropped by about 20 percent since we entered the market. In fact cable incumbents have cut prices sharply in each market where we've introduced FiOS TV.

For consumers, this is an important kitchen-table issue. Unlike prices in highly competitive services like local and long distance, wireless and broadband, cable prices have continued to go up. The FCC found that from July 1998 to January 2004, cable prices rose almost 50 percent – more than four times as fast as the Consumer Price Index. On the other hand, the FCC found that prices were more than 15 percent lower in markets where cable has wireline competition.

Unfortunately, that kind of healthy competition exists today in less than two percent of cable franchise areas. Verizon wants to change that. However, a major impediment to our rapid entry in the video marketplace – and a big obstacle to investment in broadband – is the existing local franchise process, which time and technology have passed by.

As you know, Verizon already has authority to deploy and operate networks for voice and data services. But under Title VI of the Communications Act, we're required to obtain a second local franchise in order to use those networks to offer a competing video service. This requires us to negotiate with thousands of local franchise authorities all over the country.

There are three downsides to this process:

- First, the required negotiations are time-consuming and, we believe, redundant processes that unnecessarily delay our entry into the market;
- Second, they allow the incumbent cable providers to work the process to derail or delay the entry of a competitor in their markets; and,

- **Third, they permit local communities to place restrictions, requirements, and in some cases, mandate additional contributions that have little to do with the question of whether we should be permitted into the marketplace.**

Let me be clear: we are committed to being a video provider. To that end, we are diligently using the existing process to obtain franchises in local communities across the country. We are also working at the state level to find broader solutions. Texas, of course, is the pioneer in this area, and its citizens are now enjoying the fruits of their “first mover” legislation.

However, we strongly believe that a streamlined, national franchise process is the fastest and fairest route to bringing much-needed choice and competition to the video market.

I also want to set the record straight on where we stand relative to the franchising issues so critical to the interests of local communities:

First, we’re prepared to pay local governments the same franchise fees that cable pays.

Second, to serve our customers, we will carry the Public, Educational, and Government channels in local communities.

Third, we support preserving the authority of state and local governments to manage public rights-of-way, just as we have throughout our history.

Fourth, we have a strong record of serving customers across our market and would expect to be subject to any federal redlining rules which also apply to cable.

Verizon believes a streamlined, national video franchising process – combined with our willingness to ensure that legitimate local concerns are met – presents a win-win-win for localities, consumers and the marketplace. Consumers gain a long-delayed competitive edge and a true, superior choice for their video services. State and local governments preserve and possibly grow revenues. The marketplace will see continued growth and investment in fiber deployment across the country, as demand for broadband services continues to grow.

The time for a national, streamlined franchising process is now, because the era of broadband video is here. Verizon is eager to deliver it to our customers, and to tap the full potential of this great, new technology that will empower consumers, transform communities, and encourage innovation and economic growth across America for years to come.

Thank you. I look forward to answering any questions you may have.

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