Prepared Testimony of Verizon EVP Tom Tauke
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Chairman Markey and Members of the Committee:

Thank you for inviting Verizon to participate in this hearing to discuss the future of telecommunications competition.

The world has changed. The policies adopted by this Congress and the Federal Communications Commission over the last decade have unleashed a flood of new communications services and crafted a highly competitive telecommunications marketplace.

Today residential customers think nothing of getting TV service from Verizon, phone services from Comcast, and – with sophisticated new handsets – phone, television and broadband services from one of several national wireless companies.

What is happening is amazing. Consider mobile communications:

- **American consumers choose from among four national carriers – AT&T, Sprint-Nextel, T-Mobile and Verizon Wireless – and numerous regional carriers,**

such as Alltel. These companies all offer a wide variety of service plans.

- **Consumers get remarkable value from their devices and service. The cost per minute has dropped from 37 cents per minute to 7 cents per minute in the last 10 years. In fact, 13 percent of consumers make their cell phone their *only* phone. Some analysts predict one out of three homes could rely exclusively on wireless service for voice by 2012.**
- **U.S. wireless consumers pay considerably less – more than 60 percent less – than European consumers, and have a more robust array of services. As a result consumers use their wireless communications more than twice as much each month.**
- **And the cellular communications industry has invested more than $175 billion over the past two decades to serve its customers, creating 4 million jobs in the process.**

I would add that policymakers have historically focused on traditional wireline voice services and wireline providers. But thanks to technology and innovation the landline is no longer the primary means that people use to communicate. Today there are more wireless phones than wireline connections, and people are on those phones much longer. And, consumers are increasingly using instant messaging, VoIP and email

increasingly to communicate. Furthermore, the companies providing these services are not just the telcos you have represented before you today, but also cable companies and VoIP providers, such as Skype.

Investment in broadband is a similar success story:

- **The adoption rate for broadband is remarkable. Broadband use has grown <u>faster</u> than such ubiquitous technologies as the TV and the wireless phone. The price of broadband continues to drop and prices for some broadband services are now well under half of what they were was just a few years ago.**
- **Consumers in most parts of the country have at least three competing platforms to choose from for broadband Internet service, and additional forms of broadband competition continue to come online.**
- **Today, broadband access is available in some form to just about every consumer in the United States, whether through home, work, schools or libraries.**
- **A report from the Consumer Electronics Association recently found that 75% of households with Internet connectivity now rely on broadband. (On the other hand, the same report found that the number one reason for not subscribing to broadband was the lack of a home computer, not lack of available broadband. The survey found that 26% of households have no**

home computer – the majority of households not already subscribing to broadband.)

- **In the 1990's, modem speeds of 300 or 1200 baud were commonplace, and 56K was considered fast for residential customers. Speeds have doubled on average about every twenty months, and today residential customers of Verizon's FiOS service are downloading at speeds up to 50 megabits.**
- **And for every job created for broadband investment, four additional jobs are added to the overall economy. I would note that despite these successes, there is more to be done.**

Services to large business customers have also evolved, with lower prices, faster services and increased innovation in product offerings.

Now it's important that Congress and the FCC stick with those policies that are working and adopt new policies that will address the challenges affecting two pressing issues: universal service and broadband adoption. So let's look at some instances where current policy should be reinforced.

First, forbearance petitions. The FCC is currently considering petitions asking its forbearance in applying traditional common carriage regulation to high-end enterprise

broadband services sold by several carriers to their big business customers.

Verizon believes the FCC should grant these petitions. Similar freedoms granted to Verizon almost a year and a half ago have been a dramatic success story. Verizon's forbearance petition focused on some of the most sophisticated and competitive services on the market, services that are purchased by some of the most savvy and demanding customers of communications services. Since then, the market has worked and no one has pointed to any problems to be addressed. Verizon has had the flexibility to craft customized solutions to better meet the needs of our customers and to compete more effectively.

Verizon has entered into nearly 200 private carriage contracts for these enterprise broadband services. We have also introduced innovative new enterprise broadband services without jumping through unnecessary regulatory hoops, and prices paid for these services have gone down. Verizon's experience has demonstrated that it would be appropriate for the FCC to grant similar regulatory relief to all competitors, and allow market forces to work without distortion from unnecessary and outdated regulations.

Second, I'd like you to consider the "traditional special access" services that connect business locations to each other

and cellular services to the landline network. This is a case where companies are trying to use regulatory measures to undermine a successful market-based business environment.

By just about any measure, special access is a competitive market: prices are declining, output is growing and customers are benefiting from discount-pricing plans and increasingly individualized service arrangements more than ever before. Between 2002 and 2006, prices for these services have declined by 5 percent per year in real terms. Facilities-based competition has emerged wherever there is appreciable demand for high-capacity services, and intermodal alternatives such as cable and fixed wireless are greatly expanding the competitive supply of high-capacity facilities.

These price decreases and expansion in output reflect an intensely competitive market for high-capacity services, due in large part to the growing availability of alternative technologies. In virtually every area where that high-capacity demand is concentrated, there are multiple alternative fiber networks as well as rapidly emerging competition from both cable operators and fixed wireless providers.

For example, there is an average of more than nine competitive fiber providers in each of the 25 metropolitan statistical areas ("MSAs") that account for 80 percent of Verizon's special access revenues. Within these MSAs, this

fiber is concentrated in the wire centers with the greatest amount of demand, including the locations of wireless cell sites.

Competition has also emerged from cable operators and fixed wireless providers, who are providing both high-capacity services directly to enterprise customers and wholesale services to wireless and other carriers. For example, Cablevision has claimed to have "more fiber in the [New York/New Jersey/Connecticut] tri-state area…than any phone company," including fiber service to twice as many buildings in its metropolitan New York footprint as Verizon.

Competitive providers are also using alternative technologies to self-supply their high-capacity links, including not only these companies' own fiber networks, but also alternative technologies such as microwave and fixed wireless.

In short, the market is working. The FCC has this issue before it and should affirm the current special access policy that removes government-regulated pricing where competition exists in the market. In applying this policy, the FCC should adapt to the changing world and ensure that it considers competition from all providers – not just traditional wireline collocators, but also providers using alternative technologies, including cable and fixed wireless.

Now let's examine a few issues that need attention. First, broadband deployment to underserved areas.

While the marketplace has largely met the broadband needs of urban, suburban, rural and business customers, there is more that must be done to connect all Americans to this transformative technology.

Verizon believes strongly in this goal. We also believe that in developing policies for broadband deployment, Congress and the FCC should keep in mind the pro-market approach that has encouraged Verizon and others to invest heavily in this still-evolving technology.

To ensure greater broadband deployment, we must first have a better understanding of where consumers are underserved. That is why we support Congress' efforts to create programs to provide more information concerning where broadband already has been deployed, as well as the gaps where it has not.

It is also why Verizon is working with one such program called Connected Nation, which we believe provides a useful model for this approach. Connected Nation is modeled on the successful Connect Kentucky program. Through public-private partnerships, Connect Kentucky will have achieved close to 100

percent access throughout the Commonwealth of Kentucky by the end of this year.

The Connect Kentucky program began by compiling an inventory of the current and planned investment in broadband networks in the state. It then determined if sufficient demand existed in unserved or hard to serve areas for private investment. Where private investment was not likely, the program focused on public-private partnerships and securing public funding from various sources to build broadband facilities.

This program is working because it's focused on infrastructure investment and consumer adoption.

In most places, the market is working to meet the needs of customers through private capital investment. We should not implement any policies that impede this process. Where we determine that broadband is not available and the private sector is not making the needed investment in network facilities, we should target programs to support infrastructure investment, perhaps through a combination of loans, tax credits, or grants.

The second issue that requires the attention of policy makers is the Universal Service Fund. We believe this fund is badly in need of reform. As competition and technology bring consumers more choices and lower prices, one would expect

that the cost of providing universal service would go down. But it's not. Instead, the burden on the consumer to pay the cost of the universal service program is going up. The percentage rate of the surcharge on phone bills has tripled, with more increases on the horizon, and in the past eight years, high-cost funding has grown from $1.7 billion to $4.1 billion – a 142-percent increase. Support to competitive eligible telecommunications carriers (CETCs), which are mostly wireless carriers, has grown from $1 million in 2000 to nearly $1 billion in 2007.

This increase is driven, in part, by the proliferation of new communications options for consumers. For example, when a family with one wired line buys a wireless family plan with four handsets, the universal-service funding provided for that family increases by a factor of five.

The problem is not just that the fund is getting bigger. Within the fund, the support for each recipient is also becoming unstable. A telco with cost increases that are more than the nationwide average can increase its support, while one that spends less can lose support. This doesn't provide very good incentives for carriers.

Verizon believes that modernization of the fund should be guided by the following principles:

- **First, funding should be targeted to geographic areas where consumers will be denied service without universal support.**

• Second, the fund should ensure affordable service in high-cost areas, while limiting consumer costs to no more than is required to accomplish that goal.
• Third, a new policy should recognize the need to maintain a rural wireline infrastructure even as the number of wireline voice customers declines.
• Fourth, a new and fairer system is needed to fund universal service support.

Reform should start with the way money is collected for the universal service fund. Verizon believes this mechanism should be based on phone numbers. Tying payments to telephone numbers ensures that the fund is supported by all voice customers, and it substantially reduces the administrative burden.

We also must reform the way money is paid out of the high-cost fund. Earlier this year, Verizon filed with the Joint Board and the FCC a proposal to modernize high-cost funding. Verizon proposes a "reverse auction" for the distribution of universal-service-support funds. We suggest:

First, stabilizing funding in each geographic area, by initially capping the fund in each area at current levels. The Joint Board has proposed an interim cap on support going to competitive carriers, pending long term reform. We support the Joint Board's recommendation and urge the FCC to adopt this

recommendation as an important first step in reforming universal service.

Second, the FCC should adopt a framework for competitive bidding – a common approach by government to procure services – through a reverse auction. Companies would bid to provide universal service to a given area, and the lowest – and most efficient – bidder would win the support.

Third, this market-based process should begin in areas where there are already at least two wireless ETCs. The wireless carrier that submits the lowest bid would enter into a contract, with a specified term, that spells out its obligations. Once these auctions have been completed, we suggest that auctions among wireline carriers be held in those few areas where there is a competitive wireline carrier receiving support.

Fourth, after these initial auctions, the FCC should open a new proceeding to review the auction process, and to determine next steps. The FCC might also use the results of areas where auctions have been held to adjust high-cost support for other areas.

We believe this approach puts in place a more market-oriented system that also sustains universal service in this competitive marketplace.

We look forward to exploring various issues that ensure competition in this dynamic marketplace. But we believe that the principles of consumer-focused and open markets should always be among our goals. These are the principles that have promoted new services and innovative technologies, served consumers well, encouraged investment in America's dynamic communications infrastructure, and created new opportunities for our citizens and businesses alike.

Thank you.