Past, Present, and Future:
The Competitive Landscape of Telecommunications Services

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Agenda

Part I. The Past
- Consumer Choice
- The “Rate Case Business”
- The Telecommunications Act of 1996

Part II. The Present
- Growth and Innovation
- Intermodal Competition

Part III. The Future is Now
- Video Choice
Part I. The Past

• Thirty years ago “consumer choice” meant telephone customers could choose the color of their telephone sets.

• Twenty years ago a Bell system executive was quoted as saying “his company was in the rate case business—the business of setting utility rates—not the phone business.”

• Only ten years have passed since the passage of the Telecommunications Act of 1996, but those are light years in today's technological age.

Part II. The Present

• 45 percent of long-distance calls – and more than 30 percent of local calls – have been displaced by a combination of e-mail, instant messaging, Internet voice service (VoIP) and wireless services.

• There are now more wireless phones than home phones in America – one out of every seven wireless customers uses wireless as their primary telephone;

• 31 billion e-mails are sent every day

• 14 million people place a phone call over the Internet – This figure is expected to grow exponentially in the next three years.
**Competition Drives Growth and Innovation**

- **Wireless Growth:** Deregulation of the wireless industry sparked a rise from 2 million users to more than 174 million wireless subscribers, while the consumers’ average monthly bill has dropped to a fraction of its original price.

- **Internet Growth:** Ten years ago, AOL had 1 million customers. Today, the company has 23 million customers – a 2,300% increase.

- **Cable:** Since deregulation of cable rates, the cable industry has penetrated more than 67 percent of all TV households in the U.S.

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**Our Industry Has Changed**

- **Device Convergence**
- **Application Convergence**
- **Network Convergence**
Intermodal Competition

Consumer Demand for Applications Drives Broadband Market

Percent of 243 respondents from Internet survey that felt the subject services will eventually become very important

Source: RVA Render Vanderslice & Associates
Verizon FiOs

- Next-generation fiber to the premises network that can deliver high-bandwidth voice, video and data services.
- Fiber all the way to the home
- Highest capacity broadband connection in the marketplace

Verizon’s Vision Helping Boost National and Local Economies

- To date, we’ve begun building our FTTP network in parts of 18 states.
- We are deploying in some 400 communities across the U. S.
- By the end of 2005, we passed 3 million homes and businesses with fiber-optic technology.
- Spent about $3 billion in capital to deploy.
- Our CEO recently stated that we plan to pass up to 18 million homes with fiber by 2009, only three years from now.
- Our fiber deployment created 3,000 – 5,000 new jobs by year-end 2005 in Verizon alone.
FTTP Implementation

- Overlay Build
- Green Field Build
- Small Businesses
- Circuit Switch
- OLT
- ONT
- Splitter Hub

Consumer Bandwidth Demand

Demand will soon outstrip current FTTC, FTTN or cable capacity ... while FTTP has room for growth

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<thead>
<tr>
<th>Total Downstream Demand (Mbps)</th>
<th>Past</th>
<th>Present</th>
<th>Future</th>
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<tbody>
<tr>
<td>HD Video Streams (includes HD DVR)</td>
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<td>Video</td>
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<td>Basic IP Data</td>
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<td>Growth Potential</td>
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FiOS – “Redefining Interaction”

Upstream Speed Increasing in Importance!

FTTP

- Cable Modem
- ADSL
- Dial-Up

Platform for landline content and applications

Introducing Verizon FiOS

- 5M/2M
  - 9 Email Boxes – 30Mb
  - 10Mb Personal Web Space
  - Key Apps: Web Browsing, Email

- 15M/2M
  - 9 Email Boxes – 30Mb
  - 10Mb Personal Web Space
  - Key Apps: Gaming, Photo Sharing, Video Streaming

- 30M/5M
  - 9 Email Boxes – 30Mb
  - 10Mb Personal Web Space
  - Key Apps: Work from Home, Large File Transfers, Data Backups

- Video alternative to cable
- Compare cable modem speeds of 3-6M, DSL of 1.5M
- Robust Features
Introducing FiOS TV

GREAT VALUE FOR THE CONSUMER...
- 100% digital
- Over 400 channels
- 22 + HD channels
- 100% VOD capable
- 2000 VOD titles
- 120 hour DVR
- Simple, compelling packaging
- Genre-based channel line-up
- $39.95 Enhanced Basic

... and It’ll Keep Getting Better

Part III. The Future Now

- Consumers want choices for their video services but video choice is being delayed by the local franchise process.
- 23 local franchise agreements today plus all of Verizon’s service territories in Texas due to statewide, streamlined franchising legislation.
  - Franchises in CA, DE, FL, MD, MA, NY, PA, VA
  - Current households in all franchise areas offering video: approximately 1.3 million.
  - Verizon is pursuing franchises in 300+ communities in 13 states.
  - If all are approved, number of households where video services could be offered is approximately 4.3 million.

- In most cases the process lasts more than 15 months.
- Counting pre-negotiations, the entire process often takes 18 to 24 months.
**Choice Matters to Consumers**

- Choice is an important kitchen-table issue.
- The FCC found that cable prices have increased 86 percent since 1995.
- Cable prices are 15% lower in markets that contain a wireline competitor.
- A recent study by the Phoenix Center found that cable markets without a wireline alternative cost consumers more than $8 billion per year in excessive cable rates.

**The Effects of Competition**

*Consumer Price Changes: Cable, Long Distance (LD), and Wireless Service 1999-2005*

Indexed July 1999=100

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<td>2005</td>
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*Sources: Federal Communications Committee and Bureau of Labor Statistics (July over July of previous year)*
Video Choice Legislation Ensures True Competition

• A streamlined approach to the 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 technologically advanced alternative for their video services.

• State and local governments preserve and possibly grow revenues.

• The marketplace sees continued investment in fiber deployment and growth in broadband services.

Verizon Endorses Connectivity Principles

• Verizon endorsed the High Tech Broadband Coalition’s "Connectivity Principles" more than two years ago.

• All participants in the broadband value chain should embrace a set of connectivity principles which ensure that consumers can
  • access any content on the internet
  • run any application they choose
  • attach any devices to their broadband connection that do not harm the network
  • get information regarding their service capabilities

• Last August the FCC adopted a policy statement that reflected these principles
Market Forces and Competition
Make the Internet Work for Consumers

• The Internet’s structure, history and competitive nature ensure consumers have access to the widest array of content and services
  • Consumers can go where they wish on the Net
  • Consumers can run any application they wish
  • Consumers can attach any compatible device they wish

• “Hands off” approach has worked with other new technologies/applications – value in innovation

• Competition and choice drive the market and will resolve quickly any potential for abuse – but Verizon has also supported the Connectivity Principles

• Consumers get more value when network providers can use the capacity on their networks to offer value added or proprietary services
  • Consumers can choose what they want, have access to more innovation and new services
  • Network providers can develop more revenue streams that can help support deployment – the consumer wins again.

Thank You