

TESTIMONY
OF
RANDAL S. MILCH
EXECUTIVE VICE PRESIDENT AND GENERAL COUNSEL
VERIZON COMMUNICATIONS INC.

BEFORE THE
SUBCOMMITTEE ON ANTITRUST,
COMPETITION POLICY,
AND CONSUMER RIGHTS
COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE
“THE VERIZON/CABLE DEALS: HARMLESS COLLABORATION OR A
THREAT TO COMPETITION AND CONSUMERS?”

March 21, 2012

Good afternoon, Mr. Chairman and members of the Subcommittee. I am pleased to appear before you today on behalf of Verizon to discuss both Verizon Wireless' acquisition of currently unused spectrum that we will put to work for the benefit of our customers, as well as separate commercial agreements Verizon Wireless has entered into with a number of cable companies that will help bring more innovation, choice and convenience to consumers.

Verizon Wireless Needs Spectrum

The 20 MHz of spectrum that Verizon Wireless is purchasing from SpectrumCo and Cox Communications is today not being used to serve customers; with this purchase, it will be deployed to provide the additional capacity that consumers, companies, and entrepreneurs need to meet their rapidly growing data demands and upon which they depend.

Providing the best possible network experience for our customers has been a guiding principle for Verizon Wireless since its very inception and the company routinely wins awards for highest network quality from independent, third party evaluators. To cite just two: Based on a recent survey of customers, J.D. Power and Associates concluded that Verizon Wireless offers the best customer service in the wireless industry. In late February J.D. Power and Associates also concluded that Verizon Wireless has the best Network Quality of any national wireless carrier. We have won these awards – and

many others -- because we have anticipated the needs of our customers and have repeatedly invested in our network and in the spectrum required to meet those needs.

Verizon Wireless' latest investment, and one of our most substantial, is in our new 4G Long Term Evolution, or LTE, network. LTE gives our customers average download speeds of 5-12 Mbps – up to ten times the speeds available on 3G networks. As of today, Verizon Wireless's LTE deployment covers more than 200 million people in 196 markets across the United States, incredible progress since we turned on the first LTE market a mere 15 months ago, in December 2010. Verizon Wireless recently announced that we are accelerating by six months our plans to cover 95% of the U.S. population with LTE, meaning we'll achieve that goal for the country by mid-2013. And through our LTE rural initiative, we are working with fifteen rural carriers to help ensure this critical innovative technology is also available to rural America. Verizon Wireless' rapid deployment of this network has placed the United States at the forefront of global LTE deployment. Following our lead, other companies are now moving aggressively ahead to deploy their own LTE networks. In addition to providing consumers with the fastest wireless network in the world, our LTE deployment also provides a platform for other companies – including much-needed startup businesses -- to develop new technologies and new products that will benefit both consumers and the American economy.

What does this have to do with spectrum? First, Verizon Wireless' network quality depends on having adequate spectrum. Without it, we can't provide our customers with the high-quality network experience that they expect and deserve. Second, the need for spectrum has been heightened by the explosive use of smartphones,

tablets and other data intensive devices, as well as data intensive applications such as video and audio streaming. A mobile application and content economy has blossomed because of advanced wireless networks. FCC Chairman Genachowski has insistently and quite properly emphasized that the ready availability of additional spectrum is essential for the expanding ecosystem of mobile applications and content to flourish. Estimates of data use have almost always proven to be too conservative. Data usage on Verizon's network has been more than doubling each of the last three years, and is expected to continue that trend going forward. According to FCC estimates the demand for mobile data by 2015 will be 25-50 times greater than it was in 2010. Customers and indeed the entire mobile Internet economy are benefiting from our tens of billions of dollars in wireless network investment, and the responsive multi-billion dollar investments of our competitors. Our customers and our competitors' customers are streaming movies and video clips over their wireless devices, uploading and downloading large .pdf files, and doing business on the go. That's great for all wireless users. Just as importantly, it's been great for Silicon Valley and Silicon Alley and the many places between. There currently are more than half a million apps available for both Apple and Android devices. Content providers have more ways to get their content to people who want to consume it. This entire ecosystem depends on the availability of high-quality, advanced networks.

Verizon Wireless has taken active steps to help foster the mobile broadband economy by promoting the development of third party devices and applications that use the LTE network. We have established a Technology Innovation Center in Waltham, MA, to help develop technology companies that are focused on LTE and the opportunities created by our investments in mobile broadband. Many innovations are

being developed which will serve a wide variety of industries – including areas of vital national importance such as healthcare, energy and transportation, and public safety. For example, Verizon Wireless and In Motion Technology recently announced the first wireless mobile router system available for securely extending the enterprise network to the vehicle over our 4G LTE network. In Motion Technology is widely deployed in public safety, public transit and utilities, and will be demonstrating how its onBoard™ Mobile Gateway can be used in ambulances. By securely connecting laptops, tablets, electrocardiograms (EKGs), Electronic Patient Care Reporting (EPCR), IP cameras, Computer Aided Dispatch (CAD) and vehicle diagnostic systems, the onBoard Mobile Gateway will improve operational efficiency for emergency responders. We also have opened an Applications Innovation Center in San Francisco so that developers large and small can work closely with Verizon Wireless and our many partners to create, optimize and polish their ideas and turn them into viable applications for wireless customers. Finally, we have created a 4G Venture Forum which serves to link innovators and entrepreneurs with venture capitalists – again bringing solutions to the market.

But all this good news also means that there is a tremendous, growing need for more spectrum. The Federal Communications Commission predicts that, if additional spectrum is not made available in the near-term, mobile data demand will likely exceed capacity by 2014, resulting in a broadband spectrum deficit of nearly 300 MHz. And other than unused spectrum held by existing owners – such as the Spectrum Co. assets – there's currently no other place to go to buy spectrum. We applaud Congress and the Administration for freeing up more spectrum in the landmark legislation you recently passed and the President signed into law – but it will be some years before that spectrum

can be put into use. The only practical solution available now to the looming spectrum deficit is to tap the unused spectrum held by existing owners – a solution Verizon Wireless is undertaking now.

In some of our largest markets, the spectrum crunch will come soon and start hurting our customers – and your constituents - who expect and demand high-quality service. And as we recently demonstrated in our FCC filings, we will need spectrum to meet our customers' growing demands in markets of all sizes, large and small. We will need this spectrum in a number of significant markets by 2013, so there is no time to lose in making this spectrum available. It generally takes years, not months, from the time of purchase before new spectrum can actually be used to provide services. Among other things, we will need to acquire and deploy network equipment and work with device manufacturers to develop and make available LTE devices that can use this spectrum. This means we need the spectrum now in order to do the work required to put it to use when our customers need it.

We are working closely with the Department of Justice and the Federal Communications Commission as they review our spectrum purchase, and we're confident the regulators will understand our spectrum purchase is good not just for Verizon Wireless' customers and the mobile broadband economy but that it also creates no competitive problems. Why? The spectrum we're buying from Comcast, Time Warner Cable, Bright House and Cox is not in use today. Verizon Wireless is not buying a competitor and is not buying any customers or facilities. We are only buying spectrum not currently in commercial use in order to put it to use serving customers, and no customer will see fewer choices or increased prices as a result of this transaction.

There is no basis for a concern that Verizon Wireless somehow is “hoarding” or “warehousing” spectrum. In fact, Verizon Wireless is the most efficient user of spectrum in the U.S., serving more customers per megahertz of spectrum than any other carrier, despite the explosion of data traffic from smartphone usage. T-Mobile has made allegations in this area, so let’s look at the facts. As an example: Verizon Wireless is almost twice as efficient in its use of spectrum as T-Mobile: Verizon Wireless serves over 1.2 million customers per MHz of spectrum, while T-Mobile serves 660 thousand customers per MHz of spectrum. Verizon Wireless is so efficient, that after the addition of the Spectrum Co. spectrum but before we even put the spectrum to use, we will still be the second most efficient user of spectrum in the United States.

Moreover, Verizon Wireless is not simply an acquirer of spectrum. We also have worked to rationalize our spectrum holdings when we identify particular blocks of spectrum that no longer fit in our network deployment plans, and have made those spectrum assets available on the secondary market so they can be put to productive use by others.

Verizon Wireless is an efficient user and good steward of the spectrum we have. We have spent \$22.3 billion over the last three years – and \$8.3 billion in 2011 alone – on our network, more than any other wireless company. Roughly half of that spend has been investments to increase our capacity within our existing spectrum through numerous engineering techniques, such as cell splitting and denser cell site deployments. These capacity increasing techniques are of course available to all carriers that wish to invest in them.

But the most direct answer to charges that Verizon Wireless is somehow taking more than its ‘fair share’ of spectrum is to look to the standards that the FCC has used to review this very issue. After acquiring the additional spectrum, Verizon Wireless’ holdings in nearly all geographic areas will remain below the level where Federal Communications Commission precedent says that no further competitive inquiry is necessary, because there is “clearly no competitive harm.” The FCC employs a spectrum “screen” to identify areas below which no further inquiry is needed. The screen is based on one-third of the spectrum that the FCC concludes is available for mobile use, and is 145 MHz in nearly all markets at issue here. Verizon Wireless would remain below this level in 2,230 of the 2,276 of the counties covered by the SpectrumCo licenses – or nearly 98 percent of the covered counties. In the few areas where the screen would be exceeded, it is typically only by a few MHz and there are multiple other providers with spectrum in each.

In summary, Verizon Wireless’ purchase of currently unused spectrum from the SpectrumCo companies and Cox addresses a critical need without any harm to competition.

Other Agreements with the SpectrumCo Companies and Cox

In addition to the spectrum agreement, Verizon Wireless also entered into separate commercial agreements with these companies. These agreements are intended to address a basic challenge: How to create an opportunity to provide innovative national services seamlessly integrating wireline and wireless capabilities. Verizon

Wireless provides services across the entire United States, but Verizon's wireline FiOS services cover only a small part of the country. To justify the investment to create innovative converged wireless and wireline products and to offer convenient bundles of services to those customers across the United States who want them, Verizon Wireless needed to find wireline partners with footprints that cover the rest of the country. More than 85% of households served by the SpectrumCo companies and Cox are not in an area currently served by FiOS. This business need resulted in three sets of agreements.

First, Verizon Wireless and all four cable companies (Comcast, Cox, Bright House and Time Warner) gain the ability to act as a sales agent for the others' services. One set of agreements provides for the cable companies to act as agents for Verizon Wireless, selling wireless service as part of a bundle of services and receiving a one-time commission for the wireless services they sell. Such agent arrangements are not unusual. For example, AT&T and Frontier have such a relationship, as do Verizon Wireless and CenturyLink. Similarly, Verizon Wireless will act as an agent for the cable companies, so if Verizon Wireless sells cable services, we receive a one-time commission. These agreements create another sales channel for Verizon Wireless, which has well over a thousand agency agreements in place already, and a way for Verizon Wireless to offer a new option to customers who are interested in bundled services. In both instances – where Verizon Wireless or a cable company is acting as an agent – the underlying service provider (and not the agent) sets the prices for the product being sold.

Second, Verizon Wireless and the SpectrumCo companies are working together to create next-generation technical capabilities enabling customers to more seamlessly have wireless devices such as smartphones and tablets interact with home entertainment

systems and wired computers. For example, we hope to give our customers the ability to share user-generated content across multiple screens and devices in real time -- if you're at your child's soccer game, you can send video streams to other family members wherever they might be.

This breakthrough innovation will be good for consumers and competition, by adding a new offering in the already hotly competitive market for converged technical solutions. At the same time, nothing in this agreement prevents other innovative companies from using our networks to send content to their customers – something that many companies from Google to Hulu to Netflix do today - or from developing and deploying their own innovative services over our networks.

Finally, the cable companies that are parties to the agency agreement have the option in the future to move away from an agency relationship and instead become resellers of Verizon Wireless services. It will be in their sole discretion as to whether to do so, and they will no doubt make this decision based on the competitive environment in perhaps the most challenging and rapidly evolving industry in the United States.

These commercial arrangements will benefit customers. Customers nationally will now have the convenience of buying bundled services, if that's what they want. Those services often will have a discount – our first offering in Seattle includes a \$300 gift card to induce customers to sign up. Furthermore, customers will get the fruits of the companies' innovation venture, making these bundled services more useful, while remaining free to choose many other innovative converged technologies. And down the road, the cable companies may elect to resell Verizon Wireless' service, adding a different competitive dimension to the market.

There's been a lot of ill-informed noise about these agreements, so let me very briefly address what I understand the chief concern to be. Critics have complained that these agreements somehow signal that Verizon is abandoning its FiOS service. This is a groundless concern.

First, Verizon's shareholders have invested \$23 billion into FiOS, and those shareholders are only now beginning to see a return on that massive investment. FiOS now makes up 61% of Verizon landline consumer revenues, and FiOS revenues grew 18.2% year over year. In just two years, we've grown video penetration in existing FiOS areas from 25.4% to 31.5%, and our Internet penetration from 29% to 35.5%. We've no intention of slowing down in our competitive efforts – indeed our shareholders have every economic incentive for us to push ahead.

FiOS is a hugely successful product that is taking market share from cable and satellite competitors because, frankly, it's superior to the products with which it competes. FiOS has won numerous accolades, including an industry-leading customer satisfaction rating. We're confident that customers will continue to choose FiOS over cable services when presented with a choice, and choose a bundle of Verizon FiOS and Verizon Wireless where they have that choice. Verizon Telecom – which is the group within Verizon that provides landline consumer services - will continue to vigorously sell double plays, triple plays, and quad plays using Verizon Wireless services.

Thus, we have every incentive to continue to compete hard with FiOS against cable to continue our FiOS success. The notion that we would undermine FiOS – one of the largest capital investments made anywhere in the United States over the last decade – merely to obtain one-time agency commissions is to ignore the most fundamental facts.

In short, Verizon is full speed ahead with FiOS and nothing in these commercial agreements – to which Verizon’s wireline FiOS group is not even a signatory – changes this commitment.

Conclusion

From Verizon Wireless’ perspective, it is critical that we receive timely regulatory approvals for the spectrum we’re purchasing from the cable companies. Verizon is proud that our investments in LTE and network quality have attracted so many customers using so much data, but all that data use has accelerated our need for new spectrum. We’re investing the money to buy this spectrum and put it to work for our customers; any delay in our ability to do so can only harm those customers.

Verizon also believes the other, separate commercial agreements have significant consumer benefits: They will give Verizon Wireless the ability to offer convenient bundles of services to all of our customers across the United States and hold open the promise of new and innovative products and services that customers will want and need. I appreciate the opportunity to be here and I look forward to your questions.