

Testimony of Alan F. Ciamporcerro, President, Verizon S.E.
Region

Before the Revenue Laws Committee, January 11, 2006

Mr. Chairman and Honorable Members of the Committee:

I am Alan Ciamporcerro, regional president for Verizon. My territory includes the Southeast, but particularly North and South Carolina and Florida where we have wireline networks. We serve approximately 300,000 wireline customer in North Carolina, primarily in the Durham/RTP area and in far Western North Carolina.

The traditional telephone business is changing rapidly. The wired telephone on your desk or kitchen wall now performs only part of your communications functions. You only need to watch young people to appreciate this. They are always communicating, and doing it in new ways--instant messaging, cell phones, VOIP, blackberry, cable television, DVDs, and I-Pods, among others.

To meet these changing consumer demands, we are transforming our business. We are evolving from a phone company to a data company by vastly expanding the capacity of our network. For the large investments in the new high-speed technologies to make business sense, however, we need to be able to offer the full suite of services, everything from plain old phone service to video entertainment.

Cable companies can do this now with ease – there are no regulatory barriers to them adding telephone and data services to their basic video business. In fact, federal and state law make it very easy for anyone to get into the phone business – just file a simple form and get a certificate.

Entry into the video business by a phone company, on the contrary, is very difficult. Even though it already has a franchise to provide communications services, a telephone company must get another franchise from the local government to provide video service.

And this franchise is not easy to get. We've learned hard lessons in Florida and other states over the past year. Franchises are often more than 100 pages of legalese, specifying everything from insurance, to bond requirements, to liquidated damages in the event we can't build out an entire municipality. Further, local governments use this process as a way to indirectly tax companies – by requiring in-kind benefits and direct monetary grants.

For example, one city that I'm intimately familiar with said that we could offer consumers video only if we gave the city more than \$10 million in benefits upfront – everything from free channels to money to buy equipment to program those channels. Because of these unreasonable demands, the consumers are not yet receiving the benefits of investment and competition. Similarly, other cities want us to donate data networks, hook together traffic lights, and provide free video entertainment to city buildings – all before getting in the business.

But the biggest problem with the local cable franchise process is the time it takes to get these negotiations finished and get a new product to market. Cities typically retain Washington lawyers to help extract the most from the applicant – and these consultants don't move quickly. In the end, it takes about 12 to 18 months to get a local franchise. That's 12 to 18 months each for the hundreds of local franchising authorities in each state. For a national company like Verizon, that means about 10,000 franchises – after about a year of effort, we don't yet have fifty.

So far, Texas is the only state to rationalize this difficult process. There, the legislature took advantage of a provision of federal law that permits the state – instead of localities -- to grant video franchises. The process is simple. A company files a registration statement with the state indicating where it intends to provide video service and provides an affidavit that it will comply with all laws – for example, FCC registration, applicable fed and state regulations, and municipal regulations regarding use and occupation of right of way. If everything is in order, the company is free to begin offering service after seventeen days.

The Texas law has been great for investment and great for consumers. Several new companies have entered the video business and some incumbent providers have also taken advantage of it. One municipality, West Lake, even decided to move to the state franchise rather than continue with its local Verizon franchise. Verizon substantially increased its building program in Texas as a result of the new law, filing to provide video service in 21 additional markets.

And citizens have been the winners. Price competition and better quality service are spreading quickly throughout Texas. We recommend that same solution to you. It is simple and easy to do, it substantially increased investment in the state, and it should even prove efficient and beneficial for local governments, getting them out of a regulatory role for which they are not well suited.