Prepared Remarks of Verizon EVP Tom Tauke
Media Institute Luncheon Remarks
Tuesday, July 11, 2006

Thank you, Patrick, for that kind introduction. It's a pleasure to be here, and to be with good friends like Dick Wiley and Preston Padden. I have to say, though, that they're still adjusting to the notion of Verizon being part of what we think of as media.

But then, the whole notion of media is changing. Cable companies are in telecom. Broadcasters are doing data. Print is doing video. Broadband is connecting <u>everything</u> the media produces <u>everywhere</u> consumers are. And consumers aren't just digesting the content. They are creating it and distributing it across the many platforms now available to them.

What's occurring is nothing less than the democratization of media, with broadband serving as the great equalizer. Virtually every broadband user – wireline or wireless – can be a writer, film maker, software designer or entrepreneur, with the ability to reach hundreds of millions of people worldwide.

People no longer have to wait for their future to be shaped by others. The can shape their future themselves. This ability to drive change is affecting not only individuals, but markets.

Six months ago Disney was offering primetime programming for a fee on iTunes. Now ABC and other networks stream those same shows at no cost on their web sites. NBC is even showing its new fall shows online before folks see them on TV.

We read last week that AOL is reconsidering its subscription model for broadband users. And just about every web site – from blogs to newspapers to e-commerce – now incorporates some form of video streaming, something that would not be possible in a dial-up world.

All of these changes are taking place in a highly competitive marketplace, driven by highly disruptive technologies. Consumers can access and participate in this new broadband world via networks deployed by telecom, cable, Wi-Fi, satellite, power companies, even municipalities.

What makes Verizon an integral part of the 21st century media industry? We are the single largest investor in broadband technology – wireline and wireless – in America. We provide

DSL and wireless broadband, and we are building a world-class fiber-optic network that will pass 6 million homes this year, with a reach of as many as 20 million households by 2010.

Verizon's FiOS network delivers the fastest Internet access in the marketplace. Customers go online at speeds up to 30 megabits per second downstream and up to 5 megabits upstream on a network capable of 100 megabits and beyond.

That's an amazing amount of capacity – limitless really. It's the kind of capacity that puts the notion of an "Internet slow lane" in the category of things like steam-powered automobiles, black and white TVs, and 16-bit computers.

FiOS is transforming the speed and flexibility of the Internet and that is a huge draw for customers. Yet the big driver of demand for fiber to the home is video.

Consumers want to see the same kind of competition in video that they've had in phone and Internet services. That's what FiOS does. FiOS TV has more than 400 channels, more than 20 hi-def channels, and upwards of 2000 on-demand titles. And consumers save between 20 to 40 percent on their monthly cable bills where Verizon is competing.

Because of FiOS's enormous capacity, robust Internet access and a superior video product are just the beginning of the services consumers will receive. We see opportunities to offer services that change the way we work, and the way businesses of all sizes access global markets. We see new opportunities for students and the disabled to grasp new ideas and enter new worlds. We see virtual medical applications that make house calls part of the future instead of the past.

With these new wireline and wireless networks we'll see more innovations enabled by telecommunications in the next ten years than we've seen in the last 100.

It's important to note that these seismic shifts in business models and consumer expectations aren't taking place in a virtual vacuum. They are the result of policy decisions that unleashed broadband and wireless markets from the tether of government regulation and allowed them to work.

These policies are being discussed anew, and we should not make the mistake of believing the future we envision is assured.

The outcome of this debate will determine whether the broadband world isn't just delayed, but denied altogether.

As a result, we find ourselves at a critical pivot point. We have a window of opportunity to step into a new world of broadband and consumer choice, or we can step back into the old world of limited innovation and limited opportunity for consumers. The stakes are high. The time to act is now.

Two weeks ago the Senate Commerce Committee cleared video-choice legislation. The entire House passed similar legislation last month. House Energy and Commerce Committee Chairman Joe Barton and Senate Commerce Committee Chairman Ted Stevens are to be congratulated for their leadership and clear vision in setting goals that re-shape 20th century telecom policies for a 21st century world of broadband.

Congress has made a great deal of progress on a legislative package for broadband that is good for consumers, the marketplace, and our nation. Congress has the opportunity to:

- **Accelerate broadband deployment across America;**
- **Provide consumers real choice for video services;**

- **Save consumers money on their monthly cable TV and telecommunications bills;**
- **Stabilize the Universal Service Fund; and,**
- **Strengthen first responders' communications capabilities.**

Congress has done well, for the most part, in keeping its focus on consumer needs in the still-developing broadband marketplace.

The potential for problems rests with some policymakers' penchant for falling back on old-world regulatory solutions for problems that simply do not exist in the broadband world. This is most evident in legislative approaches to "net neutrality" and VOIP interconnection.

"Net neutrality" is perhaps the oddest Washington debate I have seen. It amounts to holding a Congressional vote on hypothetical business plans.

On one side we have policymakers giving consumers the final say in the kinds of Internet services they use, while innovators are free to do what they do best: create and offer new products and services to their customers.

On the other side we have policy makers suggesting that new and different business models driven by innovation actually may harm consumers and the Internet. They want government to take pre-emptive action because bad things could happen.

This debate is taking place in a highly competitive market place, where consumers have full access to the Internet, and are demanding more speed, more choices and more services. Companies are making massive new investments, providing more network capacity and innovative services, and they're doing it through commercial transactions and agreements with no government regulation.

To their credit, the House and Senate have focused on consumer access to Internet content, such as the Senate's detailed and enforceable "Consumer Internet Bill of Rights." And policymakers have rejected attempts to establish a preferred business model.

Yet some of the more extreme "net neutrality" supporters seem to fear the market and a future where consumers get more of everything, and are in control. They want the commercial agreements the Internet has lived and grown by regulated in the same way old-world phone service was regulated.

Frankly, this fear of the market simply doesn't compute. The government's hands-off approach to the Internet has been enormously successful. Voice, video, and data services are competing on all wireline and wireless broadband platforms. Consumer choice is growing exponentially as new broadband-enabled products and services emerge. Internet speeds are increasing rapidly. Prices for high-speed access have dropped dramatically. And the broadband share of homes connected to the Internet has grown from about 25 percent in 2002 to more than 60 percent in 2006. Consumers are getting more access, more speed, more services, and more choices. Yet somehow there's a problem that requires the government to step in? I don't think so.

What could be the motivations to get government in the middle of a market that is working so well? I can see why some of the big companies that have done exceedingly well on the Internet of today want to lock in the current business model. They'd like to perpetuate what is working for them.

But for consumers and the country, government regulation of this developing market is a lose-lose proposition.

First, we've seen what happens to innovation when the government imposes old world, common-carrier regulations and tries to anticipate or impose business models. Remember? It was called video dialtone. It didn't work then, and efforts to apply so-called "non-discrimination" standards to access IP networks today will have the same result – denying consumers real choices, denying the marketplace competition and innovation.

Second, old world regulation would severely hamper the deployment of the new networks that are the essential foundation for the broadband world.

Today there are about 800 million Internet users globally, a number that will double in ten years. Average online surfers today use about 2 gigabits of data per month; in ten years that figure will be 220 gigabits. Downloading one high-def movie devours more bandwidth than downloading 35,000 web pages or 2,300 songs.

Today's access and backbone networks don't have the capacity to handle that kind of traffic. Important features, such as security, aren't built in to today's Internet. Improving the Internet will require the investment of substantial amounts of

risk capital. If government policies reduce the opportunity to earn a return on that investment, network operators simply won't be able to deploy them.

Finally, without the ability to sign commercial agreements, network operators could not meet innovators' needs.

For example, online video gaming is a growing business, and consumers of those sites expect a seamless experience for their role-playing and action games. Let's say a gaming company has a game that requires 25 megabits of capacity. Consumers may be paying for Internet access speeds anywhere from, say, five megabits to 15 megabits. That company could enter into a commercial agreement with Verizon to provide online gamers the megabit burst they require for a quality experience.

This, by the way, is something many online companies already do today in one form or another through commercial agreements. The business rationale is clear: Is it easier to pay a network operator, or get each and every consumer to pay each time they play a game or watch a movie?

If policymakers decide that network access cannot be created differently we drag broadband back to the days where there was

no incentive to innovate and very little competition. In a world of 30 or 50 or 100 megabit networks – more than enough capacity to meet the needs of everyone – there are no network problems. In the midst of this healthy, emerging marketplace imposing regulations isn't policy approach government should be taking.

We're also seeing this old-world thinking with Congress's approach to Voice Over Internet Protocol services. VOIP is a fast-growing market, and Verizon is already a leader in the marketplace. So, like our competitors, we have an interest in ensuring that networks can connect VOIP customers with anyone they call, regardless of who serves them.

In the old world of circuit-switched telephony, interconnection was and continues to be heavily regulated. It's a burdensome and complex system governed by regulations covering everything from pricing to technical standards. It's also a market that performs badly, with lots of litigation and arbitrage, and poor incentives for investment. In short, it's a mess.

On the other hand, in the Internet and broadband world, interconnection has never been regulated. Companies exchange Internet, or IP, traffic based on commercial agreements without any government-imposed obligation to

connect with one another, or any regulation of the terms. This market has worked exceedingly well.

With VOIP we have a service that straddles both worlds. VOIP generates voice calls, many of which are bound for customers on the circuit-switched networks. We must ensure that VOIP providers can interconnect with the circuit switched world, without upsetting the IP market that has worked so well. Yet the House and Senate bills address the question of VOIP interconnection by conjuring up the worst of the old world interconnection rules and applying them to VOIP, and possibly to other IP traffic. This simply won't do.

The IP world is developing new opportunities that we can't begin to predict. For example, Verizon recently announced an arrangement with Microsoft that will allow their 240 million users of Windows Live Instant Messaging to send calls to phones through our VOIP service. Old telco regulation can't begin to keep up with these innovations, and will almost certainly strangle progress if we allow it to migrate into the IP space.

To guarantee interconnection for VOIP without endangering our IP future, legislation could say that telecommunications carriers can't refuse VOIP traffic. This could be done without

applying the existing tangle of telco regulation. Where disputes arise, VOIP providers should have some recourse – perhaps through a complaint to the FCC. At the same time, any legislation should also make clear that no regulation should apply to interconnection on an IP-to-IP basis, which should continue to be handled through commercial agreement.

These issues aside, both the House and Senate have brought forward two bills with a framework for a healthy, competitive broadband future. Consumers stand to gain more of everything they experience from broadband: more video choices, more innovative services, and more savings. Broadband deployment will continue with the certainty of an open marketplace and the knowledge that there will be the opportunity for a return on the investment in networks.

We're hopeful that we can work with the Senate to keep that focus on the needs of consumers, and move video-choice and broadband legislation to a vote by the full Senate immediately.

Let's not lose sight of how radically our world has changed. I'm standing here with cable operators, content developers and deliverers, and policy makers. In the new world of broadband we are no longer separated by sector or

technology. We are all part of the new, converged world of media, communications, and technology.

Some people look at broadband and they see an uncertain future. We look at broadband and we see nothing but unlimited possibilities. The power of broadband to innovate, integrate and equalize in the marketplace will not come from imposing limitations, but in lifting them. Verizon is building an amazing network based on a transformative technology. But it's only transformative if people can use it to its full capacity. Our network's future depends in large part on our ability to give all of our customers the ability to make the most of their own futures.

That is why Verizon is committed to an open, vibrant Internet, to broadband, and to working with all of you to ensure that this innovative technology reaches as many people as possible so that this promising future we all envision arrives faster.

Thank you.