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**Chairman Martin and members of the Commission, thank you for the opportunity to speak today. My name is Marilyn O'Connell, and I am the Senior Vice President of Video Solutions at Verizon. I am responsible for strategy, development and implementation of Verizon's new fiber-optic television service called FiOS TV.**

**Welcome to Keller, Texas, the broadband capital of the United States. Keller was the first market for the revolutionary fiber-optic broadband services we call FiOS. And it's where consumers have demonstrated that they value real choice and competition for broadband services. FiOS TV is a direct result of Verizon Chairman Ivan Seidenberg's vision to build a fiber-to-the-premises network to deliver leading-edge broadband services to customers now and in the future.**

**Verizon is building this advanced fiber network in some 800 communities in 16 states. At the end of 2005, our fiber network passed 3 million homes. By the end of '06, we intend to double that, to 6 million or around 20 percent of our current Verizon households.**

**Our fiber network has two-way capabilities and multi-megabit speeds that digital customers want. Our Internet-over-fiber service, called FiOS, delivers broadband speeds of up to 30 megabits downstream and 5 megabits upstream, and customer response is strong.**

**In markets where we have been selling FiOS Internet Service for at least nine months, the average penetration rate is 14%. This includes more than 35 central offices throughout our footprint that compete with all the major cable players.**

**But FiOS Internet Service isn't the only Verizon broadband service that has customers talking, and the cable industry reacting. Two years ago, we began planning a digital TV service that would be both familiar and revolutionary. It would ride on streams of light along our fiber network and delight our customers with its abundance of high-definition programming, simple packages, interactive features, and tremendous value.**

**In less than 18 months, the Verizon team designed the service, upgraded a network, negotiated and secured more than 300 channels of programming, negotiated local franchises, and launched a new business. On Sept. 22, 2005, we gathered in this same room we're in today to tell the world that FiOS TV had arrived, and Verizon was officially in the entertainment business.**

**And, based on the customer response, it appears we got it right.**

**Customers love FiOS TV. Here in Keller, Texas, our first FiOS TV market, more than 20 percent of eligible households bought FiOS TV in the first three months it was available. But this enthusiasm isn't confined to Keller or even to the 13 other North Texas communities where FiOS TV is available. We're seeing strong response in the other markets we serve.**

**From Temple Terrace in Florida, to Herndon, Va., and up the Atlantic Coast to Woburn, Massachusetts, and Massapequa Park, New York, customers are signing up for the service as fast as we can install it. Just this week, we announced that FiOS TV is now available to customers in Beaumont, California, and we're planning more launches in the next several months.**

**FiOS TV provides consumers with a video experience that's different from anything they have today. Fiber delivers a stunningly vivid picture with brilliant colors. And digital sound that's so clear you'd swear you're in a theater and not in your family room.**

**The tremendous capacity of the fiber system gives us all kinds of room for digital video channels, local programming, high-definition and on-demand content. Today, we deliver around 400 total channels and more than 20 high definition channels. We also offer access to close to 2,000 video-on-demand titles. And we carry dozens of channels for our multicultural customers, including many in Spanish, and 15 international channels. We also carry a number of new and smaller networks that have**

not been successful at getting wide distribution due to cable's limited capacity. We can give these entrepreneurial networks a chance to connect with audiences that otherwise wouldn't see their programming.

We can do all this while we also deliver a best-in-the country Internet service. Verizon alone offers consumers speeds of 15 or even 30 mbps.

But that's just the beginning. This year, we'll begin adding capabilities like a multi-room digital recorder that will enable FiOS TV customers to control and personalize their TV viewing. Down the road, we'll integrate Internet and TV services in new and exciting ways that our all-fiber network makes possible.

As great as this is, FiOS TV also provides another benefit that customers have been craving for years. It gives customers a true choice for their video provider based on competitors' services and prices.

FCC studies have shown that cable price hikes are a predictable part of cable service. The most recent FCC study – released last year – found that from 1998 through 2003, cable rates rose more than 3.5 times faster than the rate of inflation.

In the few places around the country where cable has competition from another wireline video provider, the total price for cable is over 15 percent lower, and the price per channel is more than 27 percent lower, according to the FCC report. Yet fewer than 2 percent of communities today get the benefits of this type of wireline competition.

And, a recent Bank of America study found that cable companies are dropping prices in response to FiOS TV in the markets where it is available. Cable companies aren't advertising these prices, but they're offering discounts to advertised prices of 20 percent or more in the areas where FiOS TV competes with them. For example, right here in Keller, Texas, our first market, the cable company ran a 50 percent promotional discount for a bundled offering when we entered the market.

This is great news for consumers, who now have a new choice of providers as well as competitive prices. But beyond that, customers are choosing FiOS TV because it's a great value, and they are eagerly switching from cable to FiOS TV where it's available.

We'd like more customers to have a choice of TV providers, but we continue to face some challenges in getting local franchises. To date, we've secured some initial local franchises, but the numbers are daunting going forward.

We've have a few notably positive experiences in negotiating franchises. It was a pleasure to work with the local franchise authority in Beaumont, California, which understood the value of having a competing TV service in market and awarded us our very first franchise last year. Here in Keller, our successful negotiations with the LFA enabled us to launch FiOS TV to the same market of broadband- savvy consumers who first embraced FiOS Internet Service.

**As much as we appreciate the opportunities to serve customers in these and other cities, our experience so far has shown us that the local franchising process is a major barrier to entering the video market on a wide scale.**

**First, the process simply takes too long—sometimes as the result of inattentiveness or complicated procedural requirements, but often as a result of cable industry efforts to delay the process and to force a would-be competitor to agree to unreasonable, and even unlawful, terms.**

**Second, in some locations, we have faced unreasonable build-out requirements. These requirements would force us to build to imposed locations on an arbitrary schedule, even requiring building to the *incumbent cable provider's* service area or to the local authority's jurisdictional boundaries, rather than to our own. Such requirements can make deployment uneconomic.**

**Finally, sometimes the franchise process is used to try to force would-be competitors to finance unrelated projects or pay additional fees that go beyond what is permitted by the Cable Act. All of these problems increase the costs, delay competitive entry, and create barriers to new entry in the video market, thus denying consumers the benefits of new competitive service. And they create an unlevel playing field for new entrants with no market share who must compete against an entrenched incumbent.**

We are pleased that the FCC has initiated a rulemaking to address these types of abuse at a national level. We believe the FCC can address these practices that prevent widespread video competition and inhibit more investment in broadband deployment. By addressing these features of the current franchise process, the Commission can help to create a streamlined and efficient process that fosters much-needed choice and competition in the video market, while protecting any legitimate local interests.

We've shown that we can move quickly when granted franchise relief. We accelerated our deployment of FiOS TV to consumers in North Texas as a result of a state-issued franchise in 2005. Within weeks of the enactment of the Texas franchise law, we filed for, and were granted, a state-issued franchise for 21 communities in addition to the four we had directly negotiated. As I mentioned, FiOS TV is available in 14 North Texas communities today, and we'll expand to the remaining communities this year.

We're encouraged by progress toward a statewide video entry package in Virginia, which the Virginia Cable Television Association endorsed. Nonetheless, a state by state approach to reform is very time consuming, uncertain, and not a panacea.

Where roadblocks to competitive entry are removed, consumers benefit. In the less than four months since the launch of FiOS TV,

**customers have shown us that they embrace competition and are more than willing to switch when FiOS TV enters their market. We're off to a strong start with FiOS TV, and we're encouraged by our customers' reaction to the service. In my 20-plus years in the telecommunications business, I've never been associated with services – both FiOS Internet Service and FiOS TV -- that have resonated with customers this deeply and this quickly. We're not only transforming the way people watch TV, we're unleashing competition in the video marketplace. And customers are clearly the winners.**

**Thank you. I look forward to answering any questions you may have.**

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