June 10, 2010

TO: CHAIRMAN UPENDRA J. CHIVUKULA
MEMBERS OF THE ASSEMBLY TELECOMMUNICATIONS & UTILITIES COMMITTEE

On behalf of the 18,000 Verizon employees in New Jersey, I would like to thank you for the opportunity to discuss the current state of New Jersey's regulatory environment as it applies to telecommunications. The paradigm shift in our industry over the last decade has been dramatic, and will continue well into the future. The State needs a regulatory system that recognizes these changes and allows companies to evolve in response to competitive pressures.

As you are aware, in 2006 New Jersey opened its doors to real competition in the television market by authorizing Statewide franchises for video services. Just over two years after the BPU awarded the first of those franchises to Verizon, it is clear that the law has succeeded in delivering competition to New Jersey's video market and spurring significant investment in our State's economy. Verizon has invested $500 million annually over the past three years to deploy FiOS service around the State. In the process, we hired over 3,000 employees while exclusively employing union workers on our network. Consumers have benefitted from a stabilization of cable prices, after five straight years of seeing their bills increase annually by 5% or more. The law also had a significant impact on broadband penetration – a study by the Digital Policy Institute found that nearly 400,000 new broadband connections were established as a direct result of New Jersey's Statewide franchising law.

While this was a crucial first step, much more can be done to encourage growth and competition in the State's technology industry. To ensure a fair and robust marketplace, companies that are providing the same services, in direct competition with one another, should be treated equally. Despite the increased competition and convergence of our industry, providers of telecom and video services in New Jersey are subject to a regulatory scheme that was largely developed in the days when telephone service was provided by monopolies, and cable television was in its infancy. Today's marketplace is quite different, as demonstrated by the abundance of competing services now available from cable companies, VoIP providers, wireless carriers, and competitive local exchange carriers (CLECs). The consumer is now in the driver's seat to select the products, services and technologies that meet their needs and their budget. The result is robust competition that has been financially beneficial to consumers and allows dissatisfied customers to vote with their feet. This is especially true in New Jersey, which FCC data has shown to be one of the most competitive marketplaces for telephone and broadband service in the nation.

One need only look at the wireless phone industry to see how competitive market forces have increased reliability and service while also driving down prices. Consumers no longer see a traditional landline telephone as a necessity and, in growing numbers, are engaging in "wireless substitution." In a recent study, the Centers for Disease Control (CDC) found that 1 in 4 American homes had eliminated their landlines in favor of a mobile phone, while another 15 percent of households have landline service, but consider their wireless phone to be their primary line. Here in New Jersey, Verizon continues to lose between 30,000 and 35,000 access lines per month, and has lost over 3.8 million lines since 2000 – this represents a more than 56 percent line loss in just ten years. This is a direct result of strong competition from cable and other VoIP providers, wireless, and CLECs. However, the regulatory environment has failed to respond to these changes, creating an unlevel playing field and stifling investment.

Increasingly, states are recognizing that regulatory reform of the telecommunications marketplace will encourage innovation and spur job growth, while also providing superior consumer protections by putting the choice in customers' hands. In the last five years, at least 21 states have undertaken such efforts. By way of example, in 2006 Indiana approved a comprehensive package of regulatory reforms for the telephone and video market that has become a model for similar efforts around the country. Within one year of the law's passage, telecom companies invested an additional $400 million statewide, and created thousands of new jobs.

In order for New Jersey to maintain, and build upon, its competitive status, the regulatory scheme should be modernized to ensure that all providers are able to compete on a level playing field without regard to the technologies used to provide services. Outdated rules that are remnants of the monopoly era have no place in a competitive environment, as the high cost of complying with these requirements unduly diverts resources that could be better invested back in the business and, ultimately, in New Jersey's economy.

I look forward to working together with you to address this important issue. Please do not hesitate to contact me with any comments or questions.

Dennis M. Bone
President, Verizon New Jersey