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December 11, 2014

The Honorable Edward J. Markey
The Honorable Richard Blumenthal
United States Senate
Washington, DC 20510

RE: Set-Top Box Marketplace

Dear Senators Markey and Blumenthal:

I am responding to your letter of November 20, 2014, to Lowell C. McAdam, Verizon's Chairman and Chief Executive Officer.

You have asked a series of questions regarding the set-top boxes leased by Verizon's FiOS TV customers.

As you consider our responses below, we urge you to take into account that the traditional set-top box is rapidly becoming only one of many ways that consumers access video content from video distributors, and that both changes in technology and competition since the adoption of Section 629 have provided consumers with additional choices in how and from whom they access video programming. Consumers increasingly are untethering themselves from their TVs and the traditional set-top boxes, which were long the centerpiece of the consumer television experience. They now enjoy the freedom to view and interact with content on any device, anytime, anywhere. Advances in home networking and the growing popularity of video delivered over the Internet are fueling these rapid and constantly evolving, technology changes.

Consumers increasingly access content from over-the-top providers, such as Netflix, Amazon Prime, Hulu, and these services can be accessed over a wide range of readily accessible consumer devices, including Apple TV, Google Chrome, and Amazon Fire. Netflix alone has over 50 million global customers. Subscribers to Verizon's FiOS TV service can also access FiOS TV programming on their own equipment, including Xbox game consoles, and smart TVs, through the FiOS TV application. Also, FiOS TV customers can access well over a hundred linear channels in-home and dozens of linear channels out-of home with the FiOS Mobile software application on tablets and smartphones.

Despite this revolution in the marketplace, only one subset of competitive video providers – those like Verizon who have services subject to traditional cable regulation – remain subject to a wide range of technology mandates that apply to their services and equipment. Many of our competitors, including satellite providers and online video providers, are exempt from much of this regulation. While this type of regulation was intended to promote consumer choice, it has tended to have the opposite effect – particularly as applied to competitive providers like Verizon – and has resulted in an uneven playing field that hampers innovation, distorts

competition, and adds costs to consumers with no offsetting benefit to them. With the sunset of the integration ban, we look forward to continuing to develop innovative ways that our consumers can access video content using the equipment of their choice.

While we answer your specific questions below, much of the information requested is highly confidential and commercially-sensitive information. Verizon faces intense competition from cable incumbents, satellite providers, and other non-regulated video providers everywhere that we offer FiOS TV. Detailed information concerning our consumers' purchase of our service and lease of equipment is not publicly available, and would be valuable to our competitors as they compete for our customers. Accordingly, our responses below are limited to information that would not cause competitive harm if publicly released. Subject to that limitation, below are Verizon's responses to your questions for our residential subscriber base (as of September 30, 2014):

1. How many of your customers lease set-top boxes from your company?

Answer: As of September 30, 2014, Verizon had 5.5 million FiOS TV customers.

- a. What percentage of your customers leases one or more set-top boxes from your company?

Answer: The vast majority of Verizon's FiOS TV subscribers lease at least one set-top box from Verizon. In addition, many consumers lease CableCARDS or access Verizon's FiOS TV service through means other than the traditional set-top box, *e.g.*, smartTV, game console, computer, mobile device.

- b. On average, how many set-top boxes per household do customers lease from your company?

Answer: The requested information is competitively sensitive and is not released publicly.

- c. In total, how many set-top boxes are leased from your company?

Answer: The requested information is competitively sensitive and is not released publicly.

2. What is the monthly leasing cost of each type of set-top box that your company offers? Please list each box and monthly rental lease price separately.

Answer: The monthly leasing cost to FiOS TV subscribers is based on how many televisions they choose to connect to FiOS service, whether they choose to lease a digital video recorder (DVR), and, if so, what type of DVR service they choose. The chart below shows the current standard offerings for subscribers with up to seven televisions broken down by customers with no DVR ("STB Lease Price"), with the Quantum

premium and enhanced DVR services, and with a multi-room DVR and a basic DVR. The monthly leasing costs depicted below are based on FiOS TV's standard pricing; prices for individual customers may vary to some extent by region and as a result of promotional offers.

The differences in DVR equipment and DVR service offerings reflect differences in recording capabilities. With the Verizon FiOS TV Quantum Premium Service, a subscriber can record up to 200 hours, make up to 12 simultaneous recordings, and control live TV (pause, play, rewind) for up to 10 TVs; with Quantum Enhanced, subscribers can record up to 100 hours, make as many as 6 simultaneous recordings, and control live TV on up to 5 TVs; with a multi-room or basic DVR service, a subscriber can record up to 50 hours, make two simultaneous recordings, and control live TV on one TV.

The current pricing below reflects these differences in the capabilities that consumers can use to record and manage recordings as they view video programming (as made available on Verizon's website).¹

No. of TVs	STB Lease Price	Quantum Premium Service	Quantum Enhanced Service	Multi-Room DVR Service	Basic DVR Service
1	\$11.99	NA	\$33.99	NA	\$22.99
2	\$19.98	\$51.98	\$41.98	\$31.98	\$30.98
3	\$27.99	\$59.99	\$49.99	\$39.99	\$38.99
4	\$34.99	\$66.99	\$56.99	\$46.99	\$45.99
5	\$41.99	\$73.99	\$63.99	\$53.99	\$52.99
6	\$47.99	\$79.99	NA	\$59.99	\$58.99
7	\$53.99	\$85.99	NA	\$65.99	\$64.99

- a. How much does an average customer spend per month to lease set-top boxes for their household from your company?

Answer: The requested information is competitively sensitive and is not released publicly.

3. What was the total revenue your company earned from leasing set-top boxes to customers in fiscal year 2014?

Answer: The requested information is competitively sensitive and is not released publicly.

4. Is it possible for customers to purchase a set-top box directly from your company?

¹ Not all recording services may be available with every TV configuration, and certain discounts may apply for individual customers.

Answer: No. Verizon does not currently sell set-top boxes to FiOS subscribers.

- a. If yes, what percentage of your customers buys rather than rents a set-top box directly from your company? What is the cost of each type of set-top box your company offers for purchase? Please list each type of box and its corresponding price separately.

Answer: Not applicable.

- b. If no, why not?

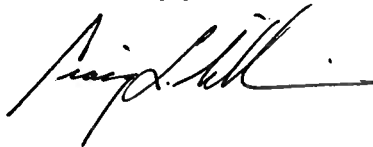
Answer: As noted above, our customers' viewing experiences are shifting – much of FiOS TV content is now accessible over a wide range of consumer devices, including Smart TVs, BluRay players, game consoles, smartphones, and tablets, through the FiOS Mobile application. For the few customers interested in owning their own set-top boxes, Verizon supports and provides CableCARDS that enable access to our FiOS TV service through such set-top boxes.

5. If a customer chooses to purchase their own set-top box from a company different than yours, does your company require the consumer to pay any installation or support costs separate from those levied on customers who simply lease a set-top box from your company?

Answer: The initial FiOS installation costs, if any, are the same for customers who lease set-top boxes versus customers who provide their own set-top box. The current support cost for customers who provide their own set-top boxes is \$4.99 a month to lease a CableCARD. A customer can self-install the CableCARD in a set-top box purchased at retail.

Please let me know if you have any questions regarding this information.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Paige Hill". The signature is fluid and cursive, with a long horizontal stroke extending to the right.