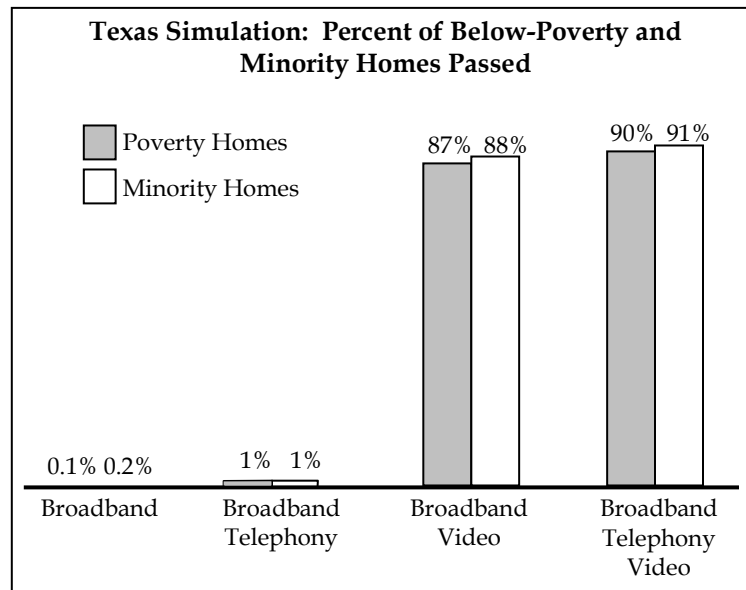


PHOENIX CENTER POLICY PAPER NO. 23 ADDENDUM:
FRANCHISING AND THE DIGITAL DIVIDE: THE NEW JERSEY EXPERIENCE

Prepared for Testimony of Lawrence J. Spiwak
President, Phoenix Center for Advanced Legal & Economic Public Policy Studies
Before the Telecommunications Committee, New Jersey House of Delegates
Thursday, 23 February 2006

I. Background

Last fall, the Phoenix Center released POLICY PAPER NO. 23: *The Impact of Video Service Regulation on the Construction of Broadband Networks to Low-Income Households*.¹ In this POLICY PAPER, the Phoenix Center showed that a new terrestrial communications network entrant will pass substantially more households – and in particular low-income households – if that entrant can readily offer video with voice and broadband Internet access services than it will if its ability to sell video services is sharply curtailed or delayed. As noted below, in our simulation using Texas Census data, video service took on the role of a “silver bullet” – *i.e.*, when the network firm can bundle video, the percentage homes with access to the network rises significantly, and the increased network deployment is particularly beneficial to minority and low-income households.



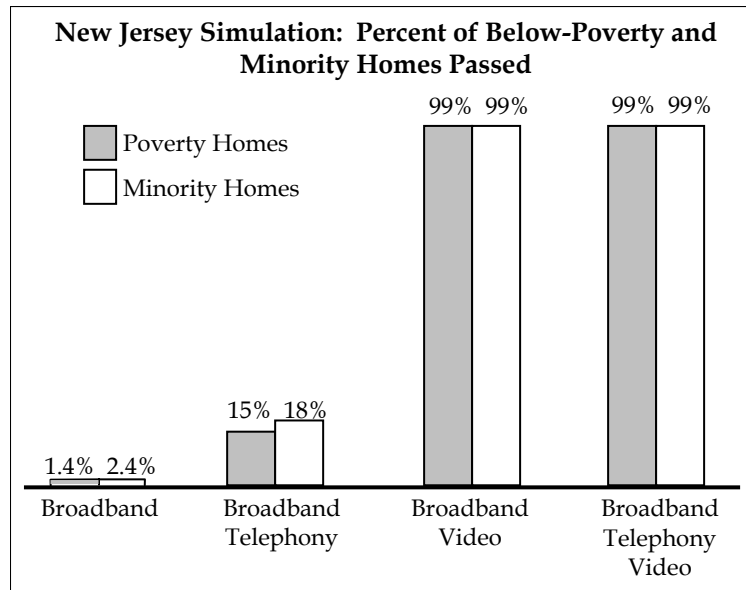
Accordingly, our analysis indicated that policies that make video competition more difficult will lead to significantly lower deployment of advanced broadband networks

¹ George S. Ford, Thomas M. Koutsky and Lawrence J. Spiwak, *The Impact of Video Service Regulation on the Construction of Broadband Networks to Low-Income Households*, PHOENIX CENTER POLICY PAPER NO. 23 (September 2005) (available at: <http://www.phoenix-center.org/pcpp/PCPP23Final.pdf>).

universally, but relatively more in low-income areas, than would occur with pro-entry video policies.

II. Application of New Jersey Census Data to the Model

In anticipation of my testimony before you, we adapted the simulation from PHOENIX CENTER POLICY PAPER NO. 23 for New Jersey. The results for New Jersey were similar to what we found for Texas in our earlier paper, though slightly improved, with New Jersey having approximately 10% more network coverage than we predicted for Texas. This expanded access is due, in large part, to the fact that in New Jersey the poor and minority households are frequently found to live in urban areas where network costs are lower. In Texas, contrariwise, poor and minority households are relatively more concentrated located in rural areas. (A full breakdown of descriptive statistics is attached hereto as Appendix A.)



III. Conclusion

In sum, regardless of location, there is an important linkage between the bundling of video programming services and broadband Internet access services. The theory demonstrating this relationship builds upon the key insight that the more potential revenues that the network can generate in a household, the more likely it is the network will be built to that household. As a result, it is readily apparent that video can be the key driver in making deployment profitable, and video capability will in turn make broadband Internet access services over that same network platform more-readily available. It follows, therefore, that any policy that makes it difficult or costly for a network firm to sell multichannel video services, through either an onerous local franchising process or lax program access regulations will – without a doubt – result in less deployment of advanced communications services, including broadband Internet access. Further, these hindrances to offering video services are particularly detrimental to deployment in low-income areas.

APPENDIX A: DESCRIPTIVE STATISTICS

Table 1. Descriptive Statistics for New Jersey

Median Income	Homes	Poor Homes	Minority Homes	k^{pass}	Median Income
$y < 20,000$	154,744	46,588	82,187	345	14,476
$20,000 < y < 30,000$	445,741	59,704	135,588	378	25,584
$30,000 < y < 40,000$	834,901	59,243	150,119	440	34,837
$40,000 < y < 50,000$	666,865	27,141	78,697	480	44,457
$50,000 < y < 60,000$	486,130	13,068	46,968	510	54,431
$60,000 < y < 70,000$	269,745	5,212	23,431	517	64,241
$70,000 < y < 80,000$	130,649	2,365	11,175	543	74,861
$80,000 < y < 90,000$	67,009	1,002	5,508	561	84,344
$90,000 < y < 100,000$	27,956	429	2,278	548	94,495
$100,000 < y < 125,000$	31,531	467	2,140	578	108,065
$125,000 < y < 150,000$	7,244	85	575	570	133,697
$y > 150,000$	2,832	33	54	579	150,001

Table 2. Percent of Homes Passed for New Jersey

	(a)	(b)	(c)	(d)
Median				
$y < 20,000$	-	-	0.98	0.98
$20,000 < y < 30,000$	-	0.09	0.99	0.99
$30,000 < y < 40,000$	-	0.19	0.98	0.99
$40,000 < y < 50,000$	0.02	0.26	0.99	1.00
$50,000 < y < 60,000$	0.05	0.29	1.00	1.00
$60,000 < y < 70,000$	0.11	0.42	1.00	1.00
$70,000 < y < 80,000$	0.21	0.55	1.00	1.00
$80,000 < y < 90,000$	0.21	0.57	1.00	1.00
$90,000 < y < 100,000$	0.47	0.76	1.00	1.00
$100,000 < y < 125,000$	0.67	0.80	1.00	1.00
$125,000 < y < 150,000$	0.95	1.00	1.00	1.00
$y > 150,000$	0.93	0.94	1.00	1.00