



FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

OFFICE OF
THE CHAIRMAN

The Honorable Edward J. Markey, Chairman
Subcommittee on Telecommunications and the Internet
Committee on Energy and Commerce
U.S. House of Representatives
2125 Rayburn HOB
Washington, DC 20515

Dear Chairman Markey:

Thank you for this opportunity to follow-up on my letter dated June 30, 2008, responding to your request for my views on whether additional funds may be needed for the TV converter box coupon program. I continue to share your concern that no consumer should be left unprepared for the DTV transition as a result of insufficient funding of the TV converter box coupon program.

As you note in your letter, Section 3005 of the Deficit Reduction Act set aside \$1.5 billion for the TV converter box coupon program. After administrative costs, those funds will provide 33.5 million coupons. Pursuant to the rules adopted by NTIA for the program, the first 22.25 million coupons are available to any households, and the last 11.25 million coupons are available only to homes that do not subscribe to cable or satellite service.

Regarding funding, on August 1, 2008, NTIA began processing requests for coupons from Over-the-Air (OTA) households using contingent funds, while continuing to process coupon requests from other eligible households from a recycled base of funds that become available when unredeemed coupons expire. As of September 30, 2008, NTIA states that 74% of the initial funding amount of \$890,000,000 is now committed. The committed funds represent funds for coupons that have been redeemed, remain active or are in the process of being mailed to consumer. Of the 22.25 million coupons reserved for the initial fund, 10.84 million coupons, representing \$433.3 million, have already been redeemed. In addition, 4.92 million coupons, representing \$196.8 million, remain active, and .73 million coupons, representing \$29.2 million, are being mailed. The remaining 5.76 million coupons, representing \$230.4 million, or 26% of the total initial fund, remain available for requests.

Likewise, of the 11.25 million coupons reserved for the contingent funds for OTA-only households, .41 million, representing \$16.4 million have been redeemed, 2.46 million, representing \$98.4 million, remain active, and .95 million coupons, representing \$38 million are being mailed to consumers. Combined, these funds represent 34% of the contingent funding. The remaining 7.43 million coupons, representing \$297.2 million, or 66% of the contingent funding, remain available exclusively for OTA households.

While I do not have access to all of NTIA's projections and detailed analyses, I am concerned that the total funding required to satisfy consumer demand may prove to be insufficient. I recognize that NTIA, as the administrator of this coupon program, has much better information, including proprietary data, regarding the program trends and costs than I have. In assessing the sufficiency of the current funding levels for the coupon program, it is relevant to look at the recent experience within the television market of Wilmington, North Carolina. If what happened with respect to the early switchover to digital in Wilmington is indicative of what we experience nationwide, then the demand for coupons may be greater than expected.

First, NTIA initially estimated that, based on data from the Nielsen Company, there were 13,759 OTA households in Wilmington. As of September 30, 2008, however, 19,187 households had applied for coupons and certified that they rely exclusively on over-the-air reception, i.e., are "OTA households." Thus, the number of OTA households in Wilmington was actually 1.39 times what NTIA originally projected. If we extrapolate nationally this difference between initial projection and actual experience, it means that instead of there being 14 million OTA households in the United States (as Nielsen estimated as of January 1, 2008 and as NTIA has relied upon), there actually could be nearly 19.5 million total OTA households.

Second, NTIA estimated (based on a survey released in March by CEA) that only 60% of the OTA households would request coupons. So, in Wilmington, NTIA projected that 60% of 13,759 households, or 8,255 households would request coupons. As stated above, 19,187 OTA households requested coupons. This means that the number of OTA households requesting coupons in Wilmington was 2.3 times greater than what NTIA projected. Again, if we extrapolate this nationally, instead of the 8.4 million OTA households that NTIA expects (60% of 14 million total OTA households) will order coupons, we could see up to 19.3 million OTA households requesting coupons. And, if each of these households requests an average of 1.89 coupons (the average we have seen to date), then 36.5 million coupons will be requested. If we apply the cumulative redemption rate of OTA households, 55.7 %, then 20.3 million coupons will be redeemed at a cost of \$812 million. This could exceed the money that NTIA has allocated for OTA-only coupons.

Third, NTIA predicts that while coupon *requests* will increase towards the transition date, the overall *redemption* rate, across both OTA and non-OTA households, will remain constant at 49%, for a total of 50 million coupons processed. The 49% redemption rate is a weighted average of the cumulative redemption rates of OTA households (55.7%) and non-OTA households (43.9%) for all coupons issued from the week ending Feb. 23, 2008 through the week ending June 28, 2008, i.e., all coupons that have completed their 90-day life cycle. When reviewing recent trends in redemption rates, however, we see that while the average redemption rate among OTA-only households has remained relatively stable (with the mid-50% range), the average redemption rate among non-OTA households has increased significantly, from the 25%-40% range for coupons issued during the early stages of the program, to an average of 51.8% for coupons issued during the month of June. It appears that, based on recent trends, the redemption rates are likely to remain

higher than what NTIA projects, particularly among non-OTA households dependent on the \$890 million in initial funding. Thus, it is quite possible that NTIA may run out of money to accommodate all non-OTA household coupon requests prior to the February transition and this could occur sooner. Again, I emphasize that I do not have NTIA's internal projections for when, if at all, they will need to hold or reject requests for non-OTA household coupon applications.

Fourth, it is important to note that the GAO believes that NTIA has underestimated the redemption rate for coupons by failing to account for spikes in coupon requests as we get closer to February 2009. In this regard, I note that NTIA has recently announced a new consumer education campaign called "apply, buy, and try" which encourages consumers to redeem their coupons sooner rather than later in order to test their converter boxes. If this campaign proves to be successful, we could see a continued acceleration in redemption rates.

Finally, NTIA's budget estimates do not account for the recent changes in the coupon program which now allow for people residing in nursing homes or other senior-care facilities and those who use post office boxes for mail receipt to apply for and receive coupons.

Given these factors, it is difficult to predict whether the converter box program is adequately funded. This difficulty is compounded by the fact that our Wilmington experience shows that the data on the number of OTA households, and estimates of the number of coupons that these households may request, is imperfect. Accordingly, I am becoming increasingly concerned about the funding of this program.

It is important that we closely monitor the coupon program's trends, including the demand for coupons as well as the redemption rates, in these final few months before the transition. The FCC is committed to working with NTIA to review and analyze the redemption rate data, coupon demand, and other relevant information, as they become available.

Thank you for your interest in this very important matter. As you have requested, I will update my assessment of the funding needs of the converter box coupon program on December 31. Please do not hesitate to contact me if I can be of further assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin J. Martin". The signature is written in a cursive style with a large initial "K".

Kevin J. Martin