

Responses to Questions from Chairman Markey

- 1. Do you still believe that funding for just 50.5 [million] coupons issued is sufficient to meet consumer demand? If not, what is NTIA's new projection? Does the Program have sufficient funding available to meet this new projected demand for coupons issued and redeemed?**

A: The Coupon Program has experienced an increase in demand in November and December that, if sustained through February 17, 2009, may exceed the Program's obligation authority. NTIA projects that the Program will receive requests for approximately 6.5 million coupons in December, bringing total to requests to almost 45 million for the year. If demand through the transition date continues at or near the present rate of more than 1.5 million per week, the Program could receive requests for approximately 60 million coupons by March 31, 2009. In this novel program and under changing circumstances, it is not possible for NTIA to predict consumer demand for coupons with a high degree of certainty.

NTIA is distributing the maximum number of coupons possible with the funds available. Under the Program's current authority, and administrative contract terms, NTIA has determined that it can issue up to 51.5 million coupons through March 31, 2009. If the contract were extended beyond the current April 10th expiration date, NTIA estimates that it could issue an additional 2.5 million coupons under current authority.

After budgeting for administrative costs, the Program has \$1.34 billion available for coupons. The Program cannot obligate more than \$1.34 billion for active and redeemed coupons at any point in time. Once unredeemed coupons expire, the funds can be used to issue new coupons.

- 2. Do you believe lifting the statutory cap on the Program will be necessary to meet expected consumer demand?**

A: As stated above, the novelty of this program and the changing circumstances that exist make it impossible for NTIA to predict consumer demand for coupons with a high degree of certainty. However, if the Program is expected to meet consumer demand beyond the distribution of 51.5 million coupons, the Program's statutory cap could be raised for coupons and, potentially, for administrative costs, in order to avoid queuing requests, which would begin to occur once the program reached its obligation limit of \$1.34 billion in coupons. Under the Program's current administrative cap, which includes the additional \$20 million transfer authority, and under current contract terms that terminate coupon processing on April 10, 2009, NTIA has determined that it could distribute up to 56.5 million coupons if the obligation cap was raised.

3. Are you concerned that the Program will soon hit a “ceiling” where committed funds for distributed coupons effectively prohibits NTIA from accepting orders for additional coupons? If so, when do you expect to hit this ceiling? Do you believe an exception to the Anti-Deficiency Act will be necessary to allow you to distribute more coupons?

A: Under the Program’s current authority and at the current request rate, NTIA expects to fully obligate the \$1.34 billion in or around the first week of January 2009. Once the obligation ceiling is reached, the Program will hold coupon requests until funds from unredeemed coupons become available for obligation. NTIA realizes that this would likely result in consumer confusion and dissatisfaction with the Program. The Administration opposes an exception to the standard financial management protections provided by the Anti-Deficiency Act (ADA). The ADA provides well accepted principles of sound financial management that protect the taxpayer from spending in excess of appropriations.

4. Do you anticipate reaching a point where applications from non-over-the-air households are held and delayed, or denied? If so, when do you expect the Program to reach that point and how many consumers do you expect this to affect? Do you anticipate reaching a point where applications from over-the-air households are held and delayed or denied? If so, when do you expect the Program to reach that point and how many consumers do you expect this to affect? What is the total number of backlogged requests that may never be fulfilled?

A: Based on current processing, applications from both non-over-the-air households and over-the-air households will be held once coupon funds are fully obligated, which NTIA anticipates will occur during the first week in January. NTIA believes the Program currently can honor requests for a total of up to 51.5 million coupons, and possibly an additional 2.5 million if the current administrative contract is extended. If the high demand continues at the current weekly rate of over 1.5 million per week, NTIA could exceed requests for 51.5 million coupons in late January. Precisely how many requests could be unfulfilled depends on the level of demand and redemption rates. To date, more than half of the coupon requests have come from over-the-air households.

5. If Congress or the Administration wanted to issue all expected consumer requests for coupons through March 31, 2009, how many more coupons above the 50.5 million in the current plan will be necessary, how many coupons do you estimate will be redeemed, and how much additional funding would be necessary to cover this additional amount of both coupons and administrative expenses?

A: Within the Program's current administrative cap, which includes the additional \$20 million transfer authority, NTIA has determined that it could distribute up to 56.5 million coupons. However, to avoid a situation where the Coupon Program reaches the maximum amount of funds that may be obligated at any given time (currently \$1.34 billion), the Program would require an additional \$250 million for coupon funding. Based on the current weekly redemption rate of about 60 percent and assuming, conservatively, a potential increase to 65 percent going forward (roughly an 8 percent increase over the current weekly redemption rate, which NTIA believes is reasonable given Program efforts to increase coupon use), approximately 33.5 million coupons would be redeemed from the 56.5 million coupons issued, and the Program would outlay approximately \$1.34 billion in funds for the redeemed coupons. Total program costs, including administration, would be \$1.52 billion.

Alternatively, if coupon demand continues through February 17, 2009, at the rate experienced in December (*i.e.*, more than 1.5 million per week), a total of approximately 60 million coupons would be requested through March 31, 2009. While NTIA cannot predict demand with any certainty, based on existing data, we believe this to be a possible scenario. In this case, the Program would need to issue 8.5 million coupons above the 51.5 million. Under this scenario, the Program would require an additional \$330 million, of which \$20 million could be required for additional administrative expenses, assuming that IBM is willing and able to expand its capacity to timely meet requests for coupons. Based on the current redemption rate and an increase of up to 65 percent going forward, approximately 36 million coupons could be redeemed, and total Program outlays for coupons would reach approximately \$1.44 billion. Including administrative costs, this would put total program costs at approximately \$1.64 billion.

6. Do you still believe the DTV transition is on track for a successful switch-over on February 17, 2009? If so, what are your metrics for "success?" Please provide a detailed explanation of these metrics.

A: There are several metrics by which to gauge the transition's "success." One is the extent to which the Coupon Program has been able to maximize the use of available resources to provide Americans, especially vulnerable populations that disproportionately rely on over-the-air reception of TV, with the opportunity to purchase, at a deep discount, a TV converter box to ensure they can continue to receive broadcast television service on their analog television after February 17, 2009. To date, the Program has succeeded in distributing nearly 43 million

coupons to more than 22 million households, and approximately 77 percent of all OTA households in the United States have requested at least one coupon. NTIA views this as highly successful.

NTIA's efforts have also helped ensure the existence of a market for affordable digital-to-analog converter boxes. Today, more than 80 models of coupon-eligible converter boxes (CECBs), most priced between \$40 and \$80, are available at more than 34,000 retail outlets across the nation. The price points of these converter boxes are such that they make the purchase of a box affordable for many consumers even without a coupon. As a result, consumers have purchased more than 17 million CECBs to date and, based on reported return rates that are well below what is typically associated with consumer electronics products, consumers seem pleased with their purchase.

NTIA also is proud of its and its 300-plus partners' efforts to educate consumers about the Coupon Program and the importance of making the transition as early as possible. NTIA has successfully leveraged the consumer education funds available to it under the Act to drive a massive amount of consumer outreach by more than 300 private sector and non-profit entities, as well as 25 federal agencies, focusing especially on over-the-air reliant households. Thanks to this effort, as well as those of broadcasters, cable operators and other stakeholders, NTIA is pleased to see that, according to Nielsen, as of December 2008, the percentage of U.S. households that are "completely unready" for the transition has dropped from 10.1 percent in February 2008 to 6.8 percent in December 2008. We expect households' preparations to increase further as the transition date approaches and stations conduct "soft tests," under which over-the-air analog broadcasts are temporarily interrupted to alert over-the-air viewers that they need to take steps to ensure continued reception of broadcasts.

Finally, NTIA believes the Digital Television Transition and Public Safety Act as a whole has been a success. Since its enactment, it has yielded additional spectrum for next-generation commercial wireless services and public safety use, as well as \$19 billion in revenues from the sale of returned spectrum. Congress deserves great credit for passing this landmark legislation.

7. Do you need additional funding for consumer education or other initiatives to ensure success? If so please identify the initiatives and the amount of money you believe is necessary.

A: NTIA has worked effectively within current Program resources to educate consumers about their options and the availability of the Coupon Program. The Program has leveraged its resources with those of industry, government, and nonprofit partners. The increase in requests for coupons beginning in November can be attributed in part to NTIA's "Apply, Buy, and Try" campaign to get consumers to act well in advance of the transition date. In addition, the Program has awarded \$4.35 million in grants to the National Association for Area

Agencies on Aging and the Leadership Conference on Civil Rights Education Fund to assist seniors, minorities, low-income individuals, the disabled, and rural residents with hands-on help to complete the digital transition.

8. I understand that IBM estimates that the total number of converter boxes available in inventory, production, and in the shipping pipeline through June 2009 is 11.2 million. Given NTIA's estimates for a total demand of at least 33.5 million boxes, what is the shortfall and when do you estimate that the boxes will be in inadequate supply on a local, regionally and national basis?

A: NTIA has worked closely with over 2,300 retailers who are voluntarily participating in the Program to provide coupon request and redemption information so that they can plan to have adequate quantities of CECBs on hand throughout the Coupon Program. In addition, I wrote to the leading retailers in the Program in early December to stress the importance of maintaining sufficient inventory through the end of the Program, and emphasized the increase in demand for coupons that the Program has experienced. A copy of that letter is enclosed for your convenience.

As of December 17, 2008, approximately 17 million coupons have been redeemed toward the purchase of CECBs. NTIA estimates that approximately 11 million CECBs will be available for purchase by consumers between December and June 2009. Assuming NTIA's current distribution capability of 51.5 million coupons and a 60 percent redemption rate (resulting in 30.5 million coupons redeemed), it is therefore possible that total demand for CECBs using a coupon could outpace availability by approximately 2.5 million boxes. Purchases by consumers without coupons would further raise demand. NTIA and IBM will continue to work closely with participating retailers, Congress and the incoming administration to keep retailers informed on Coupon Program demand so that they are able to adequately meet consumer demand for converter boxes through the life of the Program. NTIA has found that retailers have generally kept pace with the announced number of coupons available, and would work to ensure inventory is available if additional coupons are to be distributed. Retailers (and the public) will need to be made aware of this information as quickly as possible.