As Costs Fall, Companies Push to Raise Internet Price

Internet service providers want to end the all-you-can-eat plans and get their customers paying à la carte.

But they are having a hard time closing the buffet line.

Faced with rising consumer protest and calls from members of Congress for new regulations, Time Warner Cable backed down last week from a plan to impose new fees on heavy users of its Road Runner Internet service.

The debate over the price of Internet use is far from over. Critics say cable and phone companies are already

Jin Lee/Bloomberg News

Fiber optic lines allow Verizon to offer faster Internet.

By SAUL HANSELL
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charging far more than Internet providers in other countries. Some also wonder whether the new price plans are meant to prevent online video sites from cutting into the lucrative revenue from cable TV service.

Cable executives say the issue is not competition but cost. People who watch or download a lot of movies and TV shows use hundreds of times more Internet capacity than those who simply read e-mail and browse the Web. It is only fair, they argue, that heavy users should pay more.

“When you go to lunch with a friend, do you split the bill in half if he gets the steak and you have a salad?” Landel C. Hobbs, the chief operating officer of Time Warner Cable, asked recently in a blog post defending the company’s now abandoned plan.

Still, critics say the image of Internet providers as restaurants about to go broke serving an endless line of gluttons simply does not match the financial or technological realities of the industry.

They point out that providers’ profit margins are stable, and that investment in network equipment is generally falling.

These plans to charge for above-average Internet use “are unjustifiable for almost everywhere in the country except for rural America,” Richard F. Doherty, the research director of the Envisioneering Group, a consulting firm that studies cable technology.

Cable or telephone networks have little in common with a restaurant, the critics say, because there is no electronic equivalent of food to buy. If all Time Warner customers decided one day not to check their e-mail or download a single movie, the company’s costs would be no different than on a day when every customer was glued to the screen watching a YouTube video after another.

That is because their networks are constantly being expanded to handle ever-greater peak periods. It is the modern equivalent of how the old AT&T was said to have built the long-distance network to handle the number of calls expected on Mother’s Day.

“All of our economics are based on engineering for the peak hour,” said Tony Werner, the chief technical officer of Comcast. “Just because someone consumes more data doesn’t mean they drive more cost.”

Yet even as the providers continually upgrade their networks, the cost of the equipment needed to do so is shrinking steadily, reflecting the well-worn economics of computing.

Indeed, the equipment needed to add capacity to any household costs a fraction of one month’s Internet service bill. Comcast, the nation’s largest cable provider, has told investors that doubling the Internet capacity of a neighborhood costs an average of $6.85 a home.

The cost of providing Internet service is about to fall even more, as cable companies install new technology, called Docsis 3, that will both increase their capacity and allow them to offer much faster download speeds.

So far, however, companies in the United States have chosen to use Docsis 3 as an opportunity to offer far more expensive Internet plans. Comcast has introduced a new 50-megabit-per-second service at $139 a month, compared with its existing service that costs about $45 a month for 8 megabits per second. Time Warner just announced it would charge $99 for 50 megabits per second.
By contrast, JCom, the largest cable company in Japan, sells service as fast as 160 megabits per second for $60 a month, only $5 a month more than its slower service.

Why so cheap? JCom faces more competition from other Internet providers than companies in the United States do.

Cable systems in the United States use the same technology and have roughly the same costs. Comcast told investors that the hardware to provide 50-megabits-per-second service costs less than it had been paying for the equipment for 6 megabits per second.

Questions about the speed, availability and affordability of Internet service in the United States will be central to the study Congress has required from the Federal Communications Commission next year. And cable and phone executives are worried that the commission may call for more regulation of Internet service, which currently is free from any government price controls.

Time Warner Cable abandoned its plan to expand a test of what it called “usage-based pricing” in four cities after Senator Charles E. Schumer, Democrat of New York, announced his opposition to the idea in a meeting with Glenn A. Britt, the company’s chief executive.
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