

Verizon Betting on A Bundle

Firm to Spend Billions on Fiber Optics

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Verizon Communications Inc., the nation's largest telephone company, announced yesterday it is digging up streets and stringing wire in six states, including Washington's Maryland and Virginia suburbs, to build a new fiber-optic network that will deliver high-speed Internet service and cable-style television to homes and businesses.

It is part of a \$2.8 billion gamble for the giant provider of local phone service, which is trying to compete head-to-head against cable companies. Verizon says it can offer Internet speeds up to 10 times as fast as most residential services and that it will introduce a package of television programming next year.

In the Washington area, Verizon said it plans to start offering the new Internet service in late November in Falls Church, parts of Arlington, Herndon and Leesburg. It said it will start selling the new network in parts of Montgomery County early next year, when the service will be available to about 200,000 businesses and households in the region.

The company is also laying new fiber in parts of Delaware, New York and Pennsylvania, but a spokesman said it hasn't made plans to enter the District because it is still working on network technology that will allow it to lay fiber-optic cable in urban areas.

Nationally, 1 million homes and businesses will be able to buy Internet service on the new network by the end of the year and 3 million by the end of next year, the company said.

To accomplish this, Verizon must rebuild a century-old network of copper lines that run into almost every home in the area. It's a costly investment that some analysts said could prove foolhardy if it can't win customers quickly.

"We've looked at it really closely, and we don't see how it adds up," said Scott C. Cleland, chief executive of Precursor Group, a research firm in Washington.

The company will sink billions of dollars into streets in and around residential neighborhoods, but it's unclear whether customers will be waiting to sign up for the service, he said. Prices for phone and high-speed Internet service keep falling, whittling away at the profit potential. And Verizon's plan to offer television service faces entrenched competition, Cleland said. "Can we honestly believe they're going to be better video providers than cable and [satellite] providers?"

But regional phone companies like New York-based Verizon are in a heated battle against the cable industry. Each company is fighting tooth and nail to entice customers to buy bundled services from one provider -- phone, television, and Internet, for instance. Such a package currently costs about \$120 monthly.

The phone and cable industries have made forays into each other's businesses in recent years. Cable companies such as Comcast Corp. and Cox Communications Inc. have spent \$85 billion since 1996 to upgrade their networks to carry Internet traffic and phone service. Phone giants, including Verizon and SBC Communications Inc., partnered with EchoStar Communications Corp.'s Dish Network and DirecTV Group Inc. to offer satellite television bundled with their services.

Verizon described its fiber-to-the-home project as the dawn of better Internet connections and competitive television choices.

"This is one of the most significant turning points in telecom," said Paul Lacouture, president of Verizon Network Services Group. "This will pave the way for long-awaited convergence between voice, video and Internet."

For now, the new network will carry telephone and high-speed Internet, for between \$35 and \$45 a month, depending on the speed. Verizon said it is negotiating with companies including Viacom Inc. so it can start selling video programming, high-definition television, and video-on-demand service starting next year. The service will be "competitive" with cable, officials said, but they declined to discuss how much it would cost.

Cox, which has 260,000 customers in the region, is ahead of Verizon in offering advanced technology, said Alex Horwitz, a Cox spokesman. It completed a \$500 million regional upgrade, allowing it to offer high-speed Internet, telephone service and high-definition television, he said. "We believe we are already ahead of the game."

"It's a tough market to break into because we already are an extremely competitive market," said Brian Dietz, a spokesman for the National Cable & Telecommunications Association, which represents the cable companies. Many Washington area residents already have four options, including Comcast, Cox, Starpower Communications LLC and two satellite-TV providers, he said.

Analysts question Verizon's ability to earn back its investment in the new network.

"I think it's going to be difficult for them to make their money back," said Timothy Horan, an analyst for CIBC World Markets Corp., because they will have to beat cable's prices. "I haven't seen a model that makes it work."

To deploy the service, Verizon must string hair-thin glass fibers. About 60 percent of the fiber can be strung along telephone poles, but the remainder requires digging up streets to bury it. The task is such a huge undertaking that the company said it will hire 3,000 to 5,000 new employees nationally by the end of next year. Verizon currently employs more than 207,000 people.

Sales of high-speed Internet in the suburbs of Los Angeles, Dallas, and Tampa, where Verizon started offering service earlier this year, are "better than expected," said Robert Ingalls, president of Verizon's Retail Markets Division, but he declined to release details.

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