Telecom Changes Put Competition on the Line

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For most of the industrial age, homes primarily communicated to the outside world through a basic copper phone wire.

Now, telephone giants are focusing instead on building fiber-optic cables made of glass that can carry far more data than do copper lines. As companies like Verizon Communications spend billions to replace their century-old systems with these new lines, they're gradually disconnecting the old copper networks.

But smaller competitors say the disappearance of traditional copper could put them out of business.

Upstarts like XO Communications and Covad Communications rely on their ability to lease access to copper lines from Verizon or AT&T so they can reach their own customers. Without that access, those companies say they may have to use more expensive lines and raise rates.

The telephone giants -- once part of the Ma Bell monopoly that started laying copper lines in the late 1800s -- are currently required to lease their copper and limited parts of their fiber-optic networks to rivals to encourage competition. But as they invest in the newer fiber-optic networks, Verizon is asking regulators to eliminate requirements to share their networks with competitors in several major markets.

Qwest Communications International and AT&T are also replacing some copper lines but are leaving a portion so that copper lines can be used along with new fiber lines.

Ed Shakin, a lawyer for Verizon, said network-sharing requirements are no longer needed in certain cities now that cable companies and other competitors have rolled out Internet and phone service. "What competitors want are artificially low prices," he said. "It comes down to a fight about price, not availability."

But this week, 22 companies, including XO in Reston, Cavalier Telephone in Richmond and RCN in Herndon, countered Verizon's argument in a letter to the Federal Communications Commission. Competition is not sufficient to justify Verizon's request not to lease its network to smaller companies in six major cities, the companies said in asking the commission to deny the request.

Earlier this year, many of the same companies also protested Verizon's ability to cut decades-old copper lines in homes as it rolled out its high-speed FiOS service. Some companies rely on the copper lines not just to offer basic phone service but to provide advanced services. XO, for example, provides high-speed Internet service over the existing copper lines, while Cavalier uses them to offer digital television.
Taken together, cutting traditional copper lines while also eliminating access to the new lines could severely hurt competition, the rival companies argue.

"This poses a real threat to competitor viability," said Francie McComb, Cavalier's vice president of regulatory affairs. "We have a lot of customers that will be affected."

About 3 percent of copper lines get replaced every year, said Michael Howard, an analyst at Infonetics Research, a market-research firm in Campbell, Calif.

Some policymakers say the combined impact of rivals losing access to both copper and other lines could impair the United States' push to catch up to other countries' level of broadband deployment.

Edward J. Markey (D-Mass.), chairman of House telecommunications subcommittee, said in an interview that he thinks Verizon's petition and copper-cutting practice undermines the effort to extend high-speed Internet across the country.

"This is not just a battle between big companies and small companies -- it will be viewed as an indispensable part of our broadband policy," he said.

Verizon said it would continue to make its network available to competitors but wants to negotiate new rates with the companies so they can't piggyback on its multibillion-dollar investment in the network.

Verizon also said it would reconnect the copper lines to homes if customers want traditional phone service. Verizon expects to save about $1 billion a year by 2010 by moving more of its business to the fiber-optic network, which is cheaper to maintain than copper.

Howard, the Infonetics analyst, said Verizon has plenty of competition from cable companies that have also upgraded their networks. "As long as consumers have several choices, these companies need to be able to see a return on these massive investments," he said.

The FCC expects to decide on Verizon's petition in early December.

The main goal is to give large and small companies an incentive to invest in greater technological development, said Blair Levin, an analyst with Stifel Nicolaus.

"The core policy question is the same: What drives investment in better, bigger, faster networks?" he said. "We want our telephone companies to invest in these networks, so what's the best policy to encourage that behavior?"