Sprint Presses for Cheaper Access to Broadband Lines

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Sprint Nextel is picking a fight with the country's largest phone companies over the price it pays for access to their fastest networks.

The industry skirmish has swelled into a political battle that will find an audience in front of members of Congress today. Sprint, of Reston, along with some competitors, says it has hundreds of millions of dollars riding on an upcoming Federal Communications Commission decision, which hinges on the unpredictable swing vote of Republican Commissioner Robert M. McDowell.

The dispute centers on the high-capacity fiber-optic lines that provide huge volumes of phone and Internet connections to businesses. The largest telecom companies -- AT&T, Verizon and Qwest Communications -- have networks that reach most buildings, and competitors such as XO Communications and Level 3 Communications often lease capacity on those lines to serve their customers. Wireless companies including Sprint and T-Mobile also use the capacity to connect calls to their cellphone towers.

But these competitors, led by Sprint, say the giants charge too much for access to the high-capacity lines and want the FCC to more tightly regulate the prices. Sprint says its access fees have risen sharply in recent years. AT&T, Verizon and Qwest argue that their prices are reasonable and that they should not be regulated in markets that have sufficient competition.

"You don't induce more competition by controlling or reducing the prices," said Randy May, president of the Free State Foundation, a Maryland group that opposes regulation for the big phone companies. "More regulation discourages them from investing in their own facilities because they can piggyback on other networks."

Complicating the situation are separate requests by the phone giants to renegotiate prices with their competitors in some markets rather than offer government-set prices.

FCC Chairman Kevin J. Martin and Commissioner Deborah Taylor Tate have opposed placing regulations on these high-capacity services, known as special access. Democratic commissioners Jonathan S. Adelstein and Michael J. Copps have said firmer price caps may be necessary to ensure competition.

Now all eyes are on McDowell, whose tiebreaking vote could shift the balance of this $16 billion market. McDowell is a former lobbyist for Comptel, a group that represents smaller competitors, and some observers expect him to vote in favor of tightening price regulations.

http://www.washingtonpost.com/wp-dyn/content/article/2007/10/01/AR2007100101655_pf.html
But after the commission's last meeting, McDowell expressed disappointment that Qwest failed to win support for loosening price controls on some lines leased to competitors, which others say indicates his willingness to further reduce regulations.

In an interview yesterday, McDowell acknowledged the difficulties of determining the extent of competition in certain markets.

"A lot of the fundamental facts are at loggerheads," he said, noting that more detailed information might be needed. "It makes resolving this issue very challenging."

Sprint said its spends more than one-third of its operating costs for each of its 60,000 cellphone towers to buy capacity from the telecom giants. In testimony today before the House Subcommittee on Telecommunications and the Internet, Sprint chief executive Gary D. Forsee plans to attack AT&T and Verizon for charging "inflated prices" for what he calls the "lifeblood of the telecommunications industry."

Paying higher prices for such capacity raises rates for Sprint customers and slashes funds crucial to building its own high-speed WiMax network, the company says.

"We're shoveling money right out the door to our competitors," said Anna Gomez, Sprint's vice president of regulatory affairs. "We're not seeking heavily discounted prices; we're seeking prices based on cost."

The Telecommunications Act of 1996 opened up the local phone market, allowing new competitors to lease part of the incumbent phone companies' networks. In 1999, the FCC reduced those pricing requirements in markets where there was considered to be enough competition to hold down prices.

Since then, competition has suffered, said Rep. Edward Markey (D-Mass.), chairman of the House subcommittee looking into business broadband prices. He is pressuring the FCC to "recalibrate" regulations to promote competition, which he says will accelerate the deployment of broadband.

"There is a market failure here that's putting our national broadband aspirations at risk," he said.

According to a 2006 report by the Government Accountability Office, about 6 percent of buildings have a choice of providers for their basic broadband services. In Washington, about 10 percent of buildings have a choice of broadband providers.

Demand for these high-capacity broadband lines has grown dramatically along with the wireless industry and businesses' need for robust, secure connections. But because so few companies control such lines, Sprint estimates, the wireless industry overpays for the services by more than $6 billion each year, expenses that are passed on to customers.

AT&T and Verizon say that their rates have actually decreased and that wireless companies simply buy more capacity as their business grows.

Verizon said it offers government-set rates in 88 percent of its markets, including highly competitive cities such as New York, Philadelphia and Washington.

Tom Tauke, Verizon's executive vice president of public affairs, plans to tell members of Congress today that the FCC's policies are working and should not be altered. There is an average of nine competitors in the markets that make up 80 of its revenue from high-capacity broadband services, he said.
The prices of business broadband services affect more than phone carriers. A group of 20 large companies, including banks, insurance companies and auto manufacturers, are also lobbying for lower prices for these services.

"If the Bells are overcharging, then companies have that much less money to spend on their own businesses," said Colleen Boothby, who represents this group, known as the Ad Hoc Telecom Users Committee. "Broadband is such a pervasive product -- it's how you conduct business."

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