Tech

Bells dig in to dominate high-speed Internet realm

By Leslie Cauley, USA TODAY

To hear BellSouth talk, high-speed fiber lines are the way of the future. So why is it so determined to stop Lafayette, La., a rural community in the heart of Cajun country, from installing its own fiber?

Joey Durel, Lafayette's mayor, has been asking himself that same question. His city plans to build an advanced broadband network to offer voice, data and video to its 116,000 residents. But local officials claim BellSouth is trying to kill the project. And they say it's getting help from Cox, the local cable-TV operator.

"We have the opportunity to do something great for this community — and in a state that needs a big win," Durel fumes. "They have to get out of our way."

It's the dark side of the fiber story.

The regional Bell companies have made much of their billion-dollar plans to run broadband networks across the USA. Yet they're also quietly trying to erect hurdles that would make it hard — or expensive — for anyone to compete with them.

Besides municipalities like Lafayette, the Bells are going after their phone rivals, Internet carriers and major metro areas — anyone with an interest in building services that might compete with the Bells.

Critics say the Bells' efforts are an attack on competition and that consumers could be the big losers.
"If municipal governments and others are blocked from entering this market, the vast majority of Americans are going to wind up on the wrong side of the digital divide, because they will be unable to afford high-speed services," says Gene Kimmelman of Consumers Union.

Atlanta-based BellSouth disagrees. Bill McCloskey, a company spokesman, argues there are no barriers to entry into the broadband business, as evidenced by the army of carriers — cable, wireless, local governments and others — that are trying to compete.

"For anybody to say that there is no competition just doesn't compute," McCloskey says.

Broadband rates in the USA are already among the highest in the world — $35 to $40 a month. And that's for relatively slow speeds of 1 to 2 megabits a second. In Japan, consumers pay about $15 a month for speeds of 30 megabits or better, notes Raul Katz, CEO of Adventis, a Boston-based consultancy.

The Bells have proved adept at using their fiber plans to persuade regulators to grant them concessions. Without those concessions, the Bells have warned, they wouldn't make their huge fiber investments. The implied threat: that the USA, which ranks a lowly 13th in overall broadband deployment, would slip further.

"Fiber is the pawn that allows them to extract concessions," Katz says.

Regulators aren't the only ones buckling. Consider Pennsylvania

Pennsylvania had considered legislation, backed by Verizon, to bar its cities from selling broadband services. After a series of compromises, Gov. Edward Rendell signed a bill in December letting Philadelphia and other cities proceed with their own broadband plans — until 2006. After that, they must give Verizon a first right of refusal.

Verizon says the bill is fair, especially considering that Pennsylvania is requiring phone providers to offer broadband statewide by 2015.

What's more, the Bells say, their local-phone turf is under attack from rivals, forcing them into combat mode. They also note that wireless is becoming a substitute for traditional "wired" phones, thus putting more pressure on the Bells.

Well, yes and no.

The Bells themselves own two of the three biggest wireless companies in the USA. That alone makes them a far-reaching presence in many consumers' lives.

Cingular, the No. 1 player, is owned by two Bell companies, SBC Communications and BellSouth. The No. 2 wireless carrier, Verizon Wireless, is also controlled by a Bell company, Verizon.

Consumers could pay price

Experts say they worry about diminished competition in broadband services. Unless others can step into the fray and compete aggressively, broadband could fall under the control of just two players, just as the cell phone business did for years. With just two cell phone carriers per market, operators tended to keep prices high.

The same could occur in broadband, warns Mark Cooper, research chief at the Consumer Federation of America. "Two is not enough for real competition," he says.

Cooper notes that the U.S. cell phone business, which was a legal duopoly for years, turned competitive only when the Federal Communications Commission chose to grant up to eight licenses per market. The entry of six hungry players caused cell phone prices to plummet — a boon for consumers.

Since 2000, though, the wireless business has consolidated. Once Sprint and Nextel complete their merger, there will be just three major wireless carriers.
"It's just too easy for two or three players to figure out how to avoid lowering prices," Cooper says.

Kimmelman agrees. The way things are going on the regulatory front, he says, "consumers are going to end up paying inflated prices for high-speed Internet access, which is becoming essential for day-to-day life in America."

The future of Internet-based phone service, known as VoIP, is also at risk, he says. In its final path to a home, VoIP travels over high-speed lines — a cable-TV or phone line. If access to that line is blocked, Kimmelman warns, development of the service could stall.

Kimmelman says the situation is now especially urgent, with AT&T and MCI retreating from the residential phone business.

"With AT&T and MCI exiting the consumer market, the only way consumers are going to get real competition is through VoIP," he says.

The big Bells are taking advantage of that retreat by plowing ahead with their fiber deployments. Their plans vary. Only Verizon vows to extend fiber lines all the way to homes. Its customers could see top speeds of 100 megabits or more.

SBC plans to take fiber only to the overall neighborhood, with speeds of up to 25 megabits a second. BellSouth has committed to take fiber only to the "curb" — 500 feet or less from the home. Its speeds would top out at 24 megabits a second.

The connection speeds for SBC and BellSouth are so much slower, in part, because of the hybrid fiber-copper nature of their broadband pipes. Copper doesn't have nearly the horsepower of fiber. That's one reason Verizon has chosen to plunge ahead and build a 100% fiber network directly to homes.

Just a few years ago, the Bells had pledged to run fiber straight to homes. In return, they wanted the FCC to rule that they didn't have to lease their fiber to rivals who could then turn around and use it to deliver competing services.

Their request went to the heart of U.S. telecom policy. That policy has long been based on the notion that the Bells were obliged to share their networks with all comers.

The rationale owed to the history of the Bells. Their networks were built over the course of a century using monopoly ratepayer money. Like the U.S. highways, the Bell networks have been regarded as a unique infrastructure that had to be open to others on terms that were fair.

But in 2004, in a nod to the changing nature of telecom, the FCC granted the Bells' request. That concession paved the way for the Bells to deploy fiber to homes.

That's when the foot-dragging began.

Instead of taking fiber to the home, BellSouth asked if it was OK to just take fiber to the neighborhood, relying on its existing copper for the final run from the curb to the house. But it still wanted to be free of the sharing obligation.

The FCC said OK. The agency noted that the Bells didn't need to let rivals use any line that wasn't set up for traditional phone service.

That led SBC to up the ante. Its argument: If it was OK to take fiber just to the neighborhood and not share it, then surely it was OK to take it just to the "node" and not share. (The node is the stretch of copper between a central switching office and a home or business.)

So long as fiber exists in some part of the network between the node and house, SBC thinks it should be treated, from a regulatory view, as though it were running fiber all the way to homes. And it doesn't think it needs the FCC's approval.

Meantime, all the Bells are pushing for a raft of regulatory concessions that would make life difficult for would-be rivals. Dave Baker, a vice president at EarthLink, an
Internet service provider, says the trend is inherently bad for competition — and for consumers.

"By splicing in a little fiber, the Bells can squelch competition," Baker says. "There can be and should be competition in broadband services on new networks."

**Little Lafayette's a threat**

For the Bells, the motive is clear: money. They've committed billions to deploy high-speed fiber lines across the USA. Their huge investments are predicated on the assumption that they'll have plenty of customers available to buy their high-speed services.

That's why efforts like the one in Lafayette are threatening. If too many communities peel off and build their own high-speed networks, there could be fewer customers for the Bells.

Lafayette, population 116,000, is a pittance for BellSouth. The carrier has 22 million local access lines in nine Southern states, including Louisiana. But if enough cities followed Lafayette's lead, BellSouth could lose more business.

Jim Baller, a lawyer who often represents municipalities in fights with the Bells, says he understands the Bells' predicament — to a point.

"I sympathize that there is not enough money for them to go all the way to the home everywhere at the same time," Baller says. "I just wish they would get out of the way of folks who want to do it and can step up to the plate."

Lafayette happens to have a staunch supporter: Louisiana's governor. Kathleen Babineaux Blanco, elected in November, has signed a law that lets municipalities build their own broadband networks. Phone and cable operators opposed it.

Sam Jones, Blanco's local government liaison, says the state's goal is to keep broadband affordable. With more competitors, Jones says, "You allow consumers to get the best price and the best products."

BellSouth, meantime, is working all the angles.

It told local regulators in Lafayette that they should use the FCC's "Part 64" accounting rules, which have long been imposed on local phone companies, as a benchmark to set rules for the city. Lafayette countered that those rules would be an unnecessary burden.

Yet within days of making that argument last fall, BellSouth turned around and asked the FCC to relieve it of the Part 64 rules for its broadband services. It complained that the rules were onerous and outdated and force carriers to keep "extensive and tedious" records.

BellSouth insists it's just trying to look out for the interests of the local Lafayette taxpayers. Its argument hinges on the fact that the city-owned utility, which is building the network, is a monopoly.

"We're just saying that the local utility ratepayers should not be cross-subsidizing this new business that they want to get into," says McCloskey, the BellSouth spokesman. "They are a monopoly, and they should be regulated like one."

And BellSouth?

According to McCloskey, BellSouth "is no longer a monopoly," which is why it's asked the FCC for relief from Part 64 rules.

"We're a different kind of animal," he says.

Terry Huval, director of the Lafayette Utilities System, thinks BellSouth's real goal is to kill the project. "Their end-game is to frustrate us so much that we back away from this project," he says. Huval adds, "There won't be any cross-subsidies" because the city plans to use revenue from its new broadband services to finance the entire cost of the project.
Lobbying by BellSouth and Cox has forced the city to spend $400,000 defending itself, Huval says. "They go around telling people we're spending too much, even though they're the cause of a lot of that," he fumes.

Mayor Durel says the city isn't backing down.

"This is much bigger than Lafayette," Durel says. "This is about economic development for us. This is about future-proofing our city."