Big Telcos Fighting Public-Sector Competition

By The Associated Press

KUTZTOWN, Pa. (AP) -- Two years ago, this small college town thought it was blazing a trail for other Pennsylvania communities when it built a publicly owned fiber-optic network to deliver cut-rate Internet, telephone and cable TV service.

Then, in late 2004, Pennsylvania lawmakers bowed to the wishes of Verizon Communications Inc. and the state's other local phone providers, passing a bill that gives the companies the power to squelch any new forays into telecommunications by municipal governments.

The legislation, prompted by the companies' worries that other towns would follow Kutztown's example, marked the industry's latest victory in a series of similar clashes across the country.

Cities and towns from San Francisco to Philadelphia, viewing access to advanced telecommunications as pivotal to prosperity, are aggressively seeking ways to provide high-speed Internet connections, wired or wireless, for citizens and local businesses.

But telephone and cable TV companies have responded by flexing political and financial muscle at the state level, arguing that government has no business getting into their business.

So far, about a dozen states have passed measures either restricting or banning public sector efforts to deliver telecom services, while similar legislation has been introduced in about a half dozen other states.

And in related battles, BellSouth Corp. is suing a North Carolina town that is leasing space on its fiber-optic network, while SBC Communications Inc. and Comcast Corp. mailed fliers and ran newspaper ads in Illinois last year to help defeat a three-town referendum on building a fiber network.

Opponents of Pennsylvania's new curb on public competition say they were overwhelmed by a lobbying effort led by Verizon, which has spent millions of dollars in recent years to sway legislators and other state officials and even bolstered its well-connected lobbying team by hiring Gov. Ed Rendell's former campaign manager.

The competition provision was slipped inside a wider piece of legislation that carried other regulatory concessions for the phone companies. To help win support for it, Verizon agreed to pony up as much as $60
Kutztown's technical services director, Frank Caruso, says he thought state legislators would view publicly provided services as good for development in towns like Kutztown, a community of 5,000 in eastern Pennsylvania where the horse-drawn carts of the Amish are common on town streets.

``I never thought that the state Legislature would sit there and say 'No,''' he said.

The companies argue that municipalities offering telecom services have an unfair advantage because they can use interest-free tax dollars and tax-exempt bonds to finance their networks, and do not face the same regulatory burdens.

City officials and consumer advocates counter that the goal of municipal telecom projects is to empower lower-income residents, attract new employers, and give existing businesses a reason to stay.

They say local phone and cable providers, lacking adequate competition, have dragged their heels in rewiring rural and less-affluent areas while pricing their services at rates which many residents and small businesses can't afford.

In Utah, tired of waiting for broadband and frustrated by high cable bills, a rural town named Spanish Fork sold bonds three years ago for a municipal telecom project just before a state law was passed barring bar such public financing.

``We didn't want to be a second-class city and that's what's going to happen if you don't have high-speed Internet,'' said John Bowcut, the director of Spanish Fork Community Network.

In Nebraska, four-year-old restrictions have kept the city-owned electric utility in Lincoln from leasing space on its fiber-optic network so that would-be rivals to local phone companies could provide broadband to residents and businesses.

State Sen. Kermit Brashear, a Republican who sponsored legislation this year that would further restrict public-sector telecom services, said government advantages ``would place private providers at a tremendous disadvantage in an industry in which competition is fierce and margins are thin.''

Not all efforts to block public competition have succeeded.

In Indiana this month, opponents blocked a bill that would have barred municipalities from competing with private providers and from using public bonds in cases where services don't already exist. Bills approved in Utah and Louisiana last year were watered down to regulate some telecommunications services, but not ban them.

Kutztown businessman Dennis Cichelli says his software and computer network company was paying about $1,000 a month for a dedicated high-speed Internet connection before the municipal utility came online.

It now pays less than $500 for far more bandwidth -- enough spare capacity that it now sells wireless broadband service to a dozen other businesses.

Under Pennsylvania's new law, municipalities wanting to sell their own Internet service will be required to first give the local phone provider the option of providing that service within 14 months.
Compared with the battles in other states, there was no loud and lengthy campaign against the legislation. The bill's negotiators, including the governor's office, said they barely heard from opponents.

But controversy sparked just days before a final vote when Philadelphia officials discovered that it could scuttle the city's ambitious plans to build a citywide wireless Internet network.

Before he signed the bill in November, Gov. Rendell, a former Philadelphia mayor, pressured Verizon to relinquish its right-of-first-refusal over that city's project.

Other Pennsylvania communities got no such special treatment, and Verizon's influence at the statehouse drowned out those small towns that had opposed the legislation, said Jim Baller, a Washington, D.C., attorney who represents municipal power companies.

By far the largest of Pennsylvania's 37 local telephone companies, Verizon operates 6 million of the state's 8 million land lines.

The New York-based company, which argues that it is already losing business fast to wireless and cable rivals, has spent millions of dollars over the years to build relationships with lawmakers and public officials.

On the telecommunications bill, it retained a team of high-profile lobbyists, including David Sweet, Rendell's campaign manager in the 2002 gubernatorial election. Four years ago, Verizon reported spending more than $3 million on lobbyists in the months before it routed an attempt by state regulators to spur local phone competition by forcing the company to split its network operations from its retail division.

``It's our opinion that Verizon is the Pennsylvania Railroad of the 20th century in terms of political clout,'" said Christopher Craig, a top lawyer for Senate Democrats.

In a statement after the bill passed, Verizon called it `"truly a win-win situation for communities."

``It empowers them to press Verizon or other local phone companies to deploy advanced telecom services on their timetable, not the company's,"' Verizon said.

A state-appointed consumer advocate, Irwin Popowsky, also thought the language fair considering that the local phone companies have agreed to expand their broadband networks statewide by 2015.

Kutztown officials had hoped to eventually add wireless Internet services to their municipal offerings, but now expect a battle with Verizon.

``Are we going to be stopped from doing that?'' Caruso asked. `"I think everything's going to be a challenge.""
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