Is there room for two broadband competitors?

Are two separate physical infrastructures sustainable when the services provided are essentially identical?

by A. Michael Noll (special to Telecommunications)

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In most parts of the United States, there are two providers of the local broadband telecommunication infrastructure: the telephone company and the cable TV company. In many areas, these two providers are offering essentially the identical three services: voice, data, and video. Are two separate physical infrastructures sustainable when the services provided are essentially identical?

As if two providers were not enough, there is the possibility of broadband wireless making a threesome. But broadband wireless is more of a mobile or transient application and cannot compete effectively with the “wired” broadband for simultaneous broadband applications for numerous simultaneous users.

The CATV company utilizes optical fiber to a neighborhood and then coaxial cable to the homes that are served. Verizon is installing optical fiber directly to each home, investing substantially by installing the most sophisticated broadband technology. These two approaches both provide broadband capabilities that enable the so-called triple play of telecommunication: voice, data, and video.

AT&T is deploying fiber to the neighborhood (just like the CATV companies) but is continuing to use its installed base of twisted pairs of copper wire to homes, with switched digital video as a way to provide the triple play. Alternatively, a partnership with DirecTV allows video in a package offering. Switched video has technological challenges that must be overcome – and even then, at the best only two channels of video will be available per home. AT&T might be taking a great risk by protecting its ancient twisted pair.

Will all these various broadband providers survive if there is competition between them? Will there be winners and losers at the local level? Verizon is investing a fortune in upgrading its local infrastructure to broadband optical fiber in order to compete with the CATV company. What if the CATV company fails? Will Verizon be allowed to acquire the customers of the CATV company if the CATV company decides to abandon an area – or visa versa? What conditions will the government place on any mergers and acquisitions of CATV companies by Verizon or AT&T? Would the most expedition way for AT&T to upgrade its local infrastructure be simply to acquire the coaxial cable of the CATV company? Remember that it was in 1998 and 1999 that AT&T acquired TCI and MediaOne to become one of the largest CATV operators in the United States, only to spin off the cable business in 2002. Telecom history has a way of repeating itself.

We do not have two electric power distribution companies, nor do we have two water distribution companies, nor two gas distribution companies providing service in a neighborhood. It simply does not make economic sense for two providers to make the costly investment in the local infrastructure to provide such commodities as electricity, water, and gas. Instead, the model of a regulated utility was created to allow the public to benefit from the economies
of scale of a single distribution system and to reduce the risk of investments with long horizons for paybacks. So does it make any sense to have two companies providing the local telecommunication distribution infrastructure? I think not.

I suggest that a common carriage model for the local telecommunication infrastructure is inevitable (unless the CATV companies and telcos collude to avoid real competition). In this model, content would be separated from carriage. Since Verizon has no investment in the provision of video, it would be the CATV company that would have to decide how to separate content from carriage.

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