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The battle for your bucks

Phone companies are making an aggressive play for home video business. The cable firms are bolstering their defenses.

The fight's on. Call it...

JASON GERTZEN

EDIE HALL

Jennifer Winchester believes the cost of inadequate competition shows up every month in her cable television bill.

The Olathe resident is hopeful, however, that's about to change.

Telephone companies, including giants AT&T and Verizon Communications, have launched aggressive campaigns to enter the video business by stringing space-age fiber-optic strands to millions of homes. To make it easier for them to do that, phone company lobbyists are pushing hard for legal changes in Washington, state capitols in Kansas, Missouri and across the country, and even in local communities, such as Olathe.

The way Winchester sees it, better prices, improved service and an enticing array of futuristic technology options are likely to follow once Comcast Corp., the nation's largest cable provider, Time Warner Cable and others face a more serious challenge. Smaller satellite television companies such as DirecTV are beaming some alternatives to consumers, but haven't had a big effect on prices.

"You can only fight (big cable companies) with another mega-corporation," Winchester said. "We cannot fight it house by house. AT&T is our opportunity to give Comcast some competition in rates and service."

Jonathan Adelstein, a member of the Federal Communications Commission, says phone companies' investment in this technology "could bring the most substantial new competition into the video marketplace that this country has ever seen."

And that will directly affect what you watch, how you watch it and how much you pay for the privilege. One think tank, the Phoenix Institute, estimates that if the phone companies already offered such competition nationwide, at least \$8.2 billion could be saved on cable bills this year.

So what's the delay?

In return for investing their billions, the phone companies want laws exempting them from a requirement that the cable companies met when they got into the business - namely, working out franchise agreements with thousands of local governments.

But letting the phone companies off that particular hook would be grossly unfair, say cable company executives.

More important to consumers, opponents say, those franchise agreements can ensure that everyone, not just wealthier neighborhoods, gets new services.

"I think their business plan definitely is to cherry pick" more affluent neighborhoods, said Damon Porter, a lobbyist for Time Warner Cable in Kansas City.

Striking a balance between these competing concerns will be critically important for the nation's consumers, said Jeannine Kenney, a senior policy analyst for Consumers Union.

Cable companies, left unchecked by equally powerful competitors, have imposed steadily rising rates in recent years, Kenney said. It should not be left to phone companies to decide whether to bring the new video services to an entire community or only select portions, she said.

"With appropriate protections, we are interested in seeing video competition come in as soon as possible to police the skyrocketing cable rates we have seen over the last decade," Kenney said.

The fight begins

It's not clear how soon consumers will be able sign up with the phone company giants for television programs, home security video surveillance systems and other services such as telephone caller ID on the TV screen.

Much hinges on who wins legislative and regulatory free-for-alls now raging in Washington and statehouses across the country. The skirmishes also have spread to city halls, including those in Lenexa and Olathe.

The debate is fierce, matching two richly financed industries that have plenty at stake. Lately they have been trading shots with broadcast commercials and full-page newspaper ads.

"Now we're ready to use fiber-optics and other advanced technologies to deliver a new alternative to traditional cable television," AT&T declared in one advertisement last week.

"With new home entertainment options and more control over their TV, everyone will get the benefit of companies competing for their business."

Tom Krewson, a Comcast spokesman in Kansas City, says his company and other cable providers already face competition and would welcome more - if it's fair.

And that means having the phone companies get local approval to lay cable and provide services.

"Those are the rules we are playing by," Krewson said. "We expect them to play by those rules as well."

The phone companies instead want at least statewide authority to sell video service. But the Missouri Cable Telecommunications Association argues that would give phone companies a big advantage while cable companies continue to be lashed to existing franchise agreements, some of which are expected to continue for a decade or more.

Plus, no franchise agreement means no consumer protections or requirements that phone companies offer video throughout a community, said Porter.

Indeed, executives with SBC Communications Inc., now known as AT&T, have told Wall Street analysts they will focus first on serving "high-value" customers, those who spend more than \$160 a month on communications services, and "medium-value" customers spending between of \$110 and \$160 a month, according to a 2004 article in trade publication Telephony Online.

Such a scenario troubles city officials such as Tim Danneberg, Olathe communications director.

"We feel every taxpayer owns a piece of the right of way," Danneberg said.

"Every resident should have the opportunity to benefit from what's being used in it."

AT&T officials say they have no intention of discriminating against poor consumers. The company says its high-value and medium-value customers are distributed widely in a

community and not isolated only in wealthier enclaves, said Don Brown, an AT&T spokesman based in Topeka.

"We value all of our customers and we'll put our record of serving communities up against anyone out there," Brown said.

Tedious process

AT&T, which recently announced a \$67 billion deal to buy BellSouth Corp., stands ready to spend more than \$4 billion over the next few years to roll out video technology to as many as 18 million homes nationally, said Cindy Brinkley, AT&T's top executive in Missouri.

Which homes gain access to the services largely depends on which states offer alternatives to negotiating agreements with individual cities or counties.

AT&T officials note that the current system would require the company to run a gantlet of more than 550 local governments in Missouri alone that now hold video franchises with cable companies. AT&T contends that the benefits to consumers of heightened competition are so great that lawmakers are justified in giving phone companies a jump start for entering the video market.

Ironically, similar steps were taken a decade ago to break the monopoly grip regional phone companies once held on local markets. Back then, however, phone company executives opposed such changes.

Bills moving through the legislatures in Kansas and Missouri would allow companies to obtain statewide franchises for providing video services.

Texas already has passed such a change and other states such as Virginia are poised to put new rules in place.

States that don't pass such measures, Brinkley said, are unlikely to see substantial investment by AT&T.

"It is important that we have a green light from a regulatory standpoint," Brinkley said.

Big money

As part of local franchise agreements, cable companies pay substantial fees to local governments.

Cable companies in Missouri pay a total of about \$35 million in such fees each year, according to the Missouri Cable Telecommunications Association.

The payments in Lenexa total about \$460,000 a year and nearly \$900,000 in Olathe.

Local governments should not view the changes sought by AT&T as a threat to their budgets, Brinkley said.

"We will pay whatever the cable companies pay," Brinkley said.

Lawmakers are sensitive to concerns that a change would cut off the money flowing to local governments or phase out such things as public education and government channels.

Any bill will be protective of these matters while still moving the Kansas video market forward, said Sen. Karin Brownlee, who leads the Kansas Senate Commerce Committee.

"The statewide system would allow new cable service into communities more quickly," Brownlee said.

"With more companies vying for the consumer's cable business, consumers should see better prices."

Legislators in Missouri are taking a similar approach.

"I think the consumers want a choice in their video service," said Sen. David Klindt, chairman of the Missouri Senate's Commerce, Energy and the Environment committee.

"It is just going to come down to figuring out how to make it happen."

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Phone companies want ...

Cable companies want ...

Consumers want ...

Topsy-turvy telecom

... new laws giving them easier access to the cable business, where customers' average monthly bills are up 21 percent in two years.

2003\$66.22

2005\$80.33

... phone companies to meet the same legal requirements they have.

... competition for their cable dollars. Cable bills are 15 percent lower when two companies provide service in an area.

Cable companies are selling phone service and phone companies are selling video as major telecommunications firms scramble to win a larger share of consumer spending on entertainment and information services. In terms of existing customers, here is where the major participants will begin the battle.

Telephone industry phone lines served

AT&T Inc.49,413,000BellSouth Corp.20,037,000 Verizon Comm.48,803,000

Cable industry subscribers

Comcast21,448,000Time

Warner10,905,000Cox6,283,122Charter5,943,100Cablevision3,005,558

Pending bills addressing the issue

Missouri - SB 816

Kansas - S. 449

Photo (color photo illustration)

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