

Phoenix Center Teleforum

January 22, 2015

“Federalism, Preemption and
Municipal Broadband”



Today's Agenda:

- Part 1: Welcome and Introduction
 - Phoenix Center President Larry Spiwak
- Part 2: Presentation of Research
 - Phoenix Center Chief Economist Dr. George Ford
- Part 3: Legal Discussion
 - Russ Hanser - Partner, Wilkinson Barker Knauer;
 - Brad Ramsay - General Counsel, National Association of Regulatory Utility Commissioners; and
 - Jeff Lanning - Vice President of Federal Regulatory Affairs, CenturyLink
- Part 4: Q&A and Conclusion



Phoenix Center Research on Municipal Broadband

George S. Ford

Chief Economist



Things to Read from Us

Why Chattanooga is not the “Poster Child” for Municipal Broadband, PHOENIX CENTER POLICY PERSPECTIVE NO. 15-01: (January 20, 2015).

FCC Has No Authority to Preempt State Municipal Broadband Laws, BLOOMBERG BNA (August 6, 2014).

Do Municipal Networks Offer More Attractive Service Offerings than Private Sector Providers? A Review and Expansion of the Evidence, PHOENIX CENTER POLICY PERSPECTIVE NO. 14-01 (January 27, 2014).

Sloppy Research Sinks Susan Crawford’s Book..., @LAWANDECONOMICS BLOG (January 18th, 2013).

Competition After Unbundling: Entry, Industry Structure and Convergence, 59 FEDERAL COMMUNICATIONS LAW JOURNAL 331 (2007) .



Other Things from Me

Does Municipal Supply of Communications Crowd-Out Private Communications Investment: An Empirical Study, ENERGY ECONOMICS (2006).

Broadband and Economic Development: A Municipal Case Study From Florida, with T. M. Koutsky, REVIEW OF URBAN AND REGIONAL DEVELOPMENT (2006).



Is Muni Broadband a Good Idea?

- In areas where returns are insufficient to draw private investment, some cities may wish take up the “subsidy” issue themselves, perhaps constructing their own network or using public-private partnerships. Arguably a sane policy, but risky.
- Is it *un-served* and *under-served*? The boundaries are blurry.



Is Muni Broadband a Good Idea?

- Increasing competition is not a legitimate basis for a muni broadband system. Governments are not competitors. Competition occurs between profit maximizing firms.
- Bigger question – should all broadband be provided by the government?



Price Competition

It's not about competition, but many want to make it about competition. So let's look at it from that perspective.



“[m]unicipal wireline broadband service providers offer much more attractive triple play services than other wireline broadband service providers in the U.S.”

Consumer Federation of America (2014)



“But a renewed focus on a ‘public option’ for internet service could create the kind of competition that would finally drive down prices and improve service.”

Time Magazine (2015)



In order to make meaningful price comparisons across public and private-sector broadband providers, it is first essential to collect prices on nearly identical services, since there is no expectation that prices for different things will be similar.

POLICY PERSPECTIVE NO. 14-01 (2014)



Bristol, VA

Comcast

Element	Type	Price
Broadband	30 Mbps	
TV	175 ch.	
Phone	Full/Unl.	
		\$109.97

BVU (Muni)

Element	Type	Price
Broadband	30 Mbps	
TV	180 ch.	
Phone	Full/Unl.	
		\$149.95



Lafayette, LA

AT&T

Element	Type	Price
Broadband	18 Mbps	
TV	370 ch.	
Phone	Full/Unl.	
		\$119

LUS (Muni)

Element	Type	Price
Broadband	15 Mbps	
TV	290 ch.	
Phone	Full/Unl.	
		\$172.88

Cox

Element	Type	Price
Broadband	25 Mbps	
TV	230 ch.	
Phone	Full/Unl.	
		\$129.99



Chattanooga, TN

Comcast

Element	Type	Price
Broadband	50 Mbps	
TV	170 ch.	
Phone	Full/Unl.	
		\$139.99

EPB (Muni)

Element	Type	Price
Broadband	100 Mbps	
TV	150 ch.	
Phone	Full/Unl.	
		\$139.38

Verizon (not in Chatt)

Element	Type	Price
Broadband	50Mbps	
TV	215ch.	
Phone	Full/Unl.	
		\$89.99



Private firms are ... profit maximizers. Municipal systems ... are presumably not, but arguably are engaged in a break-even financial model. The prices charged by municipal systems, therefore, tell us something about how low prices can go. [T[he prices of municipal providers ... are ... comparable to private offerings.

POLICY PERSPECTIVE NO. 14-01 (2014)



The fact that the prices of private-sector broadband providers are in line with, if not below, the municipal systems suggests that competition in the broadband market is effective Plainly, a third wire to the home, even if owned and operated by the government, is not going to lead to radically lower prices for broadband services.

POLICY PERSPECTIVE NO. 14-01 (2014)



Municipal broadband does not remedy the “international comparisons” problem, either for triple play or straight broadband offerings.



Model City?



“While Mr. Wheeler holds out Chattanooga as the ‘poster child’ for community broadband [], generalizing the Chattanooga experience to the rest of the United States is a quite a stretch and is, as I see it, irresponsible. Chattanooga is unique in many respects, so care must be taken when generalizing this somewhat unique situation to other communities.”

POLICY PERSPECTIVE NO. 15-01 (2015)



EPB's broadband side benefits from spillovers from the municipal electric utility division. Some of these are legit, like experience with customers and networks, network employees and equipment, and so forth. Questionable spillovers come from the financial side, where the electric ratepayers (and possibly taxpayers) bear portions of the burden for the broadband rollout. These arrangements cloud sight into the stand alone financials of the broadband unit. Both types of spillovers are general to municipal broadband, especially in the presence of a muni-electric.



About one-third of the cost of building the network was paid for by a Federal grant (\$111 million).

That's about a \$2,000 per customer gift from people in other cities to the population of Chattanooga. To extend this to all municipalities, the price tag would be \$220 billion.



If the federal government were to give Comcast an equivalent grant per home passed, it would be a \$35 billion cash infusion for Comcast. That's about 11 years worth of Comcast's Capex. What speeds would Comcast be offering if given that amount of money in a single year?



Most of the economic benefits derive from “getting out ahead” or not “falling behind.” Thus, the gains are from the “relocation” of businesses. What one city gains, another city loses. Why the Feds are involved in such a scheme is puzzling. Cities that can’t handle the complexity and costs of muni-system will be sabotaged by the federal government.



Building and operating a wireline broadband network is expensive and hard. That's why there are typically only two of them. If the government injects a third using subsidies, grants, and favoritism, then it is likely one of the others will be forced to exit at some point.

There is an equilibrium number of firms, determined by market forces and not government's wishes.



Legal Panel

- Moderator:
 - Phoenix Center President Larry Spiwak
- Panelists:
 - Russ Hanser - Partner, Wilkinson Barker Knauer;
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