Is Monopoly or Competition the Future of Broadband: Large User Perspectives

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From the large users’ perspective, there is no competition in the broadband market

• Large users have been purchasing “broadband” services for many years
  – T-1s, DS-3s, OC-ns – mostly not used for “multimedia” like mass market broadband, but for handling massive quantities of data

• “Last mile” broadband access market is overwhelmingly dominated by RBOCs
  – Most CLEC enterprise customers are served via RBOC special access
  – Sprint has advised that prior to latest mergers it buys 95% of special access type connections from RBOCs – figure will likely rise to 97% after mergers
From the large users’ perspective, there is no competition in the broadband market

- So far, the principal impact of putative “competition” for last mile broadband access has been to create the *illusion* of a competitive market, providing an excuse for the RBOCs to demand “pricing flexibility” and deregulation

- And so, despite that putative “competition,” last mile broadband access prices have been increasing, and RBOC profits on these services have soared to nose-bleed heights

- In fact, there is no evidence that competition for ubiquitous last mile enterprise broadband access is sustainable
CLEC investment has slowed to a trickle

- 89% of post-TA96 CLEC investment was completed by the end of 2001 – almost no new capital is now flowing to CLECs.

![Net CLEC investment ($billions)]
CLECs have facilities-based access to only a fraction of US commercial buildings

<table>
<thead>
<tr>
<th>Total no. of commercial buildings in the US</th>
<th>3,000,000</th>
<th>% of total commercial buildings in the US</th>
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</thead>
<tbody>
<tr>
<td>Estimated no. of CLEC on-net buildings</td>
<td>34,450</td>
<td>1.148%</td>
</tr>
<tr>
<td>Estimated no. of MCI on-net buildings</td>
<td>6,000</td>
<td>0.200%</td>
</tr>
<tr>
<td>Estimated no. of AT&amp;T on-net buildings</td>
<td>6,400</td>
<td>0.213%</td>
</tr>
<tr>
<td>No. of CLEC on-net buildings will be even smaller after mergers</td>
<td>22,050</td>
<td>0.735%</td>
</tr>
</tbody>
</table>
RBOCs dominate broadband loops – even when CLEC fiber is present

- Even in dense urban centers with extremely high enterprise customer demand and the presence of CLEC fiber optic facilities, most CLEC customers are served via ILEC special access services.

<table>
<thead>
<tr>
<th>City</th>
<th>All CLEC Locations</th>
<th>Served via SBC Special Access on Streets with CLEC fiber</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SBC Special Access</td>
<td>Served via CLEC fiber</td>
</tr>
<tr>
<td>San Francisco — citywide</td>
<td>1160</td>
<td>71</td>
</tr>
<tr>
<td>San Francisco — downtown</td>
<td>719</td>
<td>68</td>
</tr>
<tr>
<td>Oakland</td>
<td>161</td>
<td>18</td>
</tr>
<tr>
<td>San Jose</td>
<td>95</td>
<td>24</td>
</tr>
<tr>
<td>Dallas</td>
<td>124</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: Analysis based upon SBC August 18, 2004 ex parte filing, FCC WC Docket No. 01-338
SBC August 18, 2004 ex parte filing, FCC WC Docket No. 01-338
Verizon July 2, 2004 ex parte filing, FCC WC Docket No. 01-338

Metropolitan New York
Customers of 8 Select CLECs Served Using Verizon Special Access

- Customers of 8 Select CLECs
- Served Using Verizon Special Access
- Known CLEC Fiber Route

Within MSA Boundary:
- Verizon Service Territory
- COs Served by Known CLEC Fiber
- Non-Verizon Service Territory
Cable provides no competitive pressure on basic telephone service

- The rate at which cable systems have been adding new telephony customers has slowed to a trickle.
And Cable is not a viable alternative for most enterprise customer needs

Cable targets Mass Market customers:
- One in Five US households now have a high-speed Internet link, either ADSL or cable modem.
- But cable is typically not available or useful to most business locations.

A cable/telco duopoly is emerging

[Bar chart showing growth in millions of lines from 1999 to 2003, with Cable and DSL categories indicated.

Legend:
- Cable
- DSL]
The (not so) small but significant price increases in unregulated RBOC Special Access rates …
… have escalated RBOC Special Access rates of return, yet stimulated no competitive challenge
RBOC Special Access RORs (2004) are all well above “authorized” competitive level.
... and the special access price/cost gap just keeps growing.