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A Video Revolution is Brewing as IPTV Arrives

But the Laws Need to Change

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*Scott Johnson,
president of Cannon
Valley Telecom Inc.*

There's a video revolution under way. People send video files on the Internet. There's digital video on iPods. Microsoft, Google and others are partnering or exploring arrangements with providers of video programs. IPTV – television using the same Internet Protocol digital language now used for phone calls, websites and e-mail – is an accepted, worldwide, non-proprietary standard that's already widely available in some parts of Europe and Asia.

With broadband facilities laid to neighborhood “head-ends” or all the way to homes, telephone companies are already delivering hundreds of digital TV channels over the same wire that provides their customers with telephone service and high-speed Internet. But there's something putting the brakes on the video revolution. It comes in the form of government regulations that stifle competition, cost consumers money and prevent them from moving more quickly into the flexible, programming-rich future of video.

IPTV

Telcos use different digital formats to deliver video now, but IPTV is regarded as the future of technology because it can offer consumers hundreds of channels, on-demand viewing and interactive services that include game-playing and videoconferencing. IPTV could even allow viewers to switch the viewing angle of a game they're watching.

IPTV is already rolled out in Manitoba and by SureWest Communications, a northern California telco. Verizon will use the technology for its video-on-

demand features. AT&T (formerly SBC Communications) is also placing a big “bet” on IPTV, planning to spend \$4 billion on fiber optic cable deployment that will reach 18 million homes by 2008. These two telco giants, as well as small and larger telephone companies, are urging Congress to pass legislation to simplify video franchise authority. The companies want a national video franchise law to bring uniformity and efficiency to video providers.

For consumers, IPTV should rein in pay-TV costs, though that's years away. It would allow people to pay only for the channels they want, including those that appeal to very narrow audiences because there's no technical limit to the content that can be offered. IPTV also merges with other Internet technologies more easily, allowing people to do things like instant messaging or make phone calls through their TVs. And IPTV will allow more local programming, something that rural areas could especially prize.

The Competition Problem

Laws designed for cable franchises gave consumers more programming and better reception, made public access channels possible and brought income to municipalities. Cable franchises are non-exclusive – they allow competition – but laws require that new competitors match the service areas of incumbent franchise holders. Therein lies the problem, along with the fact that digital technology has again leapfrogged regulations designed for its analog predecessor.

“It’s a monumental task to go through the process of obtaining a video franchise in order to compete with an incumbent cable operator,” says Gene South, CEO of Lakedale Telephone Co. in Annandale. South, who just completed a term as president of the U.S. Telcom Association, adds that, “Cities treat us the same as cable, but we’re an entirely different animal.”

Carrie Rice, regulatory affairs manager for Mankato-based HickoryTech, says the issue is one of fundamental competitive fairness. “We’ve had competition in telephone service since the federal Telecommunications Act of 1996. Competitive telcos that compete with an incumbent phone company can offer service wherever they want. They could offer it to only the odd numbers on a street if they chose.

“But there’s been no comparable lifting of regulations for competitive video providers and it’s stifling competition. We have to put expensive equipment everywhere an incumbent cable franchisee serves and can’t provide service until our infrastructure is fully deployed. In one case for our company, that meant waiting over three years before we could offer customers video.”

Rick Keane, manager of Pine Island Telephone Co., calls telcos “square pegs” that government is trying to fit in “round holes” because companies that come into an area with data and voice services aren’t allowed to provide TV over the same line even though that capability exists. “The laws don’t permit it,” Keane notes.

Even a local phone company that’s also an incumbent cable operator has an “administrative burden” dealing with numerous franchises, according to Scott Johnson, president of Cannon Valley Telecom Inc. This is especially true for a smaller company like Cannon Valley, which has three cable systems but deals with 14 franchising authorities.

But Johnson’s biggest objection to the current system is the disparity in the degree of regulations. “As I go outside my service area, I must get a franchise with every township to provide video. A cable company can deliver telephone service without any regulations at all. I also have to match the building schedule of the incumbent cable company, so I can’t enter a market gradually, and costs are prohibitive to try and build the entire infrastructure at once. Cable companies have the right to make competitors match their original agreement, but it is stifling competition. It also means I can’t serve my customers in a cost-effective manner.”

Even time is a competitive barrier, South says. Because it takes 8-12 months to enter an area to provide video services, incumbents can start digitizing signals, lowering rates and packaging services before a competitor can offer service, making any new video provider think twice before even entering to compete.

The key disagreements with municipalities over regulations are the areas served and the time municipalities require new video providers to accomplish certain service goals. Telcos offering video have no trouble paying the same cable franchise fees as incumbent companies, abiding by municipalities’ right-of-way rules or providing public access channels. But they want to do what the ’96 Telco Act said they could do – provide video over their infrastructure and not have to follow a build out schedule that’s often shorter than the one that incumbent cable operators met. South says, for example, that his company was asked by one city to do in seven years what the original cable provider took 26 years to accomplish.

The Changing Video Landscape

The Federal Communications Commission has issued a notice of

proposed rulemaking concerning video providers and Congress is also looking at changes. A bill carried over to the 2006 session of the Legislature contains changes to Minnesota’s Chapter 238 that would allow cities to grant video franchises to competitors covering service areas that are different from those of incumbents.

The issue may also end up in court. Federal courts have already ruled that VoIP, the technology used by Internet phone companies like Vonage, are not subject to the regulations telephone companies must follow. Since IPTV is basically the same technology, it’s not hard to foresee rulings exempting it from regulations.

In a very competitive marketplace where some income streams are declining, video offers telcos an additional income source that may be crucial for the long-term survival of some. The irony is that the income may not be that huge and that video is not always profitable until economies of scale kick in.

The cable industry is in for big changes. It will see the same erosion of its preeminent position in video that telcos continue to experience with phone service. The only questions are what will cause the changes, what the changes will be and when will they occur. As South notes, “Laws need to catch up with our lives. They don’t encourage competition and they’re preventing consumers from getting better service and lower rates.”

Minnesota Telecom Alliance is a not-for-profit professional association representing more than 95 small, medium and large telecommunication companies providing voice, data, wireless, and high-speed broadband services to Minnesota’s metropolitan and rural communities. More information about MTA can be found on the Internet at www.mnta.org