

Utah State Legislature  
Government Competition and  
Privatization Committee

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Testimony of

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## Striking Parallels to History of Electrification

- Private power companies focused on most lucrative urban markets, left most of America in the dark
- More than 3300 municipalities formed own utilities
  - Economic development and quality of life
- Most that did survived and thrived; many that waited for the private sector languished
- Eventually, 1/3 sold utilities to private sector – had achieved goal of not being left behind
- Industry arguments in opposition identical to today's

## What's Really at Stake – America's Global Competitiveness

- Much of what we do at work, at home, and at play will increasingly be done through broadband, at much faster speeds than today
- World economy is growing interconnected and “flat”
- We are going to lose most of our manufacturing jobs to China, India, and other low-cost nations
- Our best hope is to prepare our communities and population ASAP for high-tech, info-based jobs
- **A critical need: prompt and affordable access to advanced communications networks**

## How Are We Doing?

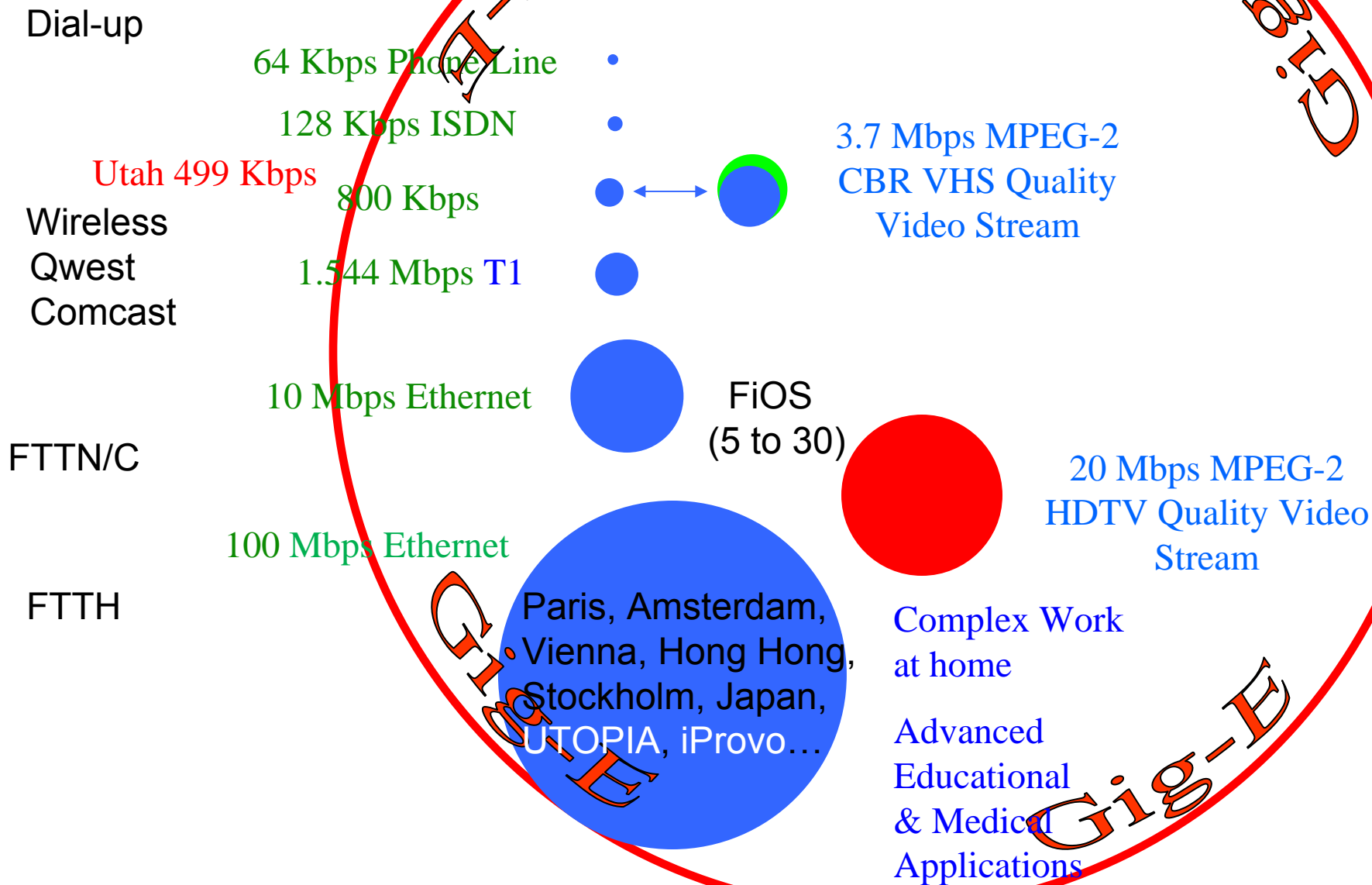
“America's record in expanding broadband communication is so poor that it should be viewed as an **outrage** by every consumer and businessperson in the country. Too few of us have broadband connections, and those who do pay too much for service that is too slow. It's hurting our economy, and things are only going to get worse if we don't do something about it.”

FCC Commissioner Michael Copps  
*Washington Post*, January 8, 2007

## “Broadband” in the United States

- FCC defines “broadband” as the capacity to transmit **200** kilobits/second in one direction – ridiculously low
- US currently has about **65 million** broadband lines, tops in the world, but China will soon overtake us
- FCC pretends that everyone in **99** percent of US zip codes now has access to broadband – but everyone knows that this is indefensible (including Mr. Titch)
- FCC’s flawed assumptions and practices under review in FCC rulemaking, subject to Markey and Inouye bills

# Broadband Comparisons



## US Broadband Compared to Other Nations

Broadband lines as % of Population: US 1<sup>st</sup> in 1990s ↓ 4<sup>th</sup> in 2001 ↓↓  
10<sup>th</sup> in 2004 ↓↓↓ 15-24<sup>th</sup> now

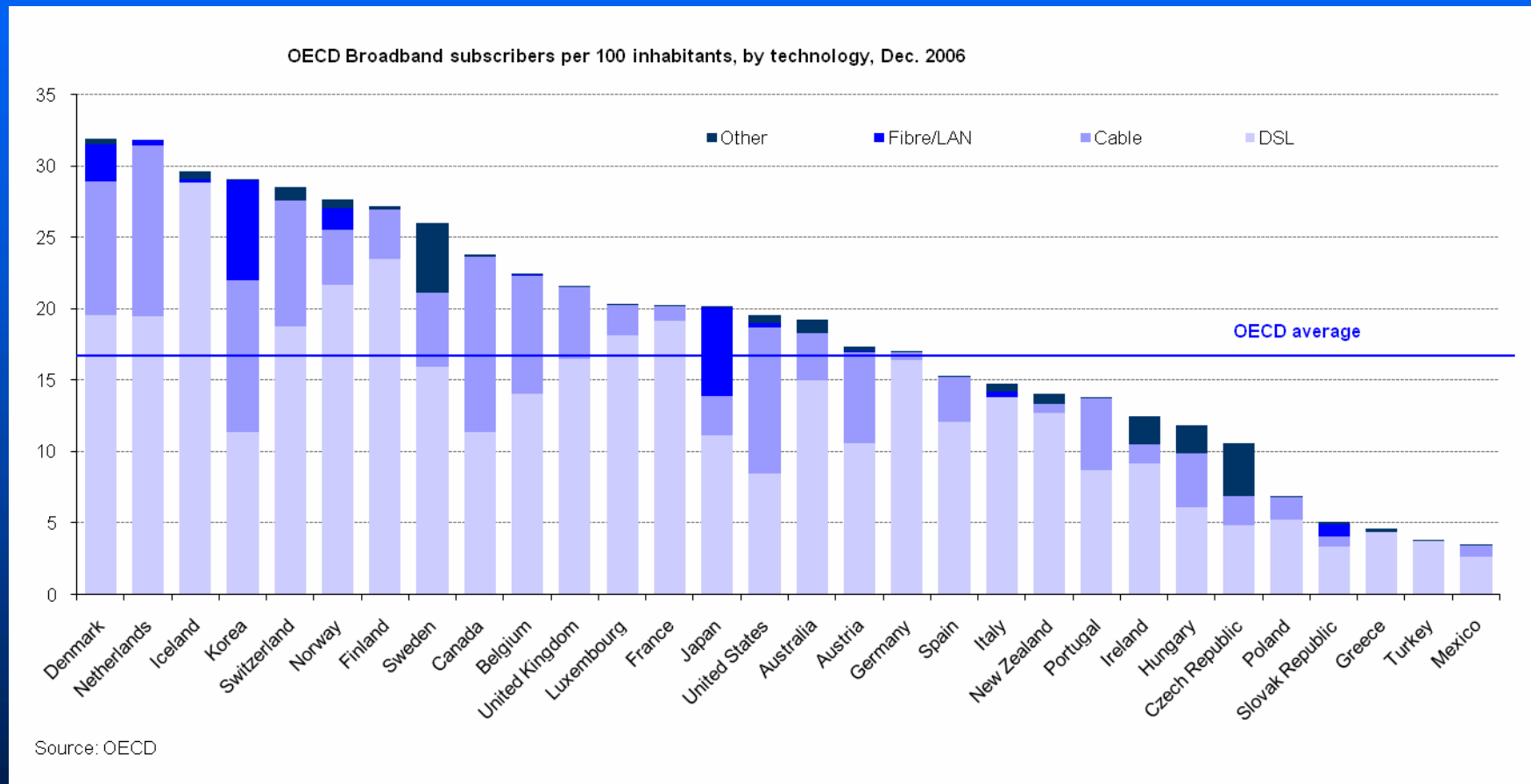
Average Speed (15<sup>th</sup>): US: 1.97 Mbps Japan: 61 Mbps

Price/Mbps (13<sup>th</sup>): US: \$3.18 Japan \$0.22

In short, Americans get less than 1/30 the bandwidth that the Japanese do and pay more than 20 times as much.

More details follow .....

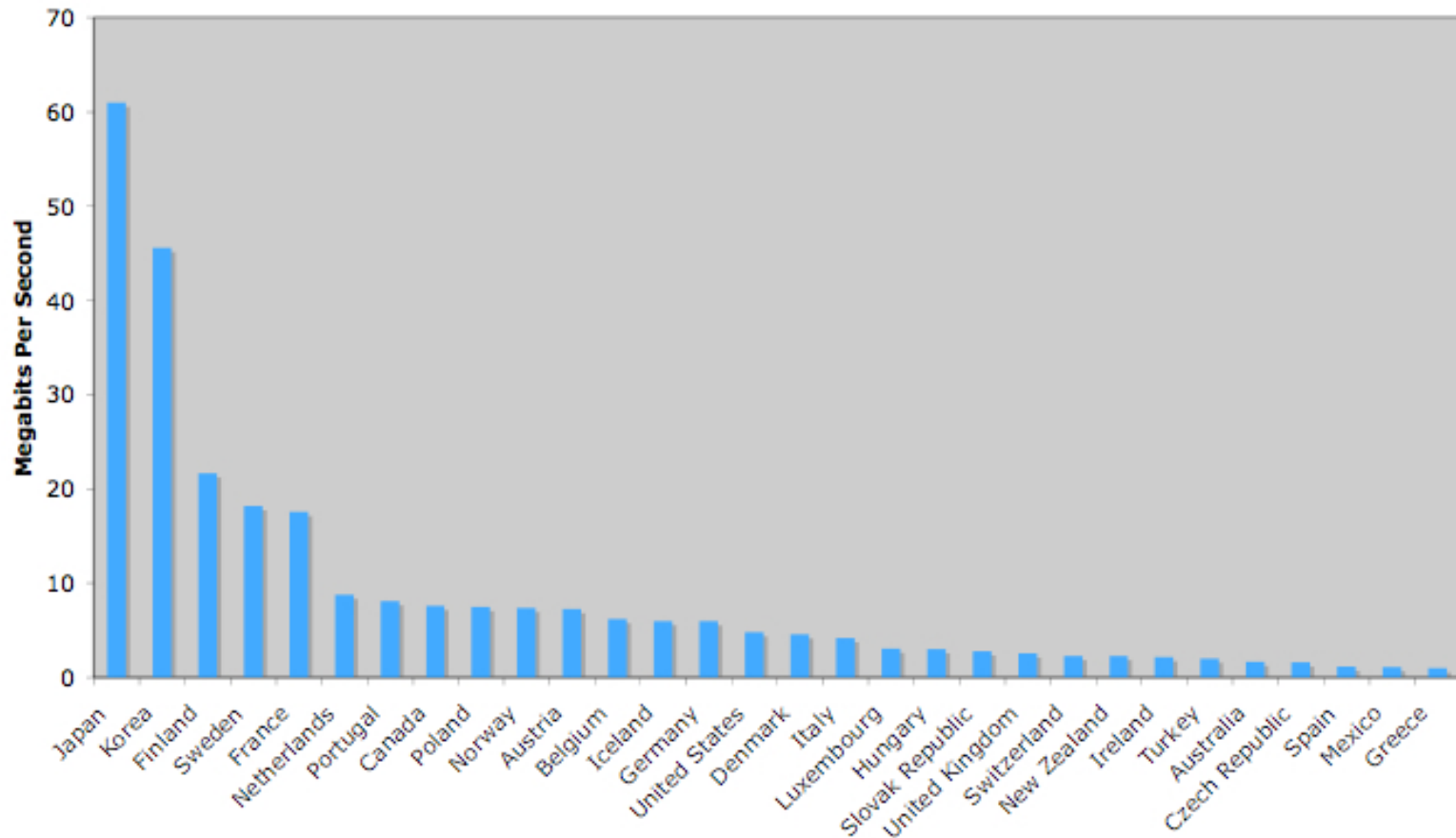
# Broadband Subscribers/100 Inhabitants (as of December 2006)



Source: OECD

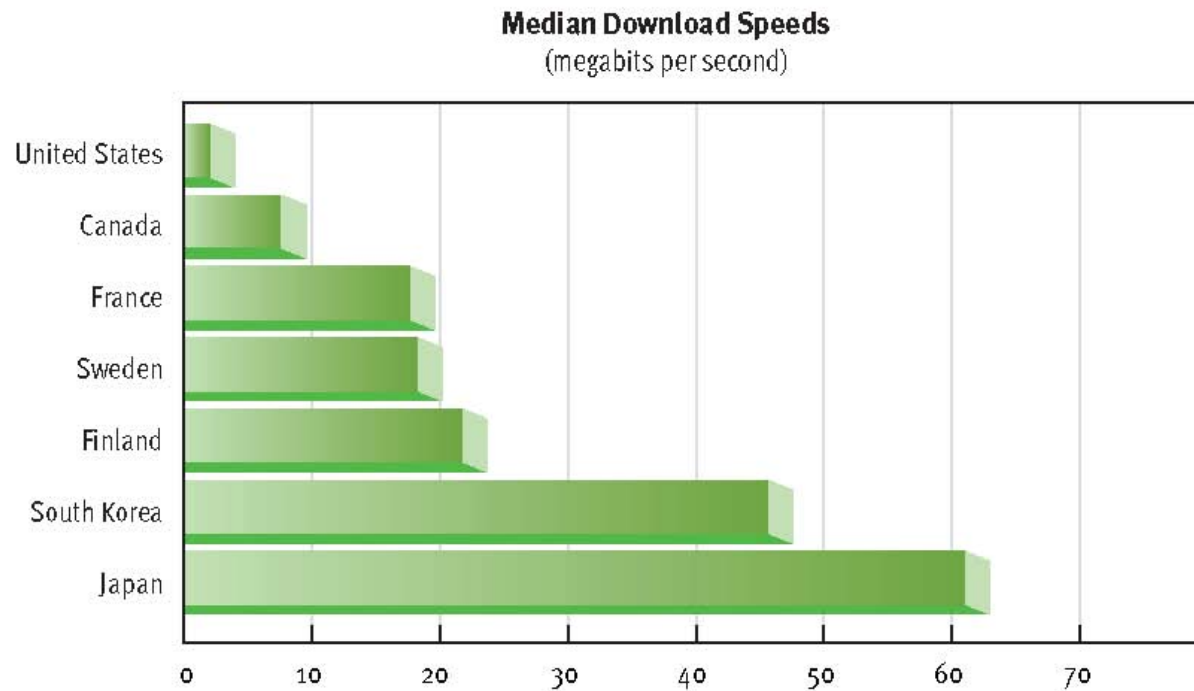


### Average Broadband Speed by Country



Source: Information Technology and Innovation Foundation

## U.S. Internet is Far Behind the Rest of the World



Source: International data from the Information Technology and Innovation Foundation;

US data from speedmatters.org test results. Most test participants had DSL or cable modem connections.

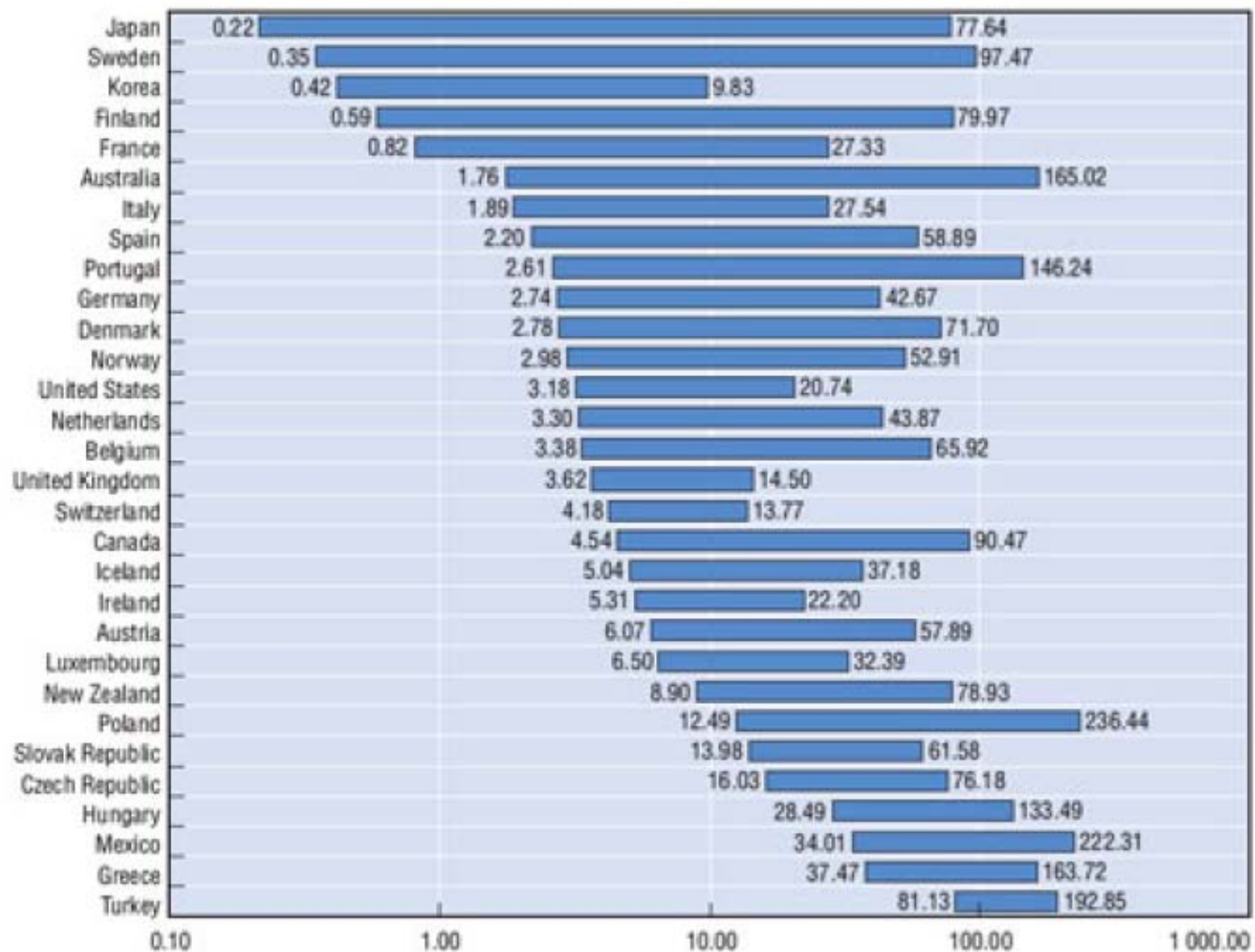
Source: CWA, Speed Matters

## Population Density Excuse Doesn't Hold Up

Country	Average Data Speed (Mbps)	Population/ Square Km	World Rank in Density
South Korea	45	480	19
Japan	61	339	30
France	17	89	110
United States	1.9	31	172
Sweden	18	20	185
Finland	21	15.5	190
Canada	7.6	3.2	219

Source: Wikipedia

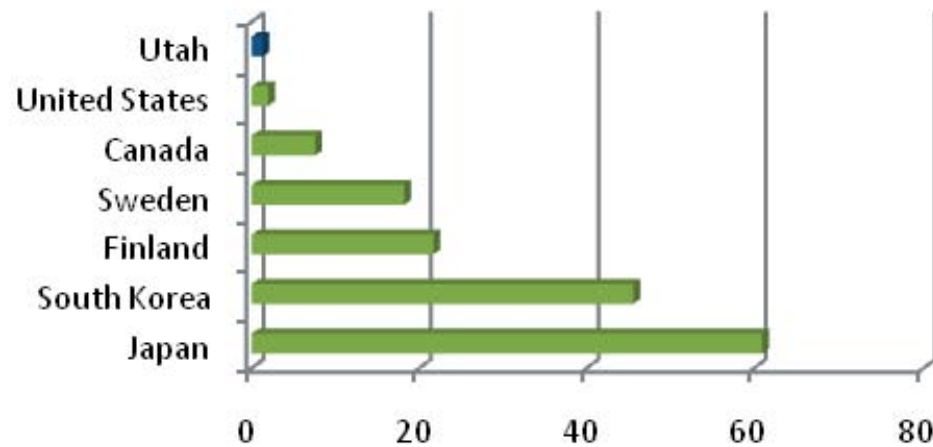
### Range of broadband prices per Mbit/s, October 2006, USD PPP



Source: OECD Communications Outlook 2007

## Utah Quick Stats

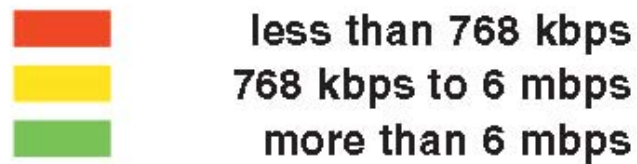
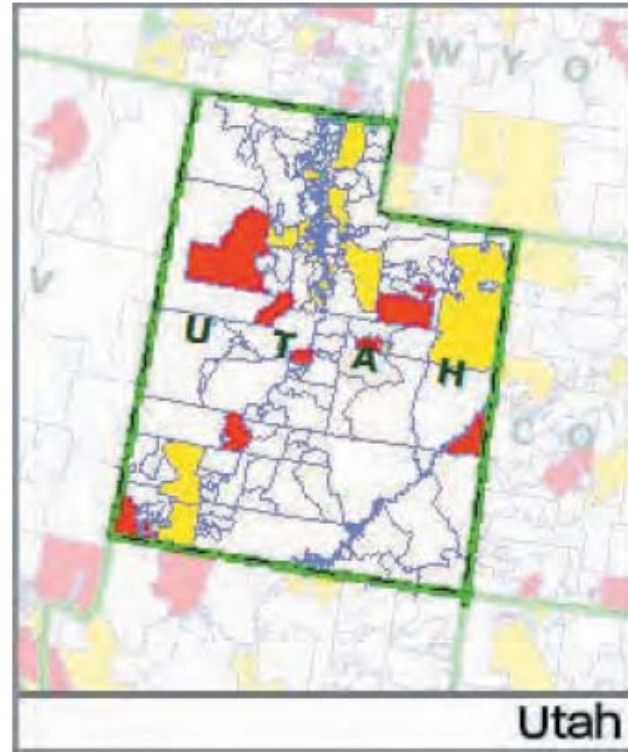
### Median Download Speed (megabits per second)



The median upload speed in Utah is 499 kbps, about 7 times slower than in Japan.

Source: CWA, Speed Matters

Average download speed by zip code for Utah. There were no tests in unshaded areas.



Source: CWA, Speed Matters

## Fiber Service in Paris

For € 29.99 / month (~\$41) a subscriber can get --

- 100 Mbps download, 50 Mbps upload
- Unlimited calls to fixed lines throughout France and to many other countries
- More than 100 TV channels and High Definition (HD) channels on two televisions
- Various free equipment options

# Hong Kong Broadband Network v. Verizon FiOS

## Hong Kong BB Network

5 Mbps	Not available
10 Mbps	Not available
25 Mbps	?
100 Mbps	\$48.50/mo
200 Mbps	\$88.20/mo
1000 Mbps	\$215.40/mo

## Verizon

5/2 Mbps	\$39.99/mo
15/2 Mbps	\$49.99/mo
30/5 Mbps	\$179.99/mo
100 Mbps	Not Available
200 Mbps	Not Available
1000 Mbps	Not Available



## The “Triple Play” in America



Source: Gary Bolles

## Why Are Municipalities Stepping In?

- So they can “use cut-throat means in an effort to establish marketplace monopolies”?
- So they can “recklessly undercut incumbent providers in hopes of forcing them to capitulate and leave the market place”?
- So they can “snuff out the prospects for real competitive benefits for consumers”?
- So they can fulfill “self-centered goals – fattening paychecks, collecting political chips, and saving their jobs”?

Source: *WiFi Waste: The Disaster of Municipal Communications Networks* (Feb. 2007)

## The Key Municipal Drivers

- Economic development
- Educational and occupational opportunity
- Public safety and homeland security
- Digital equity
- Local, regional, and global competitiveness
- Affordable modern health care
- Reduced traffic congestion and environmental burdens
- Cultural enrichment
- Control own destiny
- Quality of life

## Shortcomings of Mr. Titch's Arguments

- Relies heavily on “studies” that contain significant errors and omissions, questionable analytical methods, flawed conclusions, and harsh rhetoric reflecting strong bias
- Authors acknowledge significant data gaps but still draw preconceived negative conclusions
- Studies focus on early years, when costs high and revenues just beginning to grow – **all capital-intensive projects lose money during their early years, whether public or private**
- Studies selectively apply private-sector criteria to public projects, while ignoring indicia of success (e.g., EBITDA)
- Studies ignore **huge non-fee financial benefits** to community

## The Myth of Municipal Cross-Subsidies

- For legal and political reasons, municipalities rarely engage in cross-subsidization – would be very visible
- Private entities routinely cross-subsidize broadband on a massive scale

“Telco TV providers might not break even, on an annual basis, for 10 to 15 years, says Albert Lin, an analyst at American Technology Research.”

- Telcos use telephone and wireless revenues to X-Sub
- Cablecos use cable television revenues to X-Sub
- Companies don't ask phone, wireless, or TV subs
- Cablecos also often engage in cross-market predatory or discriminatory pricing

# Is Municipal Wireless Dead?

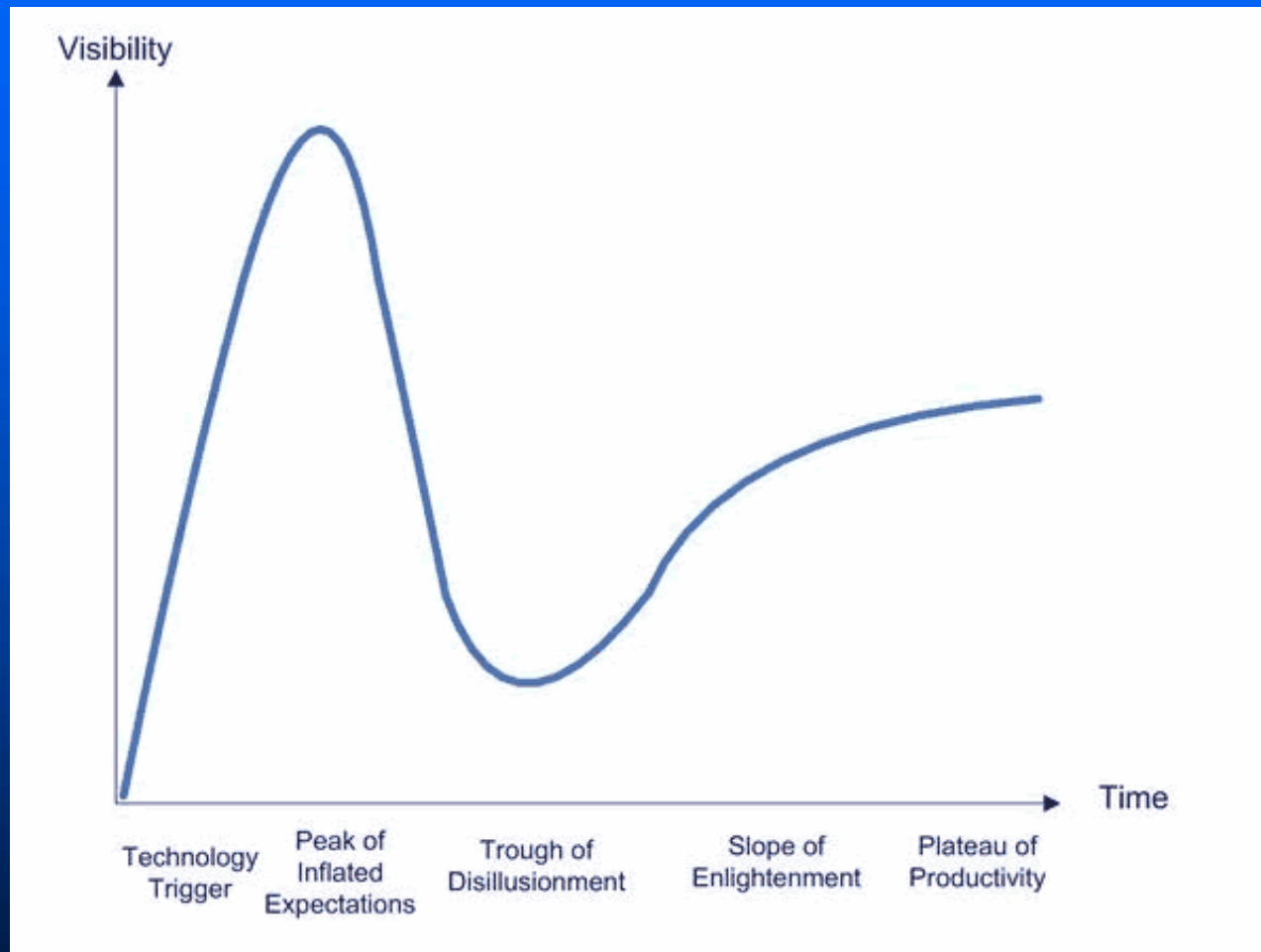
## Opponents

- EarthLink and others in big markets are backing out
- Cost and time-to-market higher than expected
- Take-rates lower than projected for paid services
- Private sector is improving services, dropping rates
- Wireless has insufficient bandwidth for today, future
- Won't penetrate to interiors

## Proponents

- Media overreacting – again
- Only “free lunch” models failing
- For most localities, “free lunch” was never an option
- Key drivers still there (last slide)
- “Anchor tenancy” to reduce risks
- Ways exist to increase take-rates
- For some localities, wireless is the only option, or a key option
- Some consultants advise focusing solely on municipal uses

## Gartner Group's "Hype Cycle"



SOURCE: The Gartner Group via Gary Bolles

## Summary

- US faces massive challenge to build high-capacity networks as quickly as possible
- Private sector can't do it alone
- Public and private sectors must work cooperatively, in a spirit of mutual respect
- No credible evidence supports the suggestion that municipal broadband projects are generally failing, let alone that fiber projects are failing
- UTOPIA and iProvo are tremendous assets for Utah and America and should be applauded rather than attacked and weakened