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NEWS AND FEATURES

Bristol's broadband push

Expansion strategy helps attract major employers to Southwest Virginia

by Paul Miller
for Virginia Business
[November 2006](#)

There was a time when Bristol, Va., and other mountain communities yearned for better roads — ribbons of asphalt that would link them with the world beyond. Today, an impressive network of highways crisscrosses this region in Southwest Virginia.

Now leaders of this city of 18,000 at the Tennessee state line have turned their attention to building a different kind of highway over which voice, data and video can travel at lightning speeds.

They're laying cables of hair-thin glass fibers — fiber optics. Their goal remains unchanged: to link with the outside world so that the region can stay in the game when it comes to economic development. Build it and they will come.

The strategy seems to be working. Two technology companies, CGI-AMS Inc. and Northrop Grumman Corp., are building data centers in nearby Russell County that will create 1,500 good-paying jobs. They were attracted in part by the availability of OptiNet, an 800-mile fiber-optic network operated by Bristol Virginia Utilities (BVU).

BVU's reputation for broadband know-how continues to gain respect in Southwest Virginia. In September, two planning district commissions (PDCs) in the region announced that BVU would install 160 miles of fiber-optic cable linking existing broadband networks owned by the PDCs.

The expansion of BVU's network comes in the wake of hard-fought regulatory and legal battles between Bristol and telecommunications companies, including cable TV firms. A compromise bill passed by the General Assembly four years ago allows cities, towns and counties throughout the state to provide telecommunications services under certain market conditions.

Bristol's experience illustrates the ongoing debate about the role broadband should play in economic development in rural areas. Telecommunications companies say they

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Should Virginia allow municipalities to provide telecommunications services without restrictions?

- Yes
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will provide service if customers are willing to pay the costs, but the telecoms will not risk large investments in speculative networks. Rural communities, on the other hand, believe they must have broadband networks in place to compete for business and survive in a technologically focused economy.

Bristol, in fact, has been cited by opposing groups in making the case for and against municipal utilities entering telecommunications. For example, the Progress & Freedom Foundation, a Washington-based think tank, says municipal utilities create unfair competition for private companies. The American Public Power Association, a trade association, counters that municipal utilities are bringing an essential service to neglected communities.

BVU isn't your typical municipal utility. In addition to water and sewer services, BVU provides electricity to more than 16,100 consumers in a 125-square-mile service area, composed of Bristol, Va., and portions of Washington and Scott counties in Virginia and neighboring Sullivan County, Tenn.

Nearly a decade ago, the BVU board opted to move the utility boldly into the telecommunications business. It began installing fiber optics in 1998, with the initial intention of connecting telemetry in its electric division. In 2000, BVU filed a federal lawsuit against the commonwealth aimed at giving municipal systems across Virginia the right to provide unlimited telecommunications services.

"Embarq [Bristol's local telephone provider] said there was a limited amount of business here to justify investing in broadband," says Jerry Brown, Bristol's director of economic development. He said if Embarq wouldn't bring fiber optics to Bristol, the city would do it itself.

A Virginia law banned municipal utilities from providing telecommunications services. It supported the view of telecom companies, who argued that a local government should not use tax dollars to subsidize a service in competition with private industry. They also said that it would be unfair for a government to offer competing telecom services while controlling the rights-of-way within the municipality.

In 2001, a federal court ruled that the federal Telecommunications Act of 1996 pre-empted Virginia's law. That decision was under appeal when the parties in the case agreed to a dismissal because of changes in Virginia law adopted in 2002.

Those changes quelled many of the gripes of the telecom companies. The new law allows cities, counties and towns to enter the telecommunications business under one of two tracks: Under the first track, any locality that operates an electric distribution system, such as Bristol, may apply for certification to provide telecommunications services in a limited area — up to 75 miles from the boundaries of the electric system as it existed on March 1, 2002. Under the second track, localities may be certified if fewer than three nonaffiliated companies provide the equivalent telecommunications service in their area and that service is readily and generally available to consumers.

Soon after the passage of the law, Bristol applied to be certified as an MLEC (municipal local exchange carrier). The SCC granted that application in late 2002, allowing OptiNet to operate in competition with existing local phone companies such as Embarq and Verizon. (Verizon does not serve Bristol itself, but OptiNet's system extends into some counties served by Verizon, including Russell County.)

In addition to Bristol, eight other Virginia localities have been certified as municipal local exchange carriers: Bedford, Danville, Franklin, Front Royal, Martinsville, Manassas, Radford and Salem. Bristol, however, is the only city currently selling the so-called triple play package of voice, data and video services.

By snaring the two technology companies in Russell County, OptiNet has shown that it is a serious telecommunications competitor. Nonetheless, Robert Woltz, president of Verizon Virginia, takes exception to suggestions that his company did not have a fiber-optic backbone in place to meet the needs of newcomers such as CGI-AMS and Northrop Grumman. He says he suspects their real attraction to the region was the presence of "fiber diversity," or redundancy. If OptiNet's network fails, for whatever reason, Verizon's system is in place as a fall-back, and vice-versa. "Most businesses today want and expect broadband diversity," he says.

OptiNet is able to connect with Northrop Grumman and CGI-AMS with the help of



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a "dark fiber" network built by the Cumberland Plateau PDC, which serves Buchanan, Dickenson, Tazewell and Russell counties. Dark fiber systems are sold or leased to private companies and MLECs, which turn the "lights" on for operation. BVU has a 50-percent interest in the Cumberland Plateau network and is its operator.

The only other PDC in Virginia to construct a fiber-optic network is neighboring Lenowisco (Lee, Scott and Wise counties and the city of Norton). The Lenowisco system, operated by Sunset Digital, has no financial agreement with BVU beyond the construction of the fiber corridor (announced in September) connecting its network with the Cumberland Plateau system.

PDCs built the dark fiber networks using a combination of federal funds and grants from the Virginia's Tobacco Indemnification and Community Revitalization Commission, an organization that uses payments from a settlement with major tobacco companies to revitalize tobacco-growing areas. OptiNet also has received grants from the commission, with last year's grant totaling \$7.7 million.

Under the 2002 state law, the SCC must ensure that prices charged by localities for telecommunications services are not cross-subsidized from other revenues of the county, city or town. MLECs must file an annual financial statement with the commission.

Ray LaMura, president of the Virginia Cable Telecommunications Association, has no qualms about municipalities competing in the telecom industry so long as they adhere to the provisions in the law.

Woltz feels the same. The day may come, he says, when Verizon actually becomes an OptiNet customer, buying wholesale bandwidth from OptiNet to help serve its own customers. The law, however, does not require BVU to sell its broadband wholesale.

Not all telecom companies are satisfied with the new arrangement. Embarq still questions whether BVU is competing fairly.

"Embarq has consistently espoused a pro-competition environment, but it should be level-playing-field competition," says Tom Sokol, Embarq's Richmond-based state executive for Virginia and Tennessee. "We continue to believe that in the competitive environment that exists in Bristol, Va., government should not be competing with private industry."

The SCC spent more than two years investigating complaints from Embarq (then called United Telephone-Southeast) that BVU was cross-subsidizing its phone service and charging below cost. The commission dismissed the case early last year after concluding that Embarq had failed to prove its charges against BVU. "We do not cross-subsidize," says Jim Kelley, BVU's vice president for operations. "We've worked very hard not to have skeletons in our closet."

With that case now behind it, BVU is free to extend OptiNet farther out toward its 75-mile statutory limit. Its biggest limitation now is the city's border location. OptiNet's reach is limited to only Virginia. It lacks legal authority to enter Tennessee.

BVU continues to plan for OptiNet's growth. "As long as the economics warrant, we'll build to serve our customers," says Stacy Bright, BVU's executive vice president and chief financial officer. The utility currently serves 6,200 customers, 900 of whom are businesses.

As OptiNet grows, Brown, Bristol's economic development director, plans to market its potential to companies seeking to relocate. So far, it's been used largely as a retention tool, but Brown now plans to tout it aggressively in a marketing campaign.

Editor's note: Paul Miller is a retired Verizon public relations executive. He is now a freelance writer and owner of Paul Miller Public Relations in Richmond.



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