



SBC, Verizon Ramp Up Efforts To Roll Out Fiber

Two Phone Giants Outline Plans for Optical and Hybrid Fiber-Copper Network Deployments

By Alan Breznick

SBC Communications and Verizon Communications intend to add a lot more fiber to their diets over the next few years.

In separate moves, both SBC and Verizon recently unveiled plans to roll out fiber-optic networks throughout the U.S. so they can offer faster high-speed data, voice-over-Internet-Protocol (VoIP), digital TV and other IP-based services to their phone customers. The nation's two largest Baby Bells aim to spend at least \$3 billion apiece laying down thousands of miles of fiber to replace their aging copper wires.

SBC made the first splash in late June, outlining its strategy to drive fiber much deeper into its networks. The phone giant said it could spend as much as \$4 billion to \$6 billion over the next five years to extend its fiber lines either all the way to millions of homes and businesses (fiber-to-the-premises or FTTP) or at least to every neighborhood (fiber-to-the-node or FTTN) in its sprawling region. With FTTN, phone companies use DSL technology to create high-speed IP pipes over the remaining copper plant.

In the first U.S. trial of Microsoft's new IPTV platform, SBC also said it and Microsoft have begun testing an IP-based switched TV service predicated on that technology in the lab. The two companies plan to launch field trials of the technology, which would enable digital TV, high-definition TV (HDTV), video-on-demand (VOD), digital video recording (DVR) and interactive program guides (IPGs), in at least one market sometime later this year. SBC said it will be able to offer video over both FTTP and hybrid FTTN/DSL networks.

Verizon followed in mid-July with the announcement that it will soon begin delivering super-fast Internet service to customers in Keller, Tex. over the new FTTP network that it has already started building. The new service, the first entry in a new suite called Verizon Fios, will offer Internet access at speeds of up to 30 Megabits per second (Mbps) downstream and 5 Mbps upstream.

Beyond just Keller, Verizon plans to offer Fios to about 100,000 homes in the entire Dallas-Fort Worth metro area. The Bell said it's also building FTTP networks to pass 100,000 homes and businesses in southern California and another 100,000 homes and businesses in the Tampa, Fla. area. It intends to pass 1 million homes and businesses in nine states with fiber by the end of this year and 3 million by the close of 2005.

The twin fiber moves by Verizon and SBC come about a year after they and BellSouth excited the telecom market by adopting a set of common technical requirements to speed

construction of fiber-optic networks and knock down high fiber installation costs. The nation's three largest Bells sought competitive bids from optical-equipment vendors to support the buildout, with SBC eventually choosing Alcatel and Verizon picking AFC.

"It (the RFP) went very well," said an SBC spokesman. "We've been pleased with the results we've seen."

The fiber developments come as the RBOCs have watched cable operators ramp up their rollouts of competitive phone services and keep boosting cable modem speeds beyond levels that DSL can match in a bid to maintain cable's broadband dominance. In response, the telcos have gotten far more aggressive about using DSL price cuts and their own speed hikes to cut into cable's data market share, and about exploring opportunities to offer their own video services.

In the three-month period that concluded June 30, SBC reported that it added 315,000 DSL subscribers to reach the 4.3 million-customer mark. The addition followed a whopping gain of 446,000 high-speed data customers in the first quarter

Similarly, Verizon recorded its second-best quarter ever for DSL additions, netting 280,000 new customers to surpass 2.9 million high-speed data subscribers overall. In a related move, Verizon started rolling out an ambitious new residential VoIP service, called VoiceWing, throughout the U.S. in late July.

"VoiceWing is a critical part of Verizon's broadband leadership strategy," said Bob Ingalls, president of Verizon's retail markets group, in a prepared statement. "It will bring us new broadband and voice services customers, and it will give our existing customers new ways to get the most from their broadband connections."

Finally, the fiber advances come as phone companies across the globe world show increasing interest in offering digital TV over their ADSL, VDSL and fiber networks. In the U.S., for instance, several small, independent phone carriers -- including Pioneer Telephone, Champaign Telephone, South Slope Cooperative Communications Co. and Western Illinois Video -- have recently signed deals with Myrio Corp. to deploy Myrio's IP video platform.

"Competitive threats and fixed-line revenue pressures are encouraging telcos to become active in offering digital TV to their subscribers," said Michelle Abraham, a senior analyst with In-Stat/MDR, a market research firm. "The possibility of gaining an additional \$60 per month in revenue, while becoming less likely to lose \$30 a month to your competition, is an important factor in the business case."

In a recent report, In-Stat/MDR predicted that worldwide telco TV subscribers will double this year to more than 1 million and then climb swiftly to 14 million by the end of 2008.

Given the Bells' track record of making grandiose promises to enter the video business and then backing away a year or two later, cable industry observers are skeptical about the latest plans, to say the least. Even with cable operators plunging into the telephony

market, they doubt the Bells' commitment to competing directly against cable in cable's core video business.

Some also wonder whether the latest public pronouncements, particularly from SBC, are just part of a broader effort to lobby the FCC and the Bush Administration for greater deregulation of the phone industry. In a prepared statement announcing his company's fiber strategy at the annual Supercomm trade show, SBC Chairman/CEO Edward Whitacre praised the federal government's new stance against forcing the Bells to share their lines at wholesale rates, calling it "a positive step." But Whitacre also hedged his bets, noting that SBC's initiative is predicated on whatever regulations are finally approved.

SBC and Verizon officials insist, though, that they're really, really serious about video this time around. Verizon, which now depends upon DirecTV to supply the video service for its bundled packages, said it plans to introduce a Fios video offering as an alternative to cable sometime next year. Verizon executives also said they're already developing deals with video content providers.

For its part, SBC said it has started testing a range of FTTP services in two limited trials in Canton, Mich. and Milwaukee. The two trials, each involving a couple of hundred homes, follow an earlier pilot deployment in the Mission Bay section of San Francisco.

"We've always seen video as an important play for our customers," the SBC spokesman said. "We definitely intend to make video a strong component."

As a sign of their commitment, SBC executives point to the company's new integrated marketing program with EchoStar Communications. Under that joint program, SBC has signed up 121,000 video subscribers, the company reported in its second quarter earnings. Notably, SBC added 100,000 of those subscribers in the spring quarter, after the program started going full steam in March.

"We've seen great success with that," said an SBC spokesman. "It's definitely helped our bundled network."

###