

PARITY AND ITS EFFECT ON BROADBAND DEPLOYMENT

The way we communicate has changed dramatically, and technology and communications continue to evolve at a breathtaking pace. All of us, as consumers, expect *more -- better, faster, quality products and services*. And we want these upgrades now. Of course, consumer demands can be very good for the economy and jobs -- if the markets are allowed to work and competition can do its magic. But meeting consumer expectations will require more high-speed Internet (or broadband) connections.

Broadband usage and demand are on the rise. In January, according to Nielsen/NetRatings, combined at-work and at-home broadband Internet usage outpaced dial-up usage for the first time. As a result, AdAge.com predicts that the long talked-about potential of the high-speed Internet "is beginning to become a reality." At BellSouth, our DSL subscriber base *doubled* last year, and we have already made the investments to make DSL available to approximately 70% of our customers -- we've upgraded approximately 1200 of 1600 central offices and approximately 12,000 of 40,000 remote terminals. But there is much left to be done if we are to make this service available to the rest of our customer base -- largely in rural and under-served areas where the build-out will be extremely capital and labor-intensive. And lots more to do to provide the even faster connections that the computer industry says are necessary.

To encourage further deployment, the government must address the disparity in regulation of broadband service providers. Much of this disparity comes from old rules that still treat the Bells' new-age high speed Internet services like telephone services.

Broadband service is delivered by one of four technologies: cable, satellite, wireless or what we call wire-line, or DSL. Cable, which dominates the residential market with almost 70% of the market, is virtually unregulated. Satellite and wireless are unregulated, as well. But the Bells' wire-line (or DSL) service faces regulation overload. For example, regulations govern BellSouth's *prices, services, and products*. And federal laws require us to *subsidize our competitors* in the wire-line services field.

Over-regulation has discouraged the Bells from investing in new networks for two reasons. First, existing regulations require us to offer access to our networks at severely discounted rates, which discourages investment in new, advanced networks. Second, existing regulations prevent us from using the same efficiencies of vertical integration the cable industry relies upon to finance its infrastructure investments.

This nation relies upon the private sector to build out the broadband infrastructure. Given this reality, the FCC has said, "the [government] must try to minimize the cost of bringing broadband services to the public by minimizing regulatory costs. These regulatory costs can be just as significant a barrier to deployment as the challenge of raising capital in the dark of a recession."

Further deployment is only the first step along the path of improved technology. Neither our DSL nor cable's modem is the final product. But deployment would enable us to offer customers a good solution while we develop a better one.

BellSouth wants to respond to our customers' expectations for more and better services and products. We know that means innovating, investing and competing. But we are hobbled by this disparate government scheme. Regulation of this important Internet access service should be technology neutral. If the market is allowed to work, investment, innovation and competition will follow, consumers will benefit, and the economy will grow.

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