



Video Warning: Beware What You Wish For

By Steven S. Ross ■ *Editor-in-Chief*

The FCC rewrote the Telecommunications Act as the year ended. Congress had been working on a grand compromise: Telcos would get national video franchising in exchange for observing the FCC's vague Net Neutrality principles for the next four years.

The compromise fell apart, as states moved to grant the telcos statewide franchising anyway. On December 20, the FCC issued an order requiring local franchising authorities to act quickly on new video franchise applications. We took a quick look at the FCC's video franchise reform on page 11, and will publish detailed articles on this, written by our legal columnist Carl Kandutsch and IMCC director Bill Burhop, in our January issue.

But what about Net Neutrality? That shoe dropped at the end of the month. Turns out that the big worry among telcos is that their video model, based on a product strategy similar to that of cable, could be vastly complicated by Web-delivered video. Why would a customer pay for cable at all, then?

Here's what happened:

AT&T was looking for final approval of its merger with BellSouth – it had been announced last spring and approved by the antitrust police, but was stalled in a 2-2 FCC deadlock. Delaying the merger past January 1 would have major tax consequences.

To break the deadlock, AT&T offered its version of Net Neutrality – anyone could ride its network with no price or bandwidth discrimination. But in the fine print, video was exempted. AT&T was not about to allow U-Verse to be threatened by “free-riding” independents and giants like Google serving video.

When that didn't work, AT&T said its video competitors could have a free

ride, but only for the next two years. That came in an addendum filed the night before the last business day of the year, December 29. That did the trick; the merger was approved 4-0.

Wall Street applauded because it helps keep video subscriber prices up. That makes the telcos' new fiber networks more economically solid, although video prices are falling anyway in areas where the telcos compete with cable companies. Besides, not much video competition of this type is expected in the next two years, so AT&T didn't give much up.

Wishes

But is this good in the long run for anyone? Will the telcos eventually be hurt by the deal AT&T fought so hard for?

They don't think so. But we're not so sure. This version of Net Neutrality would make new video producers less viable; hence less content might be generated. Right now, almost anyone can start a Web-based network. A good computer with editing software is about \$5,000 and an HD video camera is \$1,400. A fixed IP address can be had for \$100 a month at your home, and there are server farms willing to host your TV “channel.”

There could, in a few years, be hundreds of thousands of such channels, each with a few thousand subscribers, perhaps, 20-30 minutes of new programming each week, and some advertising (supplied by Google and others for a click-through fee). New TV sets, which see the Web the same way they see a cable company, make it easy for consumers, too.

There would be the Vermont quilting channel. The Jamaicans-in-London channel. The Off-Broadway channel. The Boston Symphony channel. This would be a cultural and economic boon worldwide. And it would also increase the value of all the fiber, by stimulating creation of

more content to sell.

If network owners refuse to carry such content, or charge a punitive tariff, it might never happen. If it never happens, the value of the fiber will be less, and in the long run it would be harder to support the super-fast networks.

Alternatives

Already, we're hearing noise in Congress about extending the two-year “free rider” deal, or regulating the fees the network providers can charge, and forcing them to carry low-glitch third-party video on the Web. We don't like the sound of that, either. The Web itself is evolving, and new times and new realities demand some new thinking on everyone's part.

For instance, the best way for small-scale content creators to get noticed is to partner with providers (this is the model pioneered in Japan by NTT DoCoMo), which would compete to get the best stuff sewed up for their own network – FiOS or Comcast or whatever. Providers might not want to throw stuff up on the Web willy-nilly, unless they are already huge (Google and big news and sports organizations come to mind). If the network owners don't do this, aggregators like Google will – and in fact, already have.

The bottom line: We applaud what the FCC did. It stimulates video competition and fiber networks now. But open-access folks and other non-RBOC fiber builders including munis should be nervous and watchful. Long-term, the whole thing cries for detailed hearings and solid legislation, not slapdash end-of-session games-in-the-night.

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