

Verizon winds down expensive FiOS expansion

26 March 2010, By PETER SVENSSON , AP Technology Writer

(AP) -- If Verizon Communications Inc. hasn't already started wiring your city or town with its FiOS fiber-optic TV and broadband service, chances are you won't get it.

Where it's available, FiOS usually provides the only competition for cable TV apart from [satellite service](#). Studies have shown that its entry into an area leads to lower cable prices, though FiOS itself has not been undercutting [cable TV](#) prices substantially.

But Verizon is nearing the end of its program to replace copper phone lines with optical fibers that provide much higher Internet speeds and TV service. Its focus is now on completing the network in the communities where it's already secured "franchises," the rights to sell TV service that rivals cable, said spokeswoman Heather Wilner.

That means Verizon will continue to pull fiber to homes in Washington, D.C., New York City and Philadelphia - projects that will take years to complete - but leaves such major cities as Baltimore and downtown Boston without FiOS.

Verizon is still negotiating for franchises in some smaller communities, mainly in New York, Massachusetts and Pennsylvania, but it is not working on securing franchises for any major urban areas, Wilner said. For instance, it's halted negotiations for the Washington suburb of Alexandria, Va.

Verizon never committed to bringing FiOS to its entire local-phone service area. It has introduced FiOS in 16 states, but the deployment is concentrated on the East Coast, and Verizon is selling off most of its service areas in the Midwest and on the West Coast. Its stated goal was to make FiOS available to 18 million households by the end of 2010, and it's on track to reach or exceed that.

That will still leave a third of its service area (excluding the territories it is selling) without fiber. And as Verizon has signaled this month that it's focusing on communities where it already has franchises, it's now becoming clear which ones are in and which are out.

The New York-based company hinted in 2008 that it might continue expansion of FiOS beyond this year, but the recession seems to have crimped that possibility. The company has pulled back on promotions for new subscribers, like the 19-inch TVs it gave away under one campaign. That in turn has led to lower recruitment figures.

CEO Ivan Seidenberg told investors in January that FiOS itself has been doing well, but Verizon's sales of services to large businesses have suffered in the downturn, and it needed to offset that by not being too "aggressive" in marketing FiOS.

Verizon doesn't appear to have ruled out further FiOS expansion, but doesn't have any plans, either. The economics apparently are not attractive enough: TV service carries fairly low margins compared to Verizon's phone business, according to analyst Craig Moffett at Sanford Bernstein.

Moffett believes the end of FiOS expansion means that cable companies will lose fewer subscribers, starting next year.

The recruitment of new FiOS TV subscribers slowed last year. In the fourth quarter, it added 153,000 subscribers, little more than half of the number it added in the same period the year before.

At the end of last year, Verizon had 2.86 million FiOS TV subscribers and 3.43 million FiOS Internet subscribers (most households take both).

Verizon has faced skepticism from investors over the project because of the high costs. Wiring a

neighborhood for FiOS costs Verizon about \$750 per home. Actually connecting a home to the network costs another \$600. The total cost from 2004 to 2010 was budgeted at \$23 billion. But it's allowed Verizon to mount an effective resistance to cable companies, which are siphoning off landline phone customers and can offer higher broadband speeds than phone companies without fiber straight to homes can.

Verizon is the only major U.S. phone company to draw fiber all the way to homes and the only one to offer broadband speeds approaching those available in Japan and South Korea. The halt to further expansion comes as the Federal Communications Commission has sent Congress the country's first "national broadband plan," aimed at making Internet access faster, more affordable and more widely available.

AT&T Inc. and Qwest Communications International Inc. are laying fiber into neighborhoods, but still use copper phone lines to take the signal the last stretch of the way, into homes. That's a less costly strategy that has drawn less scrutiny from Wall Street, but it also limits top [broadband](#) speeds. Meanwhile, cable companies are upgrading modems this year to offer higher speeds, a relatively inexpensive move.

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