

Resurgence of the PCO?

A decade after the private cable operator model failed, new technologies and financial models may be bringing it back to life. There's fiber backhaul for satellite-fed MDUs, new sources of capital and revenue, and many new players. Broadband Communities is here to help.

By Steven S. Ross ■ *Broadband Communities*

It may not be your father's idea of a private cable operator (PCO), and old-line PCO owners may not recognize it, but the PCO is making a comeback. Fiber technology and the need for satellite operators to compete and grow may have become game changers. Oddly enough, the large telcos have shown what is possible – and necessary.

The fiber-to-the-home revolution and changes in FCC rules that once required large telcos and cable companies to share their networks left PCOs little room to maneuver until a few years ago.

That's a shame. PCOs offer property owners a way to provide residents with unique programming. In a building where many Croatian immigrants live, a PCO can offer Croatian content. In a building where sports programming isn't needed, a PCO can tailor a lineup that will cut residents' cable TV bills. PCOs also had (and have) a reputation for reacting quickly to fast-shifting needs and for offering better service than franchise cable operators.

PCOs can charge less for video, too, because they are not subject to municipal franchise fees unless their systems cross public rights-of-way.

However, the PCO model wilted in the face of increased competition from MSOs and telcos, the reluctance of the FCC to loosen regulations on long-term contracts and other matters, tightened access to capital, the persistence of the recession and increases in the costs of wiring buildings and turning up service. The expense and difficulty of supplementing satellite-borne video with terrestrial phone and data services didn't help.

A NEW BEGINNING?

Many long-established PCOs survive, but new builds are rare. Now the PCO model could be coming back, with some important differences. Michael Render, president of the market research firm RVA LLC, notes that 400,000 U.S. households with FTTH connections are in multiple-dwelling-unit (MDU) properties and planned-unit developments that are served by amenity providers, real estate developers, competitive local exchange carriers (CLECs) or small incumbent local exchange carriers (ILECs) operating outside their footprints as CLECs.

In addition, some major telcos have developed what amounts to nimble, flexible "PCO divisions." Most notable are Verizon Enhanced Communities and AT&T Connected Communities. Many telcos and cable companies partner with third parties to serve markets the majors don't like. Students, for instance, make up an inherently high-churn, low-credit-rating market that craves broadband and premium video content. But Time Warner Cable partners with operators such as Korcett to serve that market.

Most encouraging for PCOs and for consumers, the major satellite providers (DISH Network and DIRECTV) have refined their strategies over the past year to involve PCOs in agreements in which the satellite companies provide video

and maybe some financial backing for local PCOs to wire customer buildings. DIRECTV in particular has been diligently and quietly building a fiber network that passes thousands (and maybe tens of thousands) of urban MDUs. Almost none of those passings are represented in Render's twice-yearly report on FTTH (his latest findings are in this issue).

That helps PCOs solve the problem of providing data and landline phone service. At the same time, satellite providers' interest in financing even a small portion of an MDU build could unlock local bank financing as well.

This spring, Broadband Communities funded the first major, public marketing study of MDU operators' attitudes about FTTH. Render, who was contracted to perform the study, presented it at the Broadband Communities Summit in April. A far more complete report will appear in the July issue of this magazine. One finding: Most MDU operators don't even know what FTTH is. Operators interested in PCO financing can check out my Financial Tool #2 at www.FTTHAnalyzer.com.

We're looking forward to educating a new generation of MDU owners and operators. After all, this magazine started as a publication exclusively for PCO operators. Now FTTH may help bring them back to robust life. ❖

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