

# Buy Local (Including Broadband)

Providing broadband locally – with help from electric utilities – can be a good way to anchor rural economies.

By Eric Ogle / *Magellan Advisors*

**M**any rural communities, even if they have broadband, have too few broadband options. Rural communities just large enough to have two service providers yet too small to attract a third provider, let alone more, represent the middle ground of rural broadband that is often overlooked by both private and public investment.

Most communities of any density have incumbent telephone companies that offer DSL, which is borderline broadband. If a community is fortunate, it has a second wireline provider, the incumbent television company, which offers cable service and speeds that commonly meet the definition of broadband. The cable company, as the only true broadband option in town, is often characterized by high cost and poor customer responsiveness, which reflect this lack of competition. Subscribers in these small, rural communities pay more for service that is inferior to broadband services available to larger communities.

Because communities like these are served by one or more providers that exceed many federal broadband benchmarks, they are disqualified from most federal grant programs. Similarly, corporate decision-makers plan service growth in cities that offer more favorable returns on investment. Why would AT&T invest \$20 million to upgrade a small, rural community to fiber to sell a gigabit service for \$80 per month if it can continue selling 10 Mbps DSL for \$70 per month using local infrastructure that was built and paid for decades ago?

Local startup providers are motivated to make things better for their hometowns, but they often hesitate to risk competing with corporate providers. When a provider such as AT&T or Comcast wants to improve service to any area, it can and will. It is no coincidence that, when a community announces plans to offer its own broadband services, the incumbent may suddenly find a way to improve services after years of resistance.

This is not a new phenomenon. In his 1930 State of the Union address, President Herbert Hoover said, “Competition is not only the basis of protection to the consumer but is the incentive to progress.” Nearly 90 years later, his statement rings true regarding rural broadband, where lack of competition has effectually removed the incentive for service improvement.

Indeed, the plight of broadband in many small, rural communities today boils down to a lack of competition. Incumbent providers have become complacent, offering minimal services at premium prices and serving customers over aging, oversubscribed infrastructure that they have no incentive to improve.

## A LOCAL PATH

That leaves communities to figure out their own paths. Broadband advocates for years have stressed the importance of forming partnerships to bring together stakeholders in an attempt to find common ground and move forward with a plan. Each community is different, and there is no one cookie-cutter approach to make things happen instantly. Understanding who

the stakeholders are, how people want to use broadband and where the pain points are takes time.

Local electric utilities are uniquely positioned to solve the rural broadband problem. Every electric utility and electric cooperative needs to consider broadband. Electric utilities own poles and conduit, they have experience working in and maintaining public rights-of-way, and they already connect and maintain wired infrastructures into all homes and businesses. With an understanding of local policies and a long track record of customer service and community involvement, local electric utilities need to be involved with broadband in the communities they serve.

Utilities that have not yet considered providing broadband or have decided against broadband often justify the decision by saying “We’re an electric company, and that’s all we do,” or maybe, “We don’t run a technology company.” All that is fine and is the prerogative of each utility, but at its core, every utility is a poles-and-wires company that is heavily involved with public infrastructure and maintains the public rights-of-way. These are all important community assets and are the fundamental building blocks for broadband infrastructure.

### PARTNERSHIP MODELS

Providing broadband should not be an all-or-nothing proposition. Broadband-averse utilities can continue to be infrastructure-focused public entities in partnership arrangements and, if

necessary, involve private partners to handle the broadband business and customer management. For a utility averse to broadband, this model allows it to maintain its familiar role of taking care of poles and wires, with a private partner to manage every other aspect of the broadband service.

Some partnership efforts are too broadly based and fail to get off the ground. Communities talk about broadband for years and do the studies, yet discussions continue. A community suffering from paralysis by analysis can simplify the process by considering the utility as its core infrastructure partner, perhaps identifying an operations partner, and then considering everyone else a customer.

The broad-based broadband partnerships advocated through the last decade tend to confuse potential partners with potential customers. Sure, community anchors, institutions and government entities are community partners. All rely on broadband and will put it to its highest use. But at the end of the day, community anchors need to be considered key customers. Over the long term, they will be counted on to help drive revenue to sustain the business plan.

### KEEPING EARNINGS IN TOWN

When communities debate whether to involve utilities in broadband offerings, they might consider utility participation as an economic development activity. People often bemoan the fact that corporations

Total Households	Subscribing Households	Total Subscribers	Average Monthly Cost	Estimated Yearly Leakage
52,309	88.7%	46,387	\$127.02	\$70,705,932
	AT&T (DSL)	8,463	\$115.54	\$11,733,780
	Charter (Cable)	19,783	\$125.86	\$29,878,661
	Comcast (Cable)	8,356	\$135.38	\$13,574,823
	TDS (DSL)	6,428	\$147.09	\$11,345,934
	WOW (Cable)	1,893	\$99.61	\$2,262,741
	Satellite	1,464	\$108.72	\$1,909,993

Table 1: Estimated broadband expenditures in a two-county rural area

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siphon money from small towns. As an example, big-box retailers such as Walmart have borne the blame for killing downtown businesses and spoiling the small-town charm of rural America for two decades or more. To combat this, many communities have popularized buy-local campaigns, and “Small Business Saturday” has become an annual, national event.

To illustrate the comparative local economic impact, Walmart’s 2017 annual report says each store earns \$59 million in annual revenue. This is \$59 million “leaked” from a local economy each year and sent to Walmart and its suppliers. Using data taken from a two-county rural electric utility in the summer of 2018, Table 1 shows the estimated retail broadband economic “leakage” for a service area with 52,309 households. Based on a survey of subscribers, the total spent annually on retail broadband services is estimated to be more than \$70 million, or \$11

million more than the community spends each year at its local Walmart.

In this example, money flows from the communities that the rural utility serves to corporate headquarters in at least five different states. Rather than focusing only on big-box retailers, what if rural communities begin thinking about broadband competition as a way to keep money circulating through a local economy?

As corporate service providers continue to shortchange many rural communities on the services they should provide, they also remove tremendous amounts of money from communities. Given the public outcry for buy-local campaigns, why isn’t there a similar outcry for buy-local campaigns focused on local broadband service?

In the example provided, through a sustainable partnership with the local utility, what long-term local economic impact would result if a utility-

anchored broadband initiative were able to capture 50 percent – or even a third or a quarter – of the market?

As with many public infrastructure projects, utility-provided broadband is deployed for the common good, and many benefits occur “off the balance sheet” in terms of enhanced economic opportunities and quality-of-life improvements. So instead of wondering how it can afford to offer broadband services, given the money that is lost each year to corporate providers with inferior services, a community should wonder instead how long it can afford *not* to offer broadband services. ❖

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*Eric Ogle is a senior consultant at Magellan Advisors, which provides telecom and broadband planning, deployment and management services to governments, utilities and private-sector organizations. Contact him at [eogle@magellan-advisors.com](mailto:eogle@magellan-advisors.com).*

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