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AP

# High-Speed Internet Service War Sparks

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By Deborah Yao, AP Business Writer

## Phone, Cable TV Companies Spark Price War in High-Speed Internet Service

PHILADELPHIA (AP) -- Telephone and cable TV companies are slashing broadband prices and boosting connection speeds as the two monopoly-prone industries prepare to lock horns on multiple fronts.

Comcast Corp. fired the latest shot in the battle this week by announcing plans to boost the speed of its entry-level cable broadband service to 6 megabits per second -- as much as four times faster than a typical DSL connection over a phone line.

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That move follows a series of promotions which have lowered introductory rates for a high-speed Internet line to between \$15 and \$30 a month, down from the typical \$30 and \$45 a month.

The prize is far larger than signing up more high-speed Internet users, analysts say. Companies are trying to lock in customers who may soon be offered the convenience of buying phone, cable, Internet and wireless services from a single provider out of convenience.

Two of the big regional phone companies, Verizon

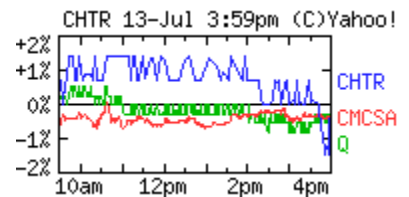
Communications Inc. and SBC Communications Inc., are spending billions to replace their copper lines with fiber-optic cables that provide enough capacity to deliver hundreds of channels of cable TV starting later this year.

The cable companies, meanwhile, are rolling out phone service over their cable lines and exploring options to add cell phones to their mix.

In advance of this head-to-head competition, Verizon, SBC and Qwest Communications International Inc. recently cut their introductory rates for DSL to \$15 or \$20 per month, and the cable carriers Comcast, Time Warner Inc. and Charter Communications Inc. sweetened their introductory prices to \$20 to \$30 per month.

The phone companies are especially "willing to take a hit on margins ... if they can keep

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their landline users," said Mike Paxton, a senior analyst at In-Stat, a technology research firm in Scottsdale, Ariz.

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But by limiting the price cuts to new customers, the companies may risk angering their current subscribers.

"It's frustrating that they're not giving their loyal customers the same kind of deal," said Kerry Smith, an attorney from South Philadelphia who subscribes to Comcast for cable, but pays Verizon for Internet and phone service.

The cable and phone companies are betting that existing customers will find it too inconvenient to switch. That's why cable operators -- which are ahead of phone companies in signing up broadband Internet users -- don't feel as pressured to slash prices as deeply, Paxton said.

Even in markets where DSL prices have dropped, cable has not been hurt badly, Paxton said.

"It's frankly a pain in the butt to switch," he said.

Cable broadband typically costs more than DSL, but cable operators have emphasized speed, arguing that their rates are competitive since the connections are often faster. Phone companies, however, have been closing the speed gap between cable and DSL.

Comcast's speedier connections will be available later this month in Pennsylvania, New England, New Jersey, Maryland, Michigan and Washington, D.C. For most of its other markets, the new speeds will be available by the end of summer. In May, Qwest unveiled a premium DSL service with a top download speed of 5 Mbps.

"Speed very much matters. Reliability matters," said Dave Watson, executive vice president of cable operations at Comcast.

The phone companies appear to believe that customers are more aware of price than speed.

"A lot of people can't tell the difference" in download speed, spokeswoman Bobbi Henson said.

SBC has been the most aggressive in cutting prices. The company has cut its DSL price at least three times in less than two years -- from \$26.95 in early 2004 to \$19.95 last November and \$14.95 in June, said spokeswoman April Borlinghaus.

But the Internet price war is just a precursor of a larger battle to come between the industries.

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