

## **THE HEARTLAND INSTITUTE**

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### **Texas Takes the Lead in Telecom Competition**

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Throughout the spring and summer, Texas has been a battleground in the telecom wars, with traditional phone companies and the cable industry going head-to-head over deregulation and access to millions of Texas consumers.

Industry watchers have kept their eyes on the Lone Star State. Since Texas is a major market and the home of SBC, the outcome--new franchise fee legislation--is likely to have significant repercussions across the country.

In the end, the state legislature passed a bill deregulating significant portions of the telecom market, making Texas the only state allowing telephone companies to receive a statewide franchise in order to provide new video services that compete with cable.

The cable industry opposed the legislation, pointing out that over the past three decades its companies have gone city-by-city to secure franchises, an expensive and time-consuming process.

They have a valid point. Local governments used their monopoly status to extract whatever they wanted from the cable companies, who had no choice but to pay the cities' asking price if they wanted to do business.

The solution to that problem, though, was not to subject new entrants to the same onerous regulations, but to create new laws that facilitate entry and lower regulatory costs for all competitors. And that is exactly what happened in Texas.

Still, it is not surprising the cable industry objected to the change. Over the past 10 years, SBC itself had been known to make similar arguments as it was being shepherded out of its monopoly status by competition-minded legislators and regulators.

Those reforms of the past decade have greatly benefitted consumers and the economy as telecom companies have been forced to innovate to survive in the newly competitive voice marketplace. The new Texas law has the potential to bring similar benefits by opening up the video market.

#### **\$4 Billion Investment**

SBC already had announced plans to invest \$4 billion to build a fiber-optic network that will provide voice, video, and high-speed Internet to 18 million households in its 13-state territory. Now that the legislature has acted, SBC is prepared to be even more aggressive in building out

its network in Texas.

Verizon has spent \$1 billion to reach a million homes with fiber in its multi-state service region, which includes Texas. But the rollout of new services had been slowed because it was taking Verizon six to 18 months to obtain a single local franchise. Consumer impatience with such delays has no doubt spurred a similar piece of legislation in Virginia, a major Verizon state.

In Texas, the statewide franchise will accelerate Verizon's ability to offer broadband and video to consumers. The company estimates it will now reach three million homes by the end of this year, and that the deployment effort will create 3,000 to 5,000 new jobs with the company.

And while the cable industry might not have liked the new legislation, it wasted no time in responding to it.

Time Warner Cable has announced new services allowing people to track their eBay bids via their cable TV and display Caller ID on the television screen. New technology will allow cable companies to increase their bandwidth and offer more channels to subscribers.

All this means prices for video are likely to drop, just as they have in the past with voice and broadband. The high-tech economy will expand as competition attracts new capital, spurs product innovation, and creates new jobs.

While Texans may experience some of these benefits more quickly than citizens of other states, the effects of the Texas reform will be felt nationwide. The timing and extent will depend on when Congress and other states follow Texas's lead.

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