

# Co-ops Connect FYI

By Jonathan Chambers • Dec 08, 2022

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Updates and insights for electric cooperatives considering or operating rural broadband networks.

## How Should BEAD Programs Take Consumer Preference into Account?



**BEAD is a universal service program, supplementing dozens of state and federal rural, high-cost and low-income programs.**

- BEAD sits in the vein of programs meant to address the market failure of broadband service availability in rural, high-cost areas.
- There are other parts of BEAD meant to address other traditional universal service objectives, including service affordability to low-income households.

**Consumer preference is an unusual concept for rural, high-cost programs.**

- For over 100 years, the construct of state and federal rural universal service programs has been an exchange of service availability for monopoly protection and industry subsidies.
- Government-conferred monopolies and subsidies were accompanied by requirements that a service provider would serve everyone in a geographic area, so-called Carrier of Last Resort obligations.

**The big picture:**

Consumer preference has not been an element of rural universal service programs.

**Traditionally, a consumer had no choice but to take what the government and incumbent telephone company agreed to provide.**

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## History in Brief



**For much of the country for much of the history of telecommunications, “choice” meant AT&T and a black rotary phone.**

**A brief timeline of universal service subsidies:**

- AT&T was broken up in 1982 via a court decree, referred to as the Modified Final Judgment (MFJ).
- **Yes, but: *The break-up of the universal service subsidy regime has been slower and taken much longer.***
- The change was set in motion with the adoption of the 1996 Telecommunications Act.
- In the late 1990s, the FCC began allowing rural, high-cost subsidies for Competitive Eligible Telecommunications Carriers, which were principally mobile phone companies.
- In 2011, the FCC laid the groundwork for broadband subsidies and allocated \$4.5 billion in annual subsidies exclusively to the nation’s telephone companies.

- **No competition continued to mean no choice or consumer preference in rural areas.**
- In 2018 and then in 2020, the FCC placed about half of those subsidies on a competitive track, through the Connect America Fund and Rural Digital Opportunity Fund auctions.
- Today, the nation's small telephone companies continue to cling to the other half of FCC rural subsidies.

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## BEAD Changes Everything



### **How?**

1. BEAD changes the locus of decision making to the states.
2. BEAD will scramble the nation's rural broadband monopolies.

### **Then what?**

1. **Either:** States will cast rural areas into new decades-long monopolies.
2. **Or:** It will give rise to consumer preference.

**I'm betting on the land grab for new monopolies.**

**Why it matters: *Things could get even worse in parts of rural America.***

You hear a lot of crap about the need for technological neutrality in the BEAD program — usually by purveyors of inferior technologies.

**One thing I'm sure of** after three decades in the industry:

**Consumers don't give a damn** about technological neutrality.  
***Consumers want the best technology.***

Consumer preference is usually revealed in the marketplace.

- Consumer preference kicked Nokia candy bar phones to the curb in favor of iPhones.
  - Consumer preference kicked DSL to the curb in favor of cable broadband and fiber optic networks.
  - Consumer preference kicks a lot of goods and services to the curb. ***But not in government programs***, which don't take consumer preference into account.
  - **Consumer preference for broadband** has overwhelmingly been revealed to be cable and fiber over DSL, fixed wireless and satellite. Yet, the FCC spent a decade and over \$45 billion primarily on DSL and fixed wireless.
  - **The bottom line:** Why would you think the \$42.45 billion BEAD program will be spent differently?
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# The Example of Fixed Wireless



When I was at the FCC, we ran a regression analysis on the consumer preference of fixed wireless and satellite service in areas where there was also cable or fiber.

- It shouldn't surprise anyone that less than one percent of consumers preferred fixed wireless or satellite to cable or fiber optic services.
- Fixed wireless and satellite report large coverage areas and miniscule consumer adoption.

## **By the numbers:**

- **Starry** recently reported its penetration had risen to 1.5%. Starry recently turned down its RDOF award, claiming rising cost, which is understandable at a less than 2% take rate.
- **Rise Broadband**, the nation's largest fixed wireless provider, has a penetration of 1%.

- **NextLink**, among the largest recipients of federal funds in the CAF and RDOF auctions, fares no better.

### **The T-Mobile example:**

Just this past week, T-Mobile issued a report on fixed wireless.

The mobile industry has been providing fixed wireless access for decades, **but T-Mobile believes this time it's different.**

### **By the numbers:**

- T-Mobile reported to the FCC this summer that it makes fixed wireless available to over 90 million households.
- Doing the math, 2 million subscribers puts T-Mobile at 2%.
- But T-Mobile claims most of its growth is from 5G fixed wireless access, which reaches 40 million households.
- T-Mobile says **half its customers switch from cable.**
- T-Mobile attributes part of its success to being able to convince consumers they don't need all the speed they think they need. Time will tell.

### **The bottom line:**

Cable and fiber still serve over 95% of the broadband market in urban and suburban America.

- **If consumer preference is not taken into account in BEAD,** the program will spend public money to create new monopolies for types of service *rejected* by 95% of the public.

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## The Final Word



**What does this all say about consumer preference in rural universal service programs?**

The FCC has data that shows what consumers choose when they have choice.

- To spend public money on technologies that are chosen by only 1 to 2% of the population is a terrible way to spend the public's money.
- To do so in the name of technological neutrality is a display of technological ignorance.

For decades, while in government and industry, I've written about consumer choice as an element of rural universal service programs. (See [March 11 Co-ops Connect FYI](#), for example.)

***I'll keep returning to it. Consumer preference can be and should be part of BEAD.***

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