

***Riding the Third Wire:
ISPs Partner with Power Line Providers***
By Josh Long

Some energy companies planning to offer broadband service over their power grids want to market technology and lease their infrastructure to Internet service providers, phone companies, and other utilities.

“There are about a dozen or so additional deployments we are aware of and that have not become public yet,” says Dave Shpigler, President of The Shpigler Group. Furthermore, Shpigler says there are likely other trials underway.

In March, Cinergy Corp. announced a joint venture with equipment maker Current Communications Group LLC to market broadband technology to municipally owned power companies and rural electric cooperatives. The companies want to target utilities covering approximately 24 million homes, says Jay Birnbaum, Vice President and general counsel with Current Communications Group.

“Cinergy has invested in the rollout but not all companies are necessarily going to have the appetite for investment or the charter for investment,” Birnbaum says. In March, the Supreme Court held that states have the right to enact legislation restricting municipalities from entering the telecommunications business.

Cinergy subsidiary Cinergy Broadband LLC and Current Communications also are directly delivering broadband service over power lines (BPL) in the greater Cincinnati area. An expansion is planned in northern Kentucky and Indiana, Cinergy disclosed, and Birnbaum says the joint venture will bundle broadband access with Internet-based phone service in Cincinnati beginning in the summer. He says Cinergy and Current Communications plan to pass 250,000 homes in Indiana, Ohio, and Kentucky within three years.

Cinergy and Current’s investors, Liberty Associated Partners LP and EnerTech Capital LP, have contributed at least \$70 million to fund the ventures, reports Cinergy. “Our goal is to do it right, show other utilities it can be done well and create value,” Birnbaum says.

In 2003, one third of electrical utilities reported using, planning or considering BPL, Chartwell Inc., an Atlanta-based research firm, found in a survey of 100 utilities, the results of which were released in March. “Utilities and vendors have learned a lot from past telecom ventures, and are developing new business models that call for utilities to partner with Internet providers,” Chartwell senior analyst Garrett Johnson says in a press release. “Still, there are some significant obstacles.”

Birnbaum says Cinergy and Current are not marketing broadband service to unaffiliated ISPs such as America Online. “To us that is not a key driver in the business model. We are not opposed to the idea of working with them,” he says.

Brett Kilbourne, director of regulatory services and associate counsel with a Washington, D.C. group representing utilities, United Telecom Council, says utilities are considering a wholesale BPL model. "We are certainly looking at carriers and ISPs as clients," he says. "Outside of the utility's core competency, it's simpler. There's lower risk involved."

IDACOMM, the fiber-optic networking subsidiary of IDACORP, a Boise, Idaho-based energy company, wants to open a broadband network to service providers such as ISPs and long distance phone companies, IDACOMM President and CEO Chris Britton says. IDACOMM is in the process of striking agreements with a group of utilities in the West to provide broadband service over the power lines, says Britton, who told PHONE+ those agreements were likely to be announced later this year. "The model that we are bringing forward is an open access model," he says. "Other ISPs need to strike a business relationship for collocation, interconnection and within that approach there is open access into a utility's broadband network."

IDACOMM also plans to provide broadband service directly. IDACOMM spokesman Cameron Christian says the company has been conducting a trial since September 2003, testing speeds from 1 Mbps to 4.5 Mbps. He says the company is preparing for a large market trial in Boise that could pass 2,500 homes. "I had about 4.5 Mbps right next to my toaster," Christian says, but "it's not likely that amount of bandwidth would be deployed on a large scale."

Some regulators and telecom executives are optimistic power line communications will function as a third wire into the home. The biggest local phone companies are required to lease their broadband networks to competitors, but cable companies are not regulated.

AT&T Corp. spokesman Bob Nersesian says the No. 1 long-distance phone company is conducting trials with an unnamed energy company. "We view broadband over power line as an alternate access technology," Nersesian says, "very important when it comes to trying to get around that last mile bottleneck the Bell companies create." MCI, the second largest long-distance phone company, was not involved in any trials as of late March. "We are actively exploring the technology, looking at the potential, the economics, that sort of thing but have announced no trials...at this time," says MCI spokeswoman Lynn Staggs.

Internet providers seeking a third wire into the home aren't relying solely on the energy companies. At least Earthlink isn't. A BPL trial Earthlink announced with Progress Energy is the first among pending announcements to test new broadband services, says Earthlink spokesman Dave Blumenthal. "In general we look at next-generation broadband as kind of a category that includes a lot of options," including BPL and wireless, Blumenthal says. "Overall we see pursuing next-generation broadband as an extension of our cable and DSL access business." Earthlink ended the fourth quarter with approximately 1.1 million broadband customers.

Matt Oja, director of emerging technologies with Progress Energy, is frank when asked why his company is not providing broadband service directly to customers in a trial

passing 500 homes in North Carolina. Progress Energy has collaborated with earthlink. “Doing it ourselves hasn’t been something we have been particularly good at,” Oja says about his company’s foray into the Internet business. “We recognize this is not the kind of business we know how to manage well.”

Progress Energy used to own Interpath Communications Inc., an application service provider and Internet communications subsidiary. However, Progress sold a 65 percent interest in the company to Bain Capital Inc. in June 2000 and wrote off the remaining portion of the business over the next few years. Since the Internet bubble burst more than three years ago, many energy companies have written off their broadband investments and sold the networks for a fraction of what they invested. Several energy giants ventured into the wholesale broadband market, selling fiber strands and capacity at a loss to other utilities, phone companies, wholesale carriers, and ISPs.

An industry not known for taking extraordinary risks (excluding Enron Corp.), energy giants say they have returned to their core business. They are investigating the BPL market, albeit cautiously. American Electric Power (AEP), for example, is an investor in BPL equipment-maker Amperion Inc. Amperion Chairman and CEO Philip Hunt, Cisco Systems, Inc, Redleaf Group, Inc. and four unnamed investors also are backing Amperion.

AEP spokesman Pat Hemlepp says the company wants to understand the technology, and “would likely get approached by third parties,” requesting to rent the power grid. He says AEP, which serves 5 million customers in 11 states, is not interested in providing broadband service directly. “We are a power company. We are not a telecom company so we are going to leave those sorts of offerings up to other people,” he says.

Hemlepp says the company has not taken a position as to whether it would release its lines to outside parties, nor is he aware of such a request.

AEP is among the energy companies divesting telecom assets in recent years. IN March 2003, the energy company sold the assets of wholesale carrier C3 Communications to Grande Communications for \$7 million. AEP recorded neither a gain nor a loss on the sale. AEP owned an interest in wholesaler AFN Communications, but CityNet LLC says on its Web site it has acquired the assets.

Alan Shark, President of the Power Line Communications Association, agrees energy companies are approaching the broadband market cautiously. Many companies were “burned” after building fiber-optic networks, he says, and “a lot of them are still feeling the pain from that.”

“A lot of utilities do not have the in-house resources to make it all happen,” Shark says. The question is, who will the energy companies outsource key functions to. Shark says energy companies have moved beyond figuring out whether BPL works. He proclaims the technology “exceeds my absolute wildest expectations.” He also says it is not a question of demand – people want broadband alternatives – but there is a “very

conservative management philosophy that is hurting deployment.” Still, Shark seems to be optimistic investors will bite. “There are people out there that I think when the business case is made are willing to put up the money,” he says. “I think it’s going to be banks and VCs.”