



Consumers Could See New Web Rates: Use More, Pay More

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Large phone companies and telecom-equipment makers are developing plans that would blow up the flat-fee structure for high-speed Internet access and instead charge customers different rates based on how much bandwidth, or Internet capacity, they use.

Some phone companies, including [BellSouth](#) Corp., are considering "pay-as-you-go broadband" plans in which a consumer would pay more for streaming video, for example, than for mere Web surfing. Most current plans charge subscribers a monthly flat fee depending on the speed of their Web connection.

PAY TO PLAY

U.S. consumers may one day pay based on how they use the Internet.

Some proposals:

- Surf the Internet and check email, small fee; pay extra for video, Internet phone and games
- Pay monthly for specific amount of data transfer; incur fees for going over
- Pay for moderate-speed Web connection; pay extra for temporary boost in bandwidth to download big files

Source: WSJ research

TABS ON TECH

Read about how [DSL providers are slashing prices](#) while cable companies are staying put.

The plans, even though they are still in their nascent stages, are already drawing criticism from Internet content companies and consumer groups, which argue the new business models could create a tiered system and impede full access to all aspects of the Internet.

Part of the opposition stems from the fact that the Internet, once accessed, traditionally has been free of barriers such as special charges or fees. But that's starting to change. Besides eliminating flat-fee pricing for consumers, phone companies are also discussing

ways to bill Internet content providers for premium delivery of their services, a move that has met with criticism from companies like [Google Inc.](#) in recent weeks. Another idea floated by [Yahoo Inc.](#) and [Time Warner Inc.](#)'s AOL to place a small fee on email to guarantee its delivery is opposed by bulk emailers such as the liberal advocacy group [Moveon.org](#).

Major cable companies, for the time being, say they aren't considering new business models for Internet access. But cable companies, too, are introducing new pricing structures, such as video on demand that makes some programs available free, but charges users a fee for recently released movies and other premium content.

The new ideas such as pay-as-you-go are being fueled by operators looking to make up revenue after spending billions of dollars to upgrade their networks to boost capacity and by equipment makers that create the gear needed to technically implement the changes.

Managing networks to create new tiers of service is becoming a hot topic within the telecommunications sector caught up in a debate over "network neutrality," or the idea that owners of phone and cable networks can't dictate how a consumer uses the Internet or discriminate against any Internet content. Internet companies are pushing Congress to adopt network-neutrality rules that would keep intact the open nature of the Internet, but phone companies and equipment makers are opposed because they see the chance for more revenue. They also say they don't intend to block access or discriminate with their new plans.

On Tuesday, a meeting of five congressmen leading efforts to rewrite the nation's telecom laws ended with no decision about whether to tackle the network-neutrality issue. Equipment makers such as [Ellacoya Networks Inc.](#), [Cisco Systems Inc.](#) and [Lucent Technologies Inc.](#) have been pitching ideas to phone and cable companies for a number of new types of business models that their gear can make possible.

"The stars, the moon and the sun have really aligned for us that we can play a significant role [in providing services related to] network neutrality," says Gerald Wesel, the chief executive of New Hampshire-based Ellacoya.

But Internet companies such as [Vonage Holdings Corp.](#), which sells Internet phone service, strongly oppose the idea of charging Internet users on a per-application basis rather than the typical monthly flat fee that most operators charge for unlimited access. "It's such a significant departure from the way the Internet works," says Vonage spokesman Chris Murray. "It's exactly the opposite of the Internet model" in which customers buy access and can then do anything they want.

Consumer groups are also opposed. "The minute you let the phone companies decide which services are available, you've killed the Internet," says Mark Cooper, director of research at [Consumer Federation of America](#).

Among the models under consideration is one raised in a December paper by Cisco that would charge consumers a nominal fee for instant messaging and steeper fees for Internet phone calls and gaming.

"Everybody is trying to experiment with what's the right service model and what's the right pricing model that gives consumers the right choices," says Robert Pepper, Cisco's senior managing director for global advanced technology policy. Cisco has discussed new business models with phone and cable companies.

Others include plans similar to those of wireless companies where customers would pay for a certain amount of monthly capacity and then face hefty charges if they exceed it. "Any model that allows the consumer to have more control and more choice makes sense to us," says BellSouth Chief Technology Officer William Smith, who is contemplating the new models but has no immediate plans to implement them.

Mr. Smith often laments the fact that his parents, who use the Internet for only low-capacity activities such as Web surfing and email, pay fees similar to those of heavy users who suck up capacity by downloading music or using BitTorrent, which is used by millions to download movies and other material off the Internet. Overall at BellSouth, 1% of broadband customers drive 40% of Internet traffic, he says. "People who drive cost in the network create additional charges in the network," Mr. Smith says. "If my elderly parents don't use a lot of traffic we ought to be able to create a service plan that meets their needs."

British Internet service provider [PlusNet](#) PLC worked with Ellacoya to put into place better network management tools, and the company also used a pay-as-you-go plan that charged subscribers the equivalent of \$27 a month for a gigabyte of data transfer, then \$1.80 for each additional gigabyte. Under the plan, Internet phone-call capabilities were free. The company says its new system boosted customers as well as revenue.

[AT&T](#) Inc. officials say they have been approached by equipment makers that have ideas for new broadband business models but are not considering any at this time. [Verizon Communications](#) Inc. says it offers a low-priced, low-speed monthly broadband plan for customers who don't need much capacity.

"I do think there are people who are saying just give me what I need, I don't need all this fancy stuff and it'll be fine," says Verizon spokesman Eric Rabe. "That's why we're selling this service."