

TIER FLATTENING: AT&T and Verizon Home Customers Pay a High Price for Slow Internet

July 31, 2018



Authors:

Bill Callahan
Angela Siefer

TIER FLATTENING: AT&T and Verizon Home Customers Pay a High Price for Slow Internet

Not so long ago, Internet Service Providers (ISPs) had “tiered” rate structures which offered significantly lower costs for lower speed limits. Most of us probably assume those tiers still exist in some form.

But, in recent years, the nation’s two largest telco ISPs, AT&T and Verizon, have eliminated their cheaper rate tiers for low and mid-speed Internet access, except at the very slowest levels¹. Each company now charges essentially identical monthly prices – \$63-\$65 a month after first-year discounts have ended – for home wireline broadband connections at almost any speed up to 100/100 Mbps fiber service.

This policy of upward “tier flattening” raises the cost of Internet access for urban and rural AT&T and Verizon customers who only have access to the oldest, slowest legacy infrastructure. It imposes higher rates on millions of urban households who are relegated to slow ADSL technology by AT&T’s documented “digital redlining” of lower-income neighborhoods as well as Verizon’s refusal to deploy broadband upgrades in some entire cities like Baltimore and Buffalo. It also victimizes millions of underserved households in the two companies’ rural service areas.

Most of these communities have no other wireline competitors offering lower-speed Internet access at any price. Standalone Internet services

from most cable ISPs like Charter and Comcast start at 60-100 Mbps down for \$65-\$75 a month. AT&T and Verizon are, for all intents and purposes, the sole providers of wireline Internet access at lower speeds.

The implications of upward tier flattening for community digital inclusion efforts are serious. \$65 a month for any kind of Internet access, slow or fast, is not a sustainable expense for the low-income residents served by most of NDIA’s affiliated programs.

Slower ADSL speeds at lower rates -- i.e., what most reasonable people would expect -- should be providing a cheaper alternative. Given that capital investment by AT&T and Verizon in their legacy ADSL networks in the past ten years has been minimal, the cost of service on those networks should be significantly lower than the cost of service on recently constructed fiber-to-the-node and fiber-to-the-premises networks. Instead, both companies seem bent on extracting as much profit as possible from their lower-speed customers.

¹ Verizon’s flat price applies to any wireline service faster than 768 kbps down. AT&T’s applies to any household with a top download speed faster than 5 Mbps. The two companies charge \$10 a month less for speeds below these thresholds.

AT&T

In July 2018, AT&T's advertised base rate² for "Internet 10" service (between 6 and 10 Mbps down, .6 to 1 Mbps up) was \$60 a month.

AT&T's advertised base rates for "Internet 50" (up to 50/6), "Internet 75" (up to 75/8), and "Internet 100" (up to 100/100) were also... \$60 a month.

Internet 10 is service delivered via old, copper-only ADSL2 infrastructure. Internet 50 and 75 are available where AT&T has deployed "fiber to the node" (FTTN via neighborhood VRAD cabinets) to provide standard VDSL service. Internet 100 is available only where customers can get AT&T's new fiber-to-the-premises (FTTP) service.

Verizon

Comparing the rates charged by Verizon for high-speed home fiber service ("FIOS") vs. slow ADSL ("High Speed Internet Enhanced", or HSI) is slightly trickier, because Verizon ADSL service at any speed requires paying separately for a landline telephone account.

100/100 Mbps FIOS service costs \$55 a month after the first year, plus \$10 a month for the router, for a total cost of \$65 a month.³

Verizon HSI, at any maximum download speed from 1.5 Mbps to 15 Mbps, costs \$35 a month for the first twelve months and increases by \$5 a month after that.⁴ There's no modem charge for HSI, but the customer must also pay for basic local phone service (base cost \$23 in New York, \$24 in Pennsylvania). So: \$40 a month after the first year, plus at least \$23-\$24 for a phone line, equals \$63-\$64 a month for HSI service at 1.5 Mbps or more.

HSI is service delivered via old, copper-only ADSL2 infrastructure, with download speeds topping out at 15 Mbps. FIOS is fiber-to-the-premises (FTTP) service with speeds starting at 100/100. Verizon does not offer speed tiers between 15 Mbps and 100 Mbps.

² The "regular" monthly rate charged after first-year discounts have ended, before any extra fees and taxes. AT&T rate information is from <https://www.attavings.com>, an "AT&T Authorized Retailer", as of 7/30/18.

³ <https://broadbandnow.com/Verizon-Fios-deals/> (7/30/18)

⁴ <https://www.verizon.com/info/dsl-services/> (7/30/18)

Comparing Costs Per Mbps: Very Slow Internet Comes At a Very High Price

When we buy Internet service, most of us are looking for the fastest speed we can get for the money we spend, and that's how broadband is marketed. Let's look at how much AT&T and Verizon currently charge for each megabit per second (Mbps) of maximum download capacity:

| Max down in Mbps | Tech | ATT | VERIZON | | | YEAR 2 \$/MBPS DOWN | |
|---------------------|---------------|------|-----------|---------|-------|---------------------|---------|
| | | | Internet* | Phone** | TOTAL | ATT | VERIZON |
| 0.77 | ADSL | \$50 | \$30 | \$23 | \$53 | \$65.10 | \$69.01 |
| 1.5 | ADSL | \$50 | \$40 | \$23 | \$63 | \$33.33 | \$42.00 |
| 3 | ADSL | \$50 | \$40 | \$23 | \$63 | \$16.67 | \$21.00 |
| 5 | ADSL | \$50 | \$40 | \$23 | \$63 | \$10.00 | \$12.60 |
| 7 | ADSL | | \$40 | \$23 | \$63 | | \$9.00 |
| 10 | ADSL | \$60 | \$40 | \$23 | \$63 | \$6.00 | \$6.30 |
| 15 | ADSL | | \$40 | \$23 | \$63 | | \$4.20 |
| 25 | ADSL/ VDSL | \$60 | | | | \$2.40 | |
| 50 | VDSL | \$60 | | | | \$1.20 | |
| 75 | VDSL | \$60 | | | | \$0.80 | |
| 100 | FIBER | \$60 | \$65 | \$0 | \$65 | \$0.60 | \$0.65 |

* Internet rate for Verizon is first-year promotional rate + \$5.

** Verizon ADSL service requires separate landline phone service. Chart shows lowest available monthly rate for home landline phone service in New York State.

Monthly costs in chart are non-promotional basic rates advertised (by AT&T) or estimated (for Verizon) as of July, 2018, not including any additional charges for taxes or fees.

The numbers speak for themselves. Even with slightly lower rates, the customer cost per Mbps for the slowest connections offered by either company is a very big multiple of the comparable cost for 100/100 fiber -- from 16:1 all the way up to 120:1! Customers with ADSL service in the 6 to 10 Mbps range (AT&T) or 1.5 to 15 Mbps range (Verizon) are charged at least \$4.50 and as much as \$45 for each Mbps of download capacity they receive, compared to sixty to sixty-five cents per Mbps for 100/100 fiber customers.

Affordability is the greatest barrier to increased home broadband subscriptions. In the United States, broadband is becoming faster for some households and more expensive for others.

About NDIA

The National Digital Inclusion Alliance is a unified voice for home broadband access, public broadband access, personal devices and local technology training and support programs. We work collaboratively to craft, identify and disseminate financial and operational resources for digital inclusion programs while serving as a bridge to policymakers and the general public. NDIA counts over 300 affiliated organizations.

Report Authors

Bill Callahan, NDIA Research and Policy Coordinator

Bill has been active in local and national efforts to promote digital empowerment for low-income people and communities since 1996, when he organized Cleveland's first neighborhood technology center and home computer ownership program. Between 2009 and 2013 Bill directed one of the largest sustainable broadband adoption initiatives funded by the U.S. Commerce Department's Broadband Technology Opportunities Program. He now directs the Connect Your Community Institute, a Cleveland-based organization engaged in research, strategic development and public advocacy on issues of digital justice.

Angela Siefer, NDIA Executive Director

Angela envisions a world in which all members of society have the skills and the resources to use the internet for the betterment of themselves and their communities. Since 1997 Angela has worked on digital inclusion issues with local community organizations, the National Telecommunications Information Administration, state governments and the Schools, Health & Libraries Broadband (SHLB) Coalition.