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Highlights

Highlights of GAO-07-80, a report to the Chairman, Committee on Government Reform, House of Representatives

November 2006

TELECOMMUNICATIONS

FCC Needs to Improve Its Ability to Monitor and Determine the Extent of Competition in Dedicated Access Services

Why GAO Did This Study

Government agencies and businesses that require significant capacity to meet voice and data needs depend on dedicated access services. This segment of the telecommunications market generated about $16 billion in revenues for the major incumbent telecommunications firms in 2005. The Federal Communications Commission (FCC) has historically regulated dedicated access prices.

With the Telecommunications Act of 1996, FCC reformed its rules to rely on competition to bring about cost-based pricing. Starting in 2001, FCC granted pricing flexibility on the basis of a proxy measure of competition. GAO examined (1) the extent that alternatives are available in areas where FCC granted pricing flexibility, (2) how prices have changed since the granting of pricing flexibility, and the effect on government agencies, and (3) how FCC monitors competition. GAO's work included analyzing data on competitive alternatives, list prices, and average revenue, and interviewing FCC officials and industry representatives.

What GAO Recommends

GAO recommends that FCC better define effective competition, and consider additional data to measure and monitor competition. FCC disagreed that they need to better define competition and collect additional data. GAO maintains that additional data collection is necessary for FCC to better fulfill its regulatory responsibilities.

www.gao.gov/cgi-bin/getrpt?GAO-07-80.

To view the full product, including the scope and methodology, click on the link above. For more information, contact JayEtta Z. Hecker at 202-512-2834 or HeckerJ@gao.gov.

What GAO Found

In the 16 major metropolitan areas we examined, available data suggest that facilities-based competitive alternatives for dedicated access are not widely available. Data on the presence of competitors in commercial buildings suggest that competitors are serving, on average, less than 6 percent of the buildings with demand for dedicated access in these areas. For buildings with higher levels of demand, facilities-based competition is more moderate, with 15 to 25 percent of buildings showing competitive alternatives, depending on the level of demand. Limited competitive build out in these MSAs could be caused by a variety of entry barriers, including government zoning restrictions and difficulty gaining access to buildings from building owners. In addition, where demand for dedicated access is relatively small, it is unlikely to be economically viable for competitors to extend their networks to the end user. FCC has also noted that, where competitors can lease unbundled network elements from incumbent providers, there may be less incentive for competitors to invest in their own facilities.

Available data suggest that incumbents' list prices and average revenues for dedicated access services have decreased since 2001, resulting from price decreases due to regulation and contract discounts. However, in areas where FCC granted full pricing flexibility due to the presumed presence of competitive alternatives, list prices and average revenues tend to be higher than or the same as list prices and average revenues in areas still under some FCC price regulation. According to the large incumbent firms, many large customers needing service in areas with pricing flexibility purchase dedicated access services under contracts that provide additional discounts. However, GAO found that contracts do not generally affect the differential cited previously, and that contracts also contain various conditions or termination penalties competitors argue inhibit customer choice. Government agencies, to the extent that they purchase dedicated access off of General Services Administration contracts, are generally shielded from price increases due to prenegotiated rates. However, not all agencies purchase off of these contracts.

FCC uses various data to assess competition in dedicated access, but these data are limited in their ability to describe the state of competition accurately. For example, these data measure potential competition at one point in time and are not revisited or updated, even though competitors may enter bankruptcy or be bought by the incumbent firm. FCC also collects data from external parties through its rulemaking proceedings, but those parties have no obligation to provide data, and FCC has limited mechanisms to verify the reliability of any data submitted. FCC's strategic plan and various rulemakings have defined FCC's obligation to assess and ensure competition in dedicated access. FCC stated that gathering and analyzing additional data would be costly and burdensome. Yet without more complete and reliable data, FCC is unable to determine whether its deregulatory policies are achieving their goals.