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July 28, 2016

The Honorable Tom Wheeler
Chairman
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, DC 20554

Re: *Business Data Services in an Internet Protocol Environment,* WC Docket No. 16-143; *Special Access Rates for Price Cap Local Exchange Carriers,* WC Docket No. 05-25 and RM-10593

Dear Chairman Wheeler,

Competitive reform—that includes meaningful price reduction—in the business data services market will promote a "virtuous cycle" of investment and development, because—as the Commission has found—competition spurs innovations by network providers, which drive end-user demand for more advanced broadband services, which in turn stimulates competition among providers to further invest in their broadband networks and the services offered over those networks.[1] In contrast, "[i]f prices are distorted, social welfare is reduced. Market power is such a distortion, which leads not only to higher prices, but also to lower consumption as a result. This is due to the *price elasticity of demand (PED)*, the tendency of buyers to increase (or reduce) consumption in response to a reduction (or increase) in price."[2]

As the Commission has recognized, its policy framework for business data services affects competition and investment in the downstream markets for retail business broadband services provided to small businesses, mobile customers, non-profits, and enterprise customers.[3] Indeed, the pricing of this service has a critical impact on the economy as a whole. As discussed in the attached WIK-Consult Report, and consistent with other studies in the record,[4] reasonable

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[1] *See Preserving the Open Internet, et al.*, Report and Order, 25 FCC Rcd. 17905, ¶ 14 (WCB 2010).

[2] J. Scott Marcus, "Welfare Effects of Reductions in the Price of Leased Line Equivalents in the U.S.," at 9, WIK-Consult (July 2016) ("WIK-Consult Report").

[3] *See*, *e.g.*, Fed. Commc'ns Comm'n, "Connecting America: The National Broadband Plan," at 47-48 (2010), https://transition.fcc.gov/national-broadband-plan/national-broadband-plan.pdf.

[4] *See* Mark Cooper, "The Special Problem of Special Access: Consumer Overcharges and Corporate Excess Profits," Consumer Federation of America (Apr. 2016), http://consumerfed.org/wp-content/uploads/2016/04/4-16-The-Special-Problem-of-Special-

price reductions for these services would have "spill-over effects that multiply the benefits to the broader society."[5] In particular, the WIK-Consult Report demonstrates that, in addition to restoring consumer surplus appropriated by incumbent LECs, regulatory reductions in prices for business data services to restore competitive levels would result in a "reduction in deadweight loss, where increased consumption in response to reducing inflated prices generates societal benefits."[6]

The WIK-Consult Report looks at the 2003 analysis by Rappoport, Taylor, *et al.* on the simulated impact of reducing the incumbents' business data services prices by significant percentage.[7] The downstream effect of this price reduction on all industry sectors was quantified by means of a macroeconomic model. The conclusion of this evaluation is as follows:

> If this price reduction had gone into effect at the start of 2003, they estimate that it would have had the effect of adding 132,000 jobs and $14.5 billion in real Gross Domestic Product (GDP) to the U.S. economy. This large predicted response is an important and perhaps surprising finding. The annual increase in real GDP of $14.5 billion is *2.6 times as great* as the direct reduction in prices of $5.6 billion, which is to say that the spill-over effects into the broader economy are substantial. In other words, the importance of these services extends beyond the telecommunications industry proper, and is moreover subject to significant *multiplier effects*.[8]

There is often an erroneous assumption that a reduction in price translates into a reduction in revenue for the provider of services, but valuable welfare effects need not come at the expense of incumbent providers. As the WIK-Consult Report explains, depending on the PED, a reduction in price is likely to have little effect on the revenues of the provider and may even lead to an increase in revenue. The report concludes by explaining that

> [t]he [PED] for business data services is substantial; consequently, any price reductions would tend to be offset by increased volumes. The [PED] for these services is somewhere between -1.0 and -2.0, with the balance of evidence suggesting that it is significantly in excess of -1.0. At a relatively unlikely PED of -1.0, reductions in price of up to 25% reduce revenues by at most slightly over

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Access.pdf; Susan M. Gately and Helen E. Golding, "The Benefits of a Competitive Business Broadband Market," S.M. Gately Consulting LLC (Apr. 2013), http://thebroadbandcoalition.com/storage/benefits-of-broadband-competition.pdf.

[5] WIK-Consult Report at 8.

[6] WIK-Consult Report at 8.

[7] WIK-Consult Report at 10 (citing Paul N. Rappoport, Lester D. Taylor, *et al*., "Macroeconomic Benefits from a Reduction in Special Access Prices" (2003)).

[8] WIK-Consult Report at 10.

6%; under much more realistic assumptions, these reductions in price actually increase gross revenue.[9]

Thus, relying on realistic estimates of the PED for business data services, reducing business data services prices closer to competitive levels will yield substantial increases in overall societal welfare, while actually *increasing* incumbent LECs' gross revenues from such services.

Please do not hesitate to contact me if you have any questions regarding this submission.

Respectfully submitted,

/s/ Karen Reidy

Karen Reidy
Vice President, Regulatory Affairs

cc: Chairman Wheeler (via hand delivery)

Attachment

[9] WIK-Consult Report at 26.