

## FCC Ruling Levels the Internet-Access Playing Field

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A new Federal Communications Commission (FCC) ruling provides for the deregulation of U.S. Internet access services. Internet service providers (ISPs) and their customers should prepare for a new market reality.

## NEWS ANALYSIS

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### Event

On 5 August 2005, the FCC adopted new rules that deregulate wireline broadband access services, such as digital subscriber line (DSL) service, in the United States.

### Analysis

The FCC's order will effectively lead to the deregulation of all Internet access services — including Special Access and Private Line services. It reclassifies all telephone-company (telco) wireline broadband Internet access services as information services, placing them on an equal regulatory basis with cable modem services. The ruling overturns an earlier FCC order that "grandfathers" (continues) existing line-sharing arrangements in perpetuity. Gartner believes it also excludes high-capacity DS1 and DS3 Internet access from any unbundling obligations identified in another recent FCC order.

The FCC ruling was not unexpected, but it nonetheless comes as a serious blow to independent ISPs, which can no longer rely on FCC orders to safeguard the cost or availability of Internet access services. The impact will, however, be softened somewhat by the ruling's conditions for transition periods: Incumbent telcos are required to continue existing broadband arrangements for one year, and must continue to contribute (based on current reported line-sharing revenue) to the Universal Service Fund for 270 days or until the FCC adopts new rules governing USF contributions.

Prices for previously unbundled loops for Internet access will likely rise 10 percent to 20 percent as a result of this ruling, but prices for Special Access and Private Line Internet services — which are governed by competitive market forces — should rise only minimally.

### Recommendations

**ISPs, broadband access providers and aggregators:** Immediately negotiate commercial extensions to your contracts for broadband access, or negotiate new contracts, to ensure adequate inventory during the transition period and beyond.

**Competitive local exchange carriers (CLECs):** Review your business-plan requirements for Internet access and assess whether it is appropriate to build access directly to customers, lease from third parties or lease from incumbents. Renegotiate contracts with incumbents for Internet access applications to take advantage of current prices and ensure inventory. Consider investing in alternative access technologies as a way to mitigate price increases.

**Incumbent local exchange carriers (ILECs):** Use the transition period to build strategic relationships with ISPs, broadband access providers and aggregators.

**Enterprises:** Renegotiate contracts with ISPs, CLECs and ILECs to obtain longer contract periods and contingency clauses to guard against price increases on Internet access services.

**Analytical Sources:** Ron Cowles and Alex Winogradoff, Gartner Research

### Recommended Reading and Related Research

- "Cable Modem Ruling Will Dramatically Change Broadband Regulation" — Another FCC ruling, upheld by the U.S. Supreme Court, affirmed that cable modem service are information services and subject to deregulation. **By Ron Cowles, Patti Reali and Alex Winogradoff**

- "New FCC Rules Will Further Complicate Telecom Market" — A set of FCC rulings will mean significant changes in the telecom market, but court fights will make the rulings' implementation slow and complicated. **By Ron Cowles and Alex Winogradoff**

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