

**Report To The Joint Utility Review Committee on
Verizon South Inc.'s North Carolina Operations**

April 9, 2012

The State of Verizon South Inc.'s North Carolina Operations

Verizon South Inc. ("Verizon") operates as an incumbent local exchange carrier ("ILEC") in North Carolina. On July 1, 2010, Verizon completed the transfer of most of its North Carolina business to Frontier Communications Corporation, but Verizon retained its ILEC operations in Knotts Island, where it serves fewer than 500 customers.

Verizon elected deregulation for its remaining ILEC operations in the Knotts Island exchange on July 20, 2010 under N.C. Gen. Stat. § 62-133.5(h). In compliance with N.C. Gen. Stat. § 62-133.5(k), Verizon files this report on its Knotts Island operations, which includes the following information for the period January 1 to December 31, 2011:

1. An analysis of telecommunications competition by the Local Exchange Company or Competing Local Provider, including access line gain or loss and the impact on consumer choices from enactment of the Consumer Choice and Investment Act of 2009.
2. An analysis of service quality based on customer satisfaction studies from enactment of the Consumer Choice and Investment Act of 2009.
3. An analysis of the level of local exchange rates from enactment of the Consumer Choice and Investment Act of 2009.

Analysis of Telecommunications Competition on Knotts Island

Verizon's access line count on Knotts Island fell from 479 on January 1, 2011 to 383 by the end of the year, a decline of 96 access lines or 20%. This decrease reflects the competition for telecommunications services on Knotts Island and throughout the state.

The telecommunications market in North Carolina (of which Knotts Island is a part) has many providers offering competitive services. Not only are a large number of competing local providers ("CLPs") in North Carolina, but intermodal competitors such as cellular companies, wireless internet companies, cable companies and VoIP providers also compete here. According to the FCC, 99% of all zip codes in North Carolina have at least one CLP or non-ILEC VoIP provider offering competitive telecommunications services.¹ As of December 2010, these providers had captured 31% of all switched access lines and VoIP subscriptions in North Carolina.²

Wireless subscribers and wireless usage are growing at healthy rates based on the latest information from the FCC. In North Carolina, the number of mobile wireless

¹ *Local Telephone Competition: Status as of December 31, 2010*, Industry Analysis and Technology Division, FCC Wireline Competition Bureau, Table 20 (October 2011).

² *Id.*, Table 8.

subscribers climbed from 7.428 million in June 2008 to 8.526 million in December 2010, an increase of almost 15%, so that the number of wireless subscribers now exceeds the number of switched access lines in North Carolina by 5.2 million.³ The number of consumers becoming wireless-only households continues to increase, according to the U.S. Centers for Disease Control, which estimates that for the second half of 2010, nearly 30% of U.S. homes had no landline and only wireless phone service.

Verizon's Service Quality Results

Verizon collects independent third party data concerning Verizon's customer satisfaction. The third party surveys a sampling of customers each month who have received provisioning, repair and billing services from Verizon, asking the customers to evaluate Verizon's performance, and then submits this survey data to Verizon for our service evaluation efforts. In 2011, sampling included 15 Verizon Knotts Island telephone customers, most of whom stated they were satisfied with Verizon's service.

Verizon also evaluates complaints directed to the North Carolina Utility Commission Public Staff's office as an indicator of customer satisfaction. During 2011, Verizon received two customer complaints from Public Staff concerning Knotts Island customers, both of which were resolved to the customers' satisfaction.

Finally, Verizon reviews internal service quality data. During 2011, nearly 78% of troubles reported by Knotts Island customers were resolved in less than 48 hours and more than 91.5% were resolved in less than 96 hours.

Analysis of the Level of Local Exchange Rates

Verizon's Basic Residence Local Exchange rate throughout the Knotts Island exchange was \$21.50⁴ from January 1 to December 31, 2010. As required by N.C. Gen. Stat. § 62-133.5(h), standalone basic residential service rates are capped annually at the rate of inflation as measured by the change in the Gross Domestic Product Pricing Index.

³ *Id.*, Tables 8 and 17.

⁴ Rate is before taxes and surcharges.