



**FRONTIER COMMUNICATIONS OF THE CAROLINAS INC.**

**Annual Report to the North Carolina General Assembly  
Joint Legislative Commission on Governmental Operations**

**STATE OF THE COMPANY'S OPERATIONS**

**January 30, 2013**

(filed pursuant to G.S. §62-133.5(k))

***C O N F I D E N T I A L***

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## **Introduction**

On January 30, 2012, Frontier Communications of the Carolinas Inc. ("Frontier") filed notice with the North Carolina Utilities Commission ("NC Commission") of its election to have its rates, terms and conditions for services determined pursuant to G.S. §62-133.5(h).

Under this subsection of the statute, Frontier is required to continue offering stand-alone basic residential lines to all customers who choose to subscribe to that service, and rate increases for that service are limited to the percentage increase over the prior year in the Gross Domestic Product Price Index. The rates, terms, and conditions of Frontier's other retail services – excluding the low-income residential Lifeline program – are not governed by the NC Commission.

The NC Commission does, however, retain jurisdiction over enforcement of federal requirements on the local exchange company's marketing activities, telecommunications relay service, the Life Line program, State universal service funding (pursuant to G.S. 62-110(f1)), carrier of last resort obligations (pursuant to G.S. 62-110), management of the numbering resources involving that local exchange company, and rates, terms, and conditions of wholesale services.

## **Competition**

Competition in the communications industry is intense. Frontier experiences competition from many communications service providers, including cable operators offering video, data and Voice over Internet Protocol ("VoIP") products, wireless carriers, long-distance providers, competitive local exchange carriers, Internet providers, and other wireline carriers. The NC Commission website (<http://www.ncuc.commerce.state.nc.us/>) indicates that the NC Commission regulates, to varying degrees, 186 competing local providers in addition to the 16 Incumbent Local Exchange Companies ("ILECs"). This does not include the 16 or more wireless companies doing business in North Carolina, reported as of December 2011 by the Federal Communications Commission ("FCC").

On a national level, the most recent FCC Mobile Wireless Competition Report, issued June 27, 2011, indicates that 97.2% of the total United States population has mobile wireless voice coverage available from three or more service providers. The same report indicates that 99.8% of the population has wireless voice coverage from at least one provider.



Charts accompanying another FCC report<sup>1</sup> show in North Carolina a steady increase in non-incumbent local exchange providers' and wireless companies' lines and market share, while the number of lines served by ILECs declined:

<b>North Carolina</b>				
Year End Telephone Subscriptions (Millions)				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>ILEC</b>	3.5	3.1	2.8	2.6
% of Market	28%	26%	22%	20%
<b>Non-ILEC</b>	1.1	1.2	1.5	1.6
% of Market	9%	10%	12%	12%
<b>Wireless/Mobile</b>	8.0	8.1	8.5	9.1
% of Market	63%	65%	66%	68%

Frontier's switched access lines have also declined during the same period and through 2012. Its total Access Lines as of December 31, 2012, were **[BEGIN CONFIDENTIAL]** [REDACTED], a year-over-year decline of [REDACTED]%. Approximately [REDACTED]% **[END CONFIDENTIAL]** of this loss can be attributed to customers who are migrating from landline service to strictly wireless service – in other words, customers who “cut the cord.” Frontier measures this type of line loss by tracking how many of its customer telephone numbers are ported from Frontier to a wireless provider. Telephone numbers ported to other non-wireless providers, including cable providers, are the primary reason for the remainder of line loss.

Frontier believes that election under G.S. §62-133.5(h) has enabled it to compete more effectively in the North Carolina telecommunications market. Not only does Frontier have more pricing flexibility, it has been able to reduce regulatory overhead costs to a level closer to parity with the wireless and cable companies and other local providers.

### Service Quality

Frontier believes its quality of service has improved since it made its election under G.S. §62-133.5(h). Although results from Frontier customer surveys are not available at this time, there has been a decline in complaints filed informally with the NC Commission.

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<sup>1</sup> “Local Telephone Competition: Status as of December 31, 2011” issued January 13, 2013 by the Federal Communications Commission Industry Analysis and Technology Division of the Wireline Competition Bureau, Tables 13, 14 and 18.



From the time Frontier made its election under G.S. §62-133.5(h) on January 30, 2012, through December 31, 2012, it received a total of 128 customer complaints from Public Staff of the NC Commission. The number of complaints for the same period in 2011 was 139. This is a decrease of approximately 8%, slightly more than Frontier's 2012 access line loss referenced above.

### **Local Exchange Rates**

Effective June 1, 2012, Frontier's monthly basic local exchange rates for residential service increased approximately 1.36%. Basic residential service rates increased from \$19.95 to \$20.22 in the Durham area and Union County, and from \$21.50 to \$21.79 in the western portion of the state. Optional calling plans also increased by less than 1.36%. Frontier's increases were below the prior year's percentage increase in the Gross Domestic Product Price Index as most recently reported by the US Bureau of Economic Analysis. This Price Index grew by 1.64% for the year ending September 30, 2012.

In 2012, Frontier introduced new discounts for residential customers who agree to a minimum 12-month term for service and/or bundle local telephone service with other communications services available through the Company, including high-speed Internet access and satellite television. The discounts increase from 5% to 15% depending on which combination of services a customer selects. These discounts offer customers a simple and easy way to save money on their communications services.

Frontier also offers local service bundled with unlimited nationwide calling for \$30.99 a month, excluding taxes and surcharges. This calling plan can also be combined with other services to qualify for the discounts mentioned above.