

**Report to the Joint Utility Review Committee
(Commission on Governmental Operations)**

**The State of North State Telephone d.b.a. North State
Communications
In An Open and Competitive Retail Market**

January 30, 2013

On June 22, 2009, the General Assembly ratified House Bill 1180 (HB 1180). Section 4. G. S. 62-133.5 (k) provides that:

To evaluate the affordability and quality of local exchange service provided to consumers in this State, a local exchange company or competing local provider offering basic local residential exchange service that elects to have its rates, terms, and conditions for its services determined pursuant to the plans described in subsection (h) or (m) of this section shall make an annual report to the General Assembly on the state of its company's operations. The report shall be due 30 days after the close of each calendar year and shall cover the period from January 1 through December 31 of the preceding year. The Joint Legislative Commission on Governmental Operations must review the annual reports and decide whether to recommend that the General Assembly take corrective action in response to those reports. The report shall include the following:

- (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 the date the local exchange company makes its election to be subject to alternative regulation under the terms of subsection (h) or (m) of this section.
- (2) An analysis of service quality based on customer satisfaction studies from the date the local exchange company makes its election to be subject to alternative regulation under the terms of subsection (h) or (m) of this section.
- (3) An analysis of the level of local exchange rates from the date the local exchange company makes its election to be subject to alternative regulation under the terms of subsection (h) or (m) of this section.

North State Telephone d.b.a. North State Communications (North State), by letter and sworn statement to the North Carolina Utilities Commission (NCUC) dated November 29, 2012, served notice of election to have their rates, terms and conditions for their respective services determined pursuant to North Carolina General Statute § 62-133.5 (h). The election was effective November 30, 2012.

This Report has been prepared and is being submitted on behalf of North State, in compliance with the aforementioned General Statute requirement for the month of December 2012.

I. Analysis of Telecommunications Competition in North Carolina

North State, for the time period from November 2012, pre-Subsection h election, to December 2012, post-Subsection h election, recorded a .8% decline in residential access line counts. Monthly declines during the second half of 2012 consistently track in the .8% to .10% range. Monthly residential access line losses averaged 340 lines for the months of June 2012 through December 2012.

The access line losses experienced by North State, as well as by other incumbent local exchange carriers, are attributable to the variety of alternative (and competitive) communication options available to consumers. Those options are well documented not only by regulatory bodies such as the Federal Communications Commission (FCC), but also by media outlets by way of statistics related to local services offered by competitive local exchange carriers, mobile services, broadband services, and social networking opportunities. Samplings of statistics are noted below to illustrate the level of competition that exists not only in North Carolina, but in the industry nationwide.

The industry trend of declining access lines can be seen in the FCC's recently released report, *Local Telephone Competition: Status as of December 31, 2011*¹.

- Over a three-year period from 2008 to 2011, nationwide, “interconnected VoIP subscriptions increased at a compound annual growth rate of 19.0%, mobile telephony subscriptions increased at a compound annual growth rate of 4.5% and retail switched access lines declined at about 8.8% a year”².

Regarding data for North Carolina alone, the report further illustrates that:

- As of December 31, 2011, of the total end user switched access lines and VoIP subscriptions, 63% were provided by ILECs and 37% by non-ILECs³. The same metric as of June 30, 2010, as detailed in the FCC's *Local Telephone Competition: Status as of June 30, 2010*⁴ showed 70% of the aforementioned services were provided by ILECs⁵, a decline of 7%.

¹ The report can be downloaded from the Wireline Competition Bureau Statistical Reports Internet site at www.fcc.gov/wcb/stats.

² See FCC Local Telephone Competition: Status as of December 31, 2011, page 2.

³ See FCC Local Telephone Competition: Status as of December 31, 2011, page 20.

⁴ The report can be downloaded from the Wireline Competition Bureau Statistical Reports Internet site at www.fcc.gov/wcb/stats.

⁵ See FCC Local Telephone Competition: Status as of June 30, 2010, page 19.

Further data from the FCC shows:

- North Carolina mobile telephony subscribers, as of June 2008 were 7.4 million and had increased, as of December 2011, to 9.1 million.⁶

Statistics from various sources demonstrate that many consumers are abandoning traditional access line service and meeting their communications needs with wireless services only. For example, the FCC's *15th Annual Report on Mobile Wireless Competition (2011)*, *Chart 47 Data: Percentage of Adults and Children Living in Households with Only Wireless Service or No Telephone Service: United States, 2003-2010*⁷, illustrates that:

- "Adults with wireless service only" has grown from 11.8% in June 2006 to 24.9% in June 2010.

Also, preliminary results from the January-June 2012 National Health Interview Survey (NHIS) also indicates that the number of American homes with only wireless telephones continues to grow.

- "More than one-third of American homes (35.8%) had only wireless telephones (also known as cellular telephones, cell phones or mobile phones) during the first half of 2012 – an increase of 1.8 percentage points since the second half of 2011."⁸

Internet and social networking sites have also been used by subscribers as alternatives to voice calling over a traditional voice access line. The FCC's report on *Internet Access Services: Status as of June 30, 2011*⁹ shows that:

- North Carolina has almost 5.9 million connections over 200 kbps in at least one direction.

According to an infographic recently published by OnlineMBA.com¹⁰:

- "Facebook has 845 million active users."
- "Twitter has 127 million active users."

⁶ See FCC Local Telephone Competition: Status as of December 31, 2011, page 29. The report can be downloaded from the Wireline Competition Bureau Statistical Reports Internet site at www.fcc.gov/wcb.stats.

⁷ See Chart 47, page 208 of FCC WT Docket No. 10-133 released June 27, 2011

⁸ Blumberg, Stephen J., Ph.D. and Julian V. Luke. "Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, January-June 2012": p1. Rel. 12/2012. Found at <http://www.cdc.gov/nchs/data/nhis/earlyrelease/wireless201212.PDF>. January 29, 2013.

⁹ See Internet Access Services: Status as of June 30, 2011, page 37. The report can be downloaded from <http://www.fcc.gov/reports/internet-access-services-63011>.

¹⁰ Found at <http://ansonalex.com/infographics/social-media-usage-statistics-2012-infographic/>. January 29, 2013.

- “The average visit on Twitter lasts for 14 minutes.”
- “Pinterest has had 21 million unique visits.”
- “LinkedIn has 150 million registered users.”

It is clear, as illustrated in the myriad of statistics available, as shown above, that today; consumers have a myriad of choices with regard to communications needs. North State’s residential subscribers, as reflected in the access line losses detailed in this report, are taking advantage of the choices available to them.

II. Service Quality Results

North State has based its measure of customer satisfaction pre-Subsection h election and post-Subsection h election on churn rates (defined as the number of people who disconnected service). The November 2012 churn rate was 1.46%. The December 2012 churn rate was lower, at 1.41%, indicating that subscribers did not adversely react to the Subsection h election.

North State is unaware of any consumer complaints reported to the North Carolina Utilities Commission during the month of December.

III. Analysis of the Level of Local Exchange Rates

North State’s monthly flat rate for individual residential line service, prior to Subsection h election, was \$13.70. Effective December 1, 2012, North State’s monthly flat rate for individual residential line service was \$15.75. This rate includes unlimited local calling and expanded local calling.

North State continues to offer, as stated in its Subsection h election letter to the NCUC, stand-alone basic residential lines to all customers who choose to subscribe to that service for \$13.70 per month.

North State’s local service line rates remain in the range of those offered by others in neighboring service areas and by competitors within North State’s own service area. Those rates (found on publicly available websites) range from \$12.79 (with no additional features) to \$19.99 and \$23.00. The pricing flexibility provided to North State by way of House Bill 1180 and deregulation, allows the company to participate more successfully in the competitive market in which we operate. North State remains committed to providing affordable, quality phone service for our subscribers.