

2013 Annual Report
Of Operations

**Report to the Joint Legislative Committee
on Governmental Operations**

The State of CenturyLink

Carolina Telephone and Telegraph Company LLC d/b/a CenturyLink,
Central Telephone Company d/b/a CenturyLink
and
Mehtel, Inc. d/b/a CenturyLink

In An Open and Competitive Retail Market

January 30, 2014

Introduction

House Bill 1180 became law on June 30, 2009 and established a new category of price plan regulation pursuant to Subsection (h) of N.C.G.S. § 62-133.5, which allows ILECs or competing local providers (“CLPs”) to opt into the plan by filing a notice of their intent to do so with the North Carolina Utilities Commission (“NCUC”).

As a result, this law allows ILECs and CLPs to opt-in to Subsection (h) regulation which allows for complete retail deregulation for electing carriers with the exception of stand-alone residential lines as follows:

- Stand-alone lines are residential single party lines with no features or other monthly recurring charges on the bill.
- Embedded and future stand-alone line price increases are limited to inflation per year unless otherwise authorized by the NCUC, and
- Rates for standalone lines in rural areas must be less than or comparable to those in urban areas.

In addition, this category of price regulation does not affect Life Line or Link Up programs, telecommunications relay service, carrier of last resort obligations, universal service funding, switched access and intercarrier compensation, or interconnection obligations. Those matters remain under NCUC authority. The Public Staff maintains a role to hear consumer complaints. Carriers electing this form of regulation are relieved of many reporting and tariffing obligations, but are required to provide an annual report on the state of their operations to the Joint Legislative Utility Review Committee.

“Subsection (h)” Election:

Carolina Telephone and Telegraph Company LLC d/b/a CenturyLink (“CT&T”), Central Telephone Company d/b/a CenturyLink (“Central”) and Mebtel, Inc. d/b/a CenturyLink (“Mebtel”) (collectively, “CenturyLink”) filed a letter with the NCUC on March 8, 2012 to serve as the companies’ notice of election to have their respective rates, terms, and conditions for services determined pursuant to N.C.G.S. 62-133.5(h) (“Subsection H”) effective on April 1, 2012.

CenturyLink made the following statements under oath in that filing:

1. CenturyLink’s territory is open to competition from competing local providers.
2. CenturyLink shall offer stand-alone basic residential lines to all customers who choose to subscribe to that service.
3. CenturyLink commits to provide stand-alone basic residential lines to rural customers at rates comparable to those rates charged to urban customers for the same service. CenturyLink’s analysis and assessment is that the rates charged to rural customers are comparable to those rates charged for urban customers for the same service. Specifically, Mebtel and Central each charge a uniform rate in each company exchange (\$17.16 for Mebtel and \$19.84 for Central). CT&T charges

\$19.84 in 145 of its 146 exchanges. The remaining exchange is below \$19.84 and is a rural exchange. Thus, for each company, the highest rate charged for service in rural exchanges is equal to the lowest rate charged for service in urban exchanges.

4. If CenturyLink raises rates for stand-alone basic residential lines, it will only increase rates for those lines annually by a percentage that does not exceed the percentage increase over the prior year in the Gross Domestic Product Price Index (“GDPPI”).

I. Analysis of Telecommunications Competition in North Carolina for 2013

CenturyLink access line customers continue to decline in North Carolina, although not as sharply as in years past. CenturyLink started 2013 with 525,079 residential access line customers, and 271,316 business access line customers. By December 31, 2013, 6% of the customer base had disconnected, leaving 479,773 residential customers and 254,408 business customers.

Several factors contribute to the continuing customer losses, primarily competition from cable companies offering digital voice over their cable TV connections, wireless substitution, and the many smaller, regional competitive telephone companies in the state. In terms of cable competition, Time Warner Cable and Suddenlink are CenturyLink’s largest cable competitors in North Carolina. Municipal providers, like the City of Wilson, have also contributed to the decline in access line subscribers.

Wireless – As reported by the Federal Communication Commission in its Local Telephone Competition Report dated June 30, 2012:

- As of June 2012, wireless connections in North Carolina totaled 9.2 million, compared to 4.2 million ILEC and CLP switched access lines
- In North Carolina, by June 30, 2012, the number of wireless subscriber connections had risen by 706 thousand, a 8.3% year over year increase. Nationwide the number of wireless subscriber connections had risen by 4.3% year over year for the same time period.

Preliminary results from National Health Interview Survey (NHIS), released 12/2013, indicate that almost two of every five American homes (39.4%) only had wireless telephones during the first half of 2013, up from 35.8% during the first half of 2013.

In addition, nearly one of every six American homes (15.7%) received all or almost all calls on wireless telephones despite also having a landline telephone.

Broadband - As reported by the Federal Communication Commission in its Internet Access Services Report dated June 30, 2012:

- As of June 2011, North Carolina consumers had in place 2.6 million fixed broadband connections, representing 69% of North Carolina households.

- Total broadband connections including DSL, cable and mobile wireless included 5.7 million residential connections and 1.4 million business broadband connections.
- By June 2012, VoIP lines in North Carolina had grown to approximately 962,000 lines, with over 88% of these being residential lines. The Eighth Broadband and Progress Report issued by the Federal Communications Commission in August 2012 stated approximately 94% of North Carolina's population had access to Fixed Broadband.
- Additionally, many subscribers of broadband services use social networking platforms as means of communications. The number of users of social networking platforms such as Facebook, Twitter, LinkedIn, and others continues to increase and ranks in the hundreds of millions nationwide. Based on a December 2013 report, by the Pew Internet and American Life Project, Social networks are used by 73 percent of U.S. users above the age of 18. Facebook remains the dominant player in the social networking space. Some 71% of online adults are now Facebook users, a slight increase from the 67% of online adults who used Facebook as of late 2012.

Bundled Services

In response to consumer demand, CenturyLink, as well as its cable competition, offers reduced rates to customers who “bundle” two or more services. Cable companies invite customers to add voice and/or Internet services to a cable video service. CenturyLink invites customers to combine Internet, voice and video services. At this time in North Carolina, CenturyLink offers its own Prism TV product in portions of CT&T territory only, in the rest of the state, CenturyLink resells DIRECTV.

Promotional pricing for bundles varies widely, but generally the cable companies often offer a so-called “Triple Play” consisting of video, voice, Internet services for around \$99.00/month for six months promotional period (plus taxes and fees). After the promotional pricing ends, standard pricing applies. CenturyLink has a wide variety of bundled offerings in North Carolina. One example combines Internet for \$19.95/month and voice for \$40/month (for a total of \$59.95/month before taxes and fees.) In this example voice service includes unlimited nationwide long distance as well as local calling and many popular calling features. CenturyLink offer also guarantees this pricing will not increase for five years after purchase. Through CenturyLink's partnership with DIRECTV, the company offers a three-year price lock for \$99.00 (plus taxes and fees) for a bundle of services including video, voice, and Internet.

II. Service Quality Results

The company utilizes its Net Promoter Score (NPS) to measure Consumer and Business customer satisfaction. The NPS is based on Relationship and Transactional Survey results.

Relationship: Relationship scores represent the overall relationship CenturyLink has with its customers. As such, these scores tend to be driven by brand perceptions and personal experiences which are built over time. The relationship scores do not typically

fluctuate as much as transactional scores, which is to be expected as the relationship scores represent the overall relationship CenturyLink has with its customers. The NPS for Consumer and Small Business customers remained relatively steady in the fourth quarter of 2013. The NPS scores for Consumer increased slightly over the 2012 results, and Small Business is in line with the 2012 results for the same time period. For Small Business, three priority areas continue to emerge: 1) exceeding or meeting customer expectations, 2) delivering on promises, and 3) effectively resolving problems. CenturyLink's relationship scores have continued their steady improvement over time for both Consumer and Small Business customers.

Transactional: All transactional scores (T-NPS) showed improvement over 2012 and were higher by year end. Specific areas of improvement in 2013 include, for Consumer and Small Business customers, the Sales and Care area, Field Tech transactions, and Service Assurance.

III. Analysis of the Level of Local Exchange Rates

Rate Levels

A comprehensive list of charges effective April 1, 2012 for stand-alone residential lines in each exchange of CT&T, Central, and Mebtel's respective territory is set forth on Attachment A. The rates listed in Attachment A remain in effect and reflect the current charges as of December 31, 2013.

Customer Rate Impacts

CenturyLink commits to provide stand-alone basic residential lines to rural customers at rates comparable to those rates charged to urban customers for the same service. CenturyLink's analysis and assessment is that the rates charged to rural customers are comparable to those rates charged for urban customers for the same service.

CenturyLink's Subsection (h) election is a positive development for consumers. In 2013, CenturyLink's customer satisfaction remained at the same levels and, in many cases, showed improvement while rates for regulated services remained constant. This shows that CenturyLink is continuing to provide affordable, high quality service to North Carolinians. Significantly, by electing Subsection (h), CenturyLink gained important regulatory and operational flexibility that allows it to compete more effectively with its competitors. Given the robust state of competition in North Carolina, CenturyLink will need to continue providing innovative, high quality services at affordable prices to attract and retain customers, and North Carolina consumers will continue to reap the benefits.

CAROLINA TELEPHONE AND TELEGRAPH COMPANY LLC D/B/A CENTURYLINK
 STAND-ALONE BASIC RESIDENTIAL LINE RATES
 EFFECTIVE JULY 2 – DECEMBER 31, 2013

AHOSKIE	\$ 19.84	MAYSVILLE	\$ 19.84	
ANGIER	\$ 19.84	MOREHEAD CITY	\$ 19.84	
ATLANTIC	\$ 19.84	MOSS HILL	\$ 19.84	
AULANDER	\$ 19.84	MOYOCK	\$ 19.84	
AURORA	\$ 19.84	MURFREESBORO	\$ 19.84	LOWEST URBAN RATE
AYDEN	\$ 19.84	NASHVILLE	\$ 19.84	\$ 19.84
BAILEY	\$ 19.84	NEW BERN	\$ 19.84	
BATH	\$ 19.84	NEWPORT	\$ 19.84	HIGHEST RURAL RATE
BAYBORO	\$ 19.84	NEWTON GROVE	\$ 19.84	\$ 19.84
BEAUFORT	\$ 19.84	NORLINA	\$ 19.84	
BELHAVEN	\$ 19.84	OCRACOKE	\$ 12.98	
BENSON	\$ 19.84	ORIENTAL	\$ 19.84	
BETHEL	\$ 19.84	OXFORD	\$ 19.84	
BEULAVILLE	\$ 19.84	PARKTON	\$ 19.84	
BLADENBORO	\$ 19.84	PINEHURST	\$ 19.84	
BONLEE	\$ 19.84	PINETOPS	\$ 19.84	
BUXTON	\$ 19.84	PINEY WOODS	\$ 19.84	
CARTHAGE	\$ 19.84	PINK HILL	\$ 19.84	
CHADBOURN	\$ 19.84	PITTSBORO	\$ 19.84	
CLARKTON	\$ 19.84	PLYMOUTH	\$ 19.84	
CLAYTON	\$ 19.84	POLLOCKSVILLE	\$ 19.84	
CLINTON	\$ 19.84	PRINCETON	\$ 19.84	
COINJOCK	\$ 19.84	RAEFORD	\$ 19.84	
COLERAIN	\$ 19.84	RED SPRINGS	\$ 19.84	
COLUMBIA	\$ 19.84	RICH SQUARE	\$ 19.84	
CONWAY	\$ 19.84	RICHLANDS	\$ 19.84	
CRESWELL	\$ 19.84	ROANOKE RAPIDS	\$ 19.84	
DUNN	\$ 19.84	ROBBINS	\$ 19.84	
DUNN(CUMBERLAND)	\$ 19.84	ROBERSONVILLE	\$ 19.84	
EDENTON	\$ 19.84	ROCKY MOUNT	\$ 19.84	
ELIZABETH CITY	\$ 19.84	ROSE HILL	\$ 19.84	
ELIZABETH TOWN	\$ 19.84	ROSEBORO	\$ 19.84	
ELM CITY	\$ 19.84	ROXOBEL	\$ 19.84	
ENFIELD	\$ 19.84	SCOTLAND NECK	\$ 19.84	
ENGELHARD	\$ 19.84	SEABOARD	\$ 19.84	
FAISON	\$ 19.84	SHILOH	\$ 19.84	
FARMVILLE	\$ 19.84	SILER CITY	\$ 19.84	
FAYETTEVILLE	\$ 19.84	SMITHFIELD	\$ 19.84	
FOUNTAIN	\$ 19.84	SNEADS FERRY	\$ 19.84	
FOUR OAKS	\$ 19.84	SNOW HILL	\$ 19.84	
FRANKLINTON	\$ 19.84	SOUTH MILLS	\$ 19.84	
FREMONT	\$ 19.84	SOUTHERN PINES	\$ 19.84	
FUQUAY VARINA	\$ 19.84	SPRING HOPE	\$ 19.84	
GARLAND	\$ 19.84	ST PAULS	\$ 19.84	
GATESVILLE	\$ 19.84	STANTONSBURG	\$ 19.84	
GIBSONVILLE	\$ 19.84	SUNBURY	\$ 19.84	
GOLDSTON	\$ 19.84	SWANQUARTER	\$ 19.84	
GREENVILLE	\$ 19.84	SWANSBORO-ONSLOW	\$ 19.84	

CAROLINA TELEPHONE AND TELEGRAPH COMPANY LLC D/B/A CENTURYLINK
 STAND-ALONE BASIC RESIDENTIAL LINE RATES
 EFFECTIVE JULY 2 – DECEMBER 31, 2013

GRIFTON	\$ 19.84	SWANSBORO-W CART	\$ 19.84
HALIFAX	\$ 19.84	TABOR CITY	\$ 19.84
HAMILTON	\$ 19.84	TARBORO	\$ 19.84
HAVELOCK	\$ 19.84	TOPSAIL ISLAND	\$ 19.84
HENDERSON	\$ 19.84	TRENTON	\$ 19.84
HERTFORD	\$ 19.84	VANCEBORO	\$ 19.84
HOLLY RIDGE	\$ 19.84	VASS	\$ 19.84
JACKSON	\$ 19.84	WAKE FOREST	\$ 19.84
JACKSONVILLE	\$ 19.84	WALLACE	\$ 19.84
KENANSVILLE	\$ 19.84	WARRENTON	\$ 19.84
KENLY	\$ 19.84	WARSAW	\$ 19.84
KERNERSVILLE	\$ 19.84	WASHINGTON	\$ 19.84
KILL DEVIL HILLS	\$ 19.84	WAVES	\$ 19.84
KINSTON	\$ 19.84	WEEKSVILLE	\$ 19.84
LA GRANGE	\$ 19.84	WELCH	\$ 19.84
LAKE WACCAMAW	\$ 19.84	WELDON	\$ 19.84
LEWISTON	\$ 19.84	WHISPERING PINE	\$ 19.84
LILLINGTON	\$ 19.84	WHITAKERS	\$ 19.84
LITTLETON	\$ 19.84	WHITEVILLE	\$ 19.84
LOUISBURG	\$ 19.84	WILLIAMSTON	\$ 19.84
LUCAMA	\$ 19.84	WILSON	\$ 19.84
MAMIE	\$ 19.84	WINDSOR	\$ 19.84
MANTEO	\$ 19.84	WINTON	\$ 19.84
MARSHALLBERG	\$ 19.84	WOODLAND	\$ 19.84
MAXTON	\$ 19.84	WOODVILLE	\$ 19.84

CENTRAL TELEPHONE COMPANY D/B/A CENTURYLINK
 STAND-ALONE BASIC RESIDENTIAL LINE RATES
 EFFECTIVE JULY 2 – DECEMBER 31, 2013

ASHEBORO	\$ 19.84	
BETHLEHEM	\$ 19.84	
BISCOE	\$ 19.84	
BOONVILLE	\$ 19.84	
CANDOR	\$ 19.84	LOWEST URBAN RATE
CATAWBA	\$ 19.84	\$ 19.84
DANBURY	\$ 19.84	HIGHEST RURAL RATE
DOBSON	\$ 19.84	\$ 19.84
EDEN	\$ 19.84	
ELKIN	\$ 19.84	
GRANITE FALLS	\$ 19.84	
HAYS	\$ 19.84	
HICKORY	\$ 19.84	
HILDEBRAN	\$ 19.84	
HILLSBOROUGH	\$ 19.84	
MADISON	\$ 19.84	
MOCKSVILLE	\$ 19.84	
MOUNT AIRY	\$ 19.84	
MOUNT GILEAD	\$ 19.84	
MOUNTAIN VIEW	\$ 19.84	
MULBERRY	\$ 19.84	
NORTH WILKESBOR	\$ 19.84	
PILOT MOUNTAIN	\$ 19.84	
PROSPECT HILL	\$ 19.84	
QUAKER GAP	\$ 19.84	
RAMSEUR	\$ 19.84	
ROARING GAP	\$ 19.84	
ROXBORO	\$ 19.84	
SANDY RIDGE	\$ 19.84	
SEAGROVE	\$ 19.84	
SHERRILLS FORD	\$ 19.84	
STATE ROAD	\$ 19.84	
STONEVILLE	\$ 19.84	
TIMBER LAKE	\$ 19.84	
TROY	\$ 19.84	
VALDESE	\$ 19.84	
WALKERTOWN	\$ 19.84	
WALNUT COVE	\$ 19.84	
WEST END	\$ 19.84	
WEST JEFFERSON	\$ 19.84	
YADKINVILLE	\$ 19.84	
YANCEYVILLE	\$ 19.84	

MEBTEL, INC. D/B/A CENTURYLINK
STAND-ALONE BASIC RESIDENTIAL LINE RATES
EFFECTIVE JULY 2 – DECEMBER 31, 2013

Gatewood	\$ 17.16
Mebane	\$ 17.16
Milton	\$ 17.16

Lowest Urban Rate	\$ 17.16
Highest Rural Rate	\$ 17.16