



FRONTIER COMMUNICATIONS OF THE CAROLINAS INC.

**2013 Annual Report to the North Carolina General Assembly
Joint Legislative Commission on Governmental Operations**

STATE OF THE COMPANY'S OPERATIONS

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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) ("Subsection 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 Frontiers 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. On a national level, the most recent FCC Mobile Wireless Competition Report, issued March 21, 2013, 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 99.9% of the population has wireless voice coverage from at least one provider. The comparable percentages for North Carolina are not included in the report, but maps provided with the report imply that coverage in North Carolina is better than many other states.



Charts accompanying another FCC report¹ 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:

North Carolina					
Year End Telephone Subscriptions (Millions)					
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
ILEC	3.5	3.1	2.8	2.6	2.4
% of Market	28%	26%	22%	20%	19%
Non-ILEC	1.1	1.2	1.5	1.6	1.7
% of Market	9%	10%	12%	12%	12%
Wireless/Mobile	8.0	8.1	8.5	9.1	8.9
% of Market	63%	65%	66%	68%	68%

Frontier's switched access lines have also declined during the same period and through 2013. The majority of this loss is attributable to customers who migrate from landline service to strictly wireless service – in other words, customers who “cut the cord” – and customers who switch to other non-wireless providers, including cable providers.

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.

The number of customer complaints submitted to Frontier from the Public Staff of the North Carolina Utilities Commission and from the North Carolina Office of the Attorney General declined for a second year in a row since Frontier's election under Subsection H, both in total numbers and as a percent of access lines.

¹ “Local Telephone Competition: Status as of December 31, 2012” issued November 13, 2013 by the Federal Communications Commission Industry Analysis and Technology Division of the Wireline Competition Bureau, Tables 13, 14 and 18.



Local Exchange Rates

Frontier's monthly basic local exchange rates for residential service remained unchanged in 2013, after increasing approximately 1.36% in 2012. Basic residential service monthly rates remain at \$20.22 in the Durham area and Union County, and at \$21.79 in the western portion of the state. Optional calling plan rates also remained unchanged.

Frontier also offers bundled services that include unlimited local and domestic long distance calling, with additional discounts available when customers also subscribe to other services such as high speed internet or satellite television programming.