

**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 17, 2014

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 annual Report has been prepared and is being submitted on behalf of North State, in compliance with the aforementioned General Statute requirement for 2013.

I. Analysis of Telecommunications Competition in North Carolina

North State, for the time period post-Subsection h election from January 2013 to December 2013, recorded an average monthly decline in residential access line counts of approximately 1%. Monthly declines during the second half of 2012 consistently track in the .8% to 1% range. Monthly residential access line losses averaged 347 lines for the months of January 2012 through December 2012. Monthly residential access line loss averaged 377 from January 2013 through December 2013.

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, 2012*.¹

- Over a three-year period from 2009 to 2012, nationwide, “interconnected VoIP subscriptions increased at a compound annual growth rate of 17.0%, mobile telephony subscriptions increased at a compound annual growth rate of 4.0% and retail switched access lines declined at about 9.0% a year”.²

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

- As of December 31, 2012, of the total end user switched access lines and VoIP subscriptions, 59% were provided by ILECs and 41% by non-ILECs.³ The same metric as of June 30, 2010, as detailed in the FCC's *Local Telephone*

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, 2012, page 2.

³ See FCC Local Telephone Competition: Status as of December 31, 2012, page 20.

*Competition: Status as of June 30, 2010*⁴ showed 70% of the aforementioned services were provided by ILECs,⁵ a decline of 11%.

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 2012, to 8.9 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 *16th Annual Report on Mobile Wireless Competition (2012)*, provides statistics demonstrating that adults across a wide variety of demographic categories are living in wireless only households at growing rates.⁷

Also, preliminary results from the January-June 2012 National Health Interview Survey (NHIS) also indicate 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

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.

⁶ See FCC Local Telephone Competition: Status as of December 31, 2012, page 29. The report can be downloaded from the Wireline Competition Bureau Statistical Reports Internet site at www.fcc.gov/wcb.stats.

⁷ See-pp 232-233 of FCC WT Docket No. 11-186 released March 21, 2013

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.

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, 2012*⁹ shows that:

- North Carolina has over 7 million connections over 200 kbps in at least one direction.

According to an infographic recently published by Digital Insights:¹⁰

- Facebook has 1.5 billion users.
 - 23% of users check their accounts more than 5 times per day.
- Twitter has 500 million users.
 - “On an average, over 400 million tweets being sent per day.”
- LinkedIn has 238 million registered users.
- Instagram has 130 million users.

It is clear, as illustrated in the myriad of statistics available and as shown above that consumers today have a wide variety 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 a comparison of disconnected lines. The total number of disconnected lines in 2012 were virtually the same as the number of disconnected lines in 2013 with a difference of less than 1%.

North State also compared consumer complaints to the North Carolina Utilities Commission and the North Carolina Department of Justice over the two time frames. There were no complaints filed to the Utilities Commission in either 2012 or 2013. There were four Department of Justice complaints in 2012 and one complaint in 2013. This is a good indication that customers did not adversely react to North State's Subsection h election.

⁹ See Internet Access Services: Status as of June 30, 2012, page 38. The report can be downloaded from <http://www.fcc.gov/reports/internet-access-services-63011>.

¹⁰ Found at <http://www.digitalbuzzblog.com/infographic-social-media-stats-2013/>. December 20, 2013.

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 was maintained throughout 2013 and 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 monthly rates, as found on publicly available websites, range from \$12.79 to \$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.