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January 28, 2014

Electronically Filed

The Honorable Phil Berger, Senate President Pro-Tempore
The Honorable Thom Tillis, House Speaker
North Carolina General Assembly
c/o Joint Commission on Governmental Operations
Suite 619, Legislative Office Building
300 N. Salisbury Street
Raleigh, North Carolina 27603

Re: Verizon Annual Report to the General Assembly on the State of its Company
Operations

Dear President Berger and Speaker Tillis:

In compliance with N. C. Gen. Stat. ss. 62-133(k), Verizon South Inc. hereby submits
the attached Annual Report of the State of its Company Operations.

If you have any questions or need additional information, please do not hesitate to
contact me.

Sincerely,

A handwritten signature in dark ink, appearing to read "W.J.S.", followed by a horizontal line and a small flourish.

Woodrow J. Simmons
VP-Governmental and Regulatory Affairs
Verizon-South Area

WJS:be
Attachment

cc: North Carolina Utilities Commission
Mark Trogon, Director-Fiscal Research Division

**Annual Report To The Joint Legislative
Commission on Governmental Operations on
Verizon South Inc.'s North Carolina Operations**

January 30, 2014

The State of Verizon South Inc.'s North Carolina Operations

Verizon South Inc. ("Verizon") operates as an incumbent local exchange carrier ("ILEC") in North Carolina. On July 1, 2010, Verizon completed the transfer of most of its North Carolina business to Frontier Communications Corporation, but Verizon retained its ILEC operations in Knotts Island, where it serves fewer than 500 customers.

Verizon elected deregulation for its remaining ILEC operations in the Knotts Island exchange on July 20, 2010 under N.C. Gen. Stat. § 62-133.5(h). In compliance with N.C. Gen. Stat. § 62-133.5(k), Verizon files this report on its Knotts Island operations, which includes the following information for the period January 1 to December 31, 2013:

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 enactment of the Consumer Choice and Investment Act of 2009.
2. An analysis of service quality based on customer satisfaction studies from enactment of the Consumer Choice and Investment Act of 2009.
3. An analysis of the level of local exchange rates from enactment of the Consumer Choice and Investment Act of 2009.

Analysis of Telecommunications Competition on Knotts Island

Verizon's access line count on Knotts Island fell from 350 on January 1, 2013 to 329 by the end of the year, a decline of 21 access lines or 6.0%. This decrease reflects the competition for telecommunications services on Knotts Island and throughout the state.

The telecommunications market in North Carolina has many providers offering competitive services. Not only are there a large number of competing local providers ("CLPs") in North Carolina, but intermodal competitors such as cellular companies, wireless internet companies, cable companies and VoIP providers also compete here. According to the FCC, 99% of all zip codes in North Carolina have at least one CLP or non-ILEC VoIP provider offering competitive telecommunications services.¹ As of December 2012, these providers had captured 41% of all switched access lines and VoIP subscriptions in North Carolina.²

¹ *Local Telephone Competition: Status as of December 31, 2012*, Industry Analysis and Technology Division, FCC Wireline Competition Bureau, Table 21 (November 2013).

² *Id.*, Table 9.

Wireless subscribers and wireless usage are growing at healthy rates based on the latest information from the FCC. In North Carolina, the number of mobile wireless subscribers climbed from 7.428 million in June 2008 to 8.983 million in December 2012, an increase of 21%, so that the number of wireless subscribers now exceeds the number of switched access lines in North Carolina by 5.9 million.³ The number of consumers becoming wireless-only households continues to increase, according to the U.S. Centers for Disease Control, which estimates that for the first half of 2013, 39.4% of U.S. homes had no landline and only wireless phone service.

Verizon's Service Quality Results

Verizon collects independent third party data concerning Verizon's customer satisfaction. The third party surveys a sampling of customers each month who have received provisioning, repair and billing services from Verizon, asking the customers to evaluate Verizon's performance, and then submits this survey data to Verizon for our service evaluation efforts. In 2013, sampling included 7 Verizon Knotts Island telephone customers, in which all of them stated they were at the very least satisfied with Verizon's service.

Verizon also evaluates complaints directed to the North Carolina Utility Commission Public Staff's office as an indicator of customer satisfaction. During 2013, there were no complaints filed with the Commission concerning Knotts Island customers.

Finally, Verizon reviews internal service quality data. During 2013, 85.5% of troubles reported by Knotts Island customers were resolved in less than 48 hours and 96.6% were resolved in less than 96 hours.

Analysis of the Level of Local Exchange Rates

Verizon's Basic Residence Local Exchange rate throughout the Knotts Island exchange was \$21.50⁴ from January 1 to December 31, 2013. As required by N.C. Gen. Stat. § 62-133.5(h), standalone basic residential service rates are capped annually at the rate of inflation as measured by the change in the Gross Domestic Product Pricing Index.

³ *Id.*, Tables 9 and 18.

⁴ Rate is before taxes and surcharges.