

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

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

January 26, 2015

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 Company 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 its rates, terms, and conditions for its 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 2014.

I. Analysis of Telecommunications Competition in North Carolina

North State, for the period preceding Subsection h election, January 2012 to December 2012, recorded an average monthly decline in residential access lines of 0.86%, or 347 lines. This trend has increased marginally in the period following Subsection h election. Between January 2013 and December 2013, North State recorded an average monthly decline in residential access lines of 1.04%, or 377 lines. Between January 2014 and December 2014, North State recorded an average monthly decline in residential access lines of approximately 1.53%, or 497 lines.

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 services offered by competitive local exchange carriers, mobile services, broadband services, and social networking applications. 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, 2013*.¹

- Over a three-year period from December 2010 to December 2013, nationwide, "interconnected VoIP subscriptions increased at a compound annual growth rate of 15%, mobile telephony subscriptions increased at a compound annual growth rate of 3%, and retail switched access lines declined at 10% a year."²

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

- As of December 31, 2013, of the total end user switched access lines and VoIP subscriptions, 56% were provided by ILECs and 44% by non-ILECs.³ The same metric as of December 31, 2010, detailed in the FCC's *Local Telephone Competition: Status as of December 31, 2010*,⁴ showed 69% of the aforementioned services were provided by ILECs, indicating a 13% decline from 2010 to 2013.⁵

Further data from the FCC shows:

- North Carolina mobile telephony subscribers, as of December 2010, totaled 8.52 million; as of December 2013, this figure increased to just over 9 million.⁶

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

² See FCC Local Telephone Competition: Status as of December 31, 2013, page 2.

³ See FCC Local Telephone Competition: Status as of December 31, 2013, page 20.

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

⁵ See FCC Local Telephone Competition: Status as of December 31, 2010, page 19.

⁶ See FCC Local Telephone Competition: Status as of December 31, 2013, page 29.

Statistics from various sources demonstrate that many consumers are abandoning traditional access line service and meeting their communications needs with wireless services only. The National Center for Health Statistics' report, *Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, January-June 2014*,⁷ indicates continued growth in the number of American homes with only wireless telephones.

- "More than two in every five American homes (44.0%) had only wireless telephones during the first half of 2014 – an increase of 3.0 percentage points since the second half of 2013. More than one-half of all adults aged 18-44 and of children under 18 were living in wireless-only households."⁸

The FCC's 17th *Annual Mobile Wireless Competition Report (2013)*⁹ cites the financial information firm, SNL Kagan, which estimates that "phone cord cutting will continue to grow over the next decade, driving wireless-only households to 60.9% of all households by the end of 2024."¹⁰

The Internet and social networking applications have also been used by subscribers as alternatives to voice calling via a traditional access line. The FCC's report on *Internet Access Services: Status as of December 31, 2013*¹¹ shows that:

- North Carolina has more than 8.3 million connections over 200 kbps in at least one direction.¹²

According to an infographic recently published on the website, Media Bistro¹³:

- Facebook has 1.28 billion monthly active users.
 - 72% of online adults visit Facebook at least once per month.
- Twitter has over 255 million monthly active users.
 - 500 million Tweets are sent per day.
- LinkedIn has 187 million monthly active users.
- Instagram has 200 million monthly active users.

It is clear, as illustrated by the myriad of statistics available, consumers today have numerous choices with regard to their 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.

⁷ The report can be downloaded from the National Health Interview Survey website at www.cdc.gov/nchs/nhis.htm.

⁸ Blumberg, Stephen J., Ph.D. and Luke, Julian V. "Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, January-June 2014." p. 1. Released December 2014.

⁹ The report can be downloaded from the FCC website at www.fcc.gov/reports.

¹⁰ See FCC WT Docket No. 13-135, pp. 44-45. Released December 18, 2014.

¹¹ The report can be downloaded from the FCC website at www.fcc.gov/reports/internet-access-services-reports.

¹² See Internet Access Services: Status as of December 31, 2013, page 38.

¹³ Found at www.mediabistro.com/alltwitter/social-media-statistics-2014_b57746. January 15, 2015.

II. Service Quality Results

North State completed its most recent analysis of customer satisfaction in 2014, the first such analysis since Subsection h election in November 2012. Among North State residential customers, data indicate that 81% “agree fully” or “agree somewhat” that North State offers better value for the money than its competitors. Moreover, 71% of North State customers are “very likely” to recommend North State to others.

North State has also based its measure of customer satisfaction, post-subsection h election, on a comparison of consumer complaints to the North Carolina Department of Justice and the North Carolina Utilities Commission. In 2012, five complaints were filed to the Department of Justice and zero to the Utilities Commission. In 2013, one complaint was filed to the Department of Justice and zero to the Utilities Commission. In 2014, two complaints were filed to the Department of Justice and one complaint to the Utilities Commission. This is a good indication that customers have not adversely reacted to North State’s Subsection h election.

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 2014 and includes unlimited local calling and expanded local calling.

North State also continues to offer, as stated in its Subsection h election letter to the NCUC, stand-alone basic residential line service to all customers who choose to subscribe to that service for \$13.94 per month. Effective November 28, 2014, North State increased the rate for stand-alone basic residential service from \$13.70 to \$13.94. The \$0.24 increase, proportionate to the increase in GDP-PI between the 2nd Quarter 2013 and the 2nd Quarter 2014, marks the first rate increase for stand-alone basic residential service since North State’s Subsection h election.

North State’s local residential line rates remain within the range of those offered by providers 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 to \$24.00. The pricing flexibility provided by House Bill 1180 and deregulation allows North State to participate more competitively in its market. North State remains committed to providing affordable, quality phone service for its subscribers.