



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

**A Report to the Joint Legislative Commission on Governmental
Operations**

Required Pursuant to G.S. § 62-133.5 (k)

January 19, 2016



On June 22, 2009, the North Carolina General Assembly ratified House Bill 1180, An Act Establishing "The Consumer Choice and Investment Act of 2009," which amended § 62-133.5 of the North Carolina General Statutes by adding a new subsection, (k), to read:

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" or "Company"), 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 § 62-133.5 (h) of the North Carolina General Statutes ("Subsection (h)"). The election was effective November 30, 2012.

In accordance with G.S. § 62-133.5 (k), this Annual Report has been prepared and is being submitted on behalf of North State for calendar year 2015.

I. Analysis of Telecommunications Competition in North Carolina

The telecommunications market in North Carolina remains highly competitive; as a local exchange company, North State faces competition from traditional competitors, like Competitive Local Exchange Carriers ("CLECs"), and from cable companies, wireless companies and others offering voice, data, and video services, often as over-the-top ("OTT") applications via a broadband Internet connection. As a result, North State has recorded a steady decline in residential access lines in its Incumbent Local Exchange Carrier ("ILEC") territory in the three years following the Company's Subsection (h) election in November 2012. During 2013 North State recorded an average loss of 377 residential access lines per month, a 1% rate of decline per month. This trend increased slightly during 2014 as North State recorded an average loss of 498 residential access lines per month, a 1.5% rate of decline per month. Residential access line losses in North State's ILEC territory moderated to a degree during 2015 in relation to 2014. During 2015 North State recorded an average loss of 329 residential access lines per month, a 1.25% rate of decline per month.

The telecommunications market continues to evolve as consumers increasingly use wireless and broadband Internet access services as an alternative to traditional wired telephone service. The residential access line losses experienced by North State, as well as by other ILECs, are attributable to the variety of alternative and competing telecommunication services and technologies available to consumers today. Statistics published by regulatory bodies like the Federal Communications Commission ("FCC" or "Commission") and research institutes like the Pew Research Center show growing consumer demand for services offered by CLECs, and for wireless services, broadband Internet access services, and social networking applications. A sampling of statistics below illustrates the level of competition that exists not only in North Carolina, but in the telecommunications industry nationwide.

The industry trend of declining subscribership to traditional wired telephone services is evidenced in the FCC report, *Local Telephone Competition: Status as of December 31, 2013*.¹

- In the United States, during a three-year period from December 2010 to December 2013, "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
- Of the total end user switched access lines and Voice over Internet Protocol ("VoIP") subscriptions in North Carolina as of December 31, 2013, 56% were provided by ILECs and 44% by non-ILECs.³ By comparison, ILECs provided 69% and non-ILECs provided 31% of end user switched access lines and VoIP subscriptions in North Carolina as of December 31, 2010.⁴

¹ Federal Communications Commission. (2014). *Local Telephone Competition: Status as of December 31, 2013*. Retrieved from: <https://www.fcc.gov/general/local-telephone-competition-reports>.

² *Ibid.* at page 2.

³ *Ibid.* at page 20.

⁴ Federal Communications Commission. (2011). *Local Telephone Competition: Status as of December 31, 2010*. Page 20. Retrieved from: <https://www.fcc.gov/general/local-telephone-competition-reports>.

- Mobile telephone subscriptions in North Carolina totaled approximately 9 million in December 2013,⁵ compared to approximately 2.9 million switched access lines provided by both ILECs and non-ILECs.⁶

Statistics from various other sources demonstrate the degree to which consumers are abandoning traditional wired telephone service and meeting their communications needs with wireless services only. The National Center for Health Statistics (“NCHS”), a division of the Centers for Disease Control Prevention (“CDC”), conducts the National Health Interview Survey (“NHIS”), which provides estimates of trends in the use of landline and mobile telephones by persons and in households. The NHIS report, *Wireless Substitution: Early Release of Estimates from the National Health Interview Survey, January-June 2015*,⁷ indicates continued growth in the number of American homes with only wireless telephones.

- “Nearly one-half of American homes (47.4%) had only wireless telephones during the first half of 2015 – an increase of 3.4 percentage points since the first half of 2014.”⁸
- “More than two-thirds of adults aged 25-29 (71.3%) and aged 30-34 (67.8%) lived in households with only wireless telephones.”⁹

Each year the FCC publishes a report on the state of competition in the mobile wireless industry; the Commission’s *Eighteenth Report*¹⁰ provides estimates of the penetration rates (the number of mobile wireless connections per 100 people) for the 172 Economic Areas (“EAs”) of the United States using data from the North American Number Plan Administrator (“NANPA”), the entity responsible for administering telephone numbering resources in the United States. In the *Eighteenth Report* the Commission states, “The nationwide penetration rate...now exceeds 100%, meaning that the number of connected devices exceeds the total population of the United States, and the penetration rate was at least 100% in 121 of the 172 EAs at the end of 2014.”¹¹

The Internet and social networking applications are also being used by consumers as alternatives to voice calling via a traditional access line. The FCC report, *Internet Access Services: Status as of December 31, 2013*,¹² reveals that:

⁵ *Local Telephone Competition: Status as of December 31, 2013*, page 29.

⁶ *Ibid.* at page 20.

⁷ Blumberg, Stephen J. and Luke, Julian V. National Center for Health Statistics. (2015). *Wireless Substitution: Early Release of Estimates from the National Health Interview Survey, January-June 2015*. Retrieved from: www.cdc.gov/nchs/nhis/releases.htm#wireless.

⁸ *Ibid.* at page 1.

⁹ *Ibid.* at page 2.

¹⁰ Implementation of Section 3002(b) of the Omnibus Budget Reconciliation Act of 1993; Annual Report and Analysis of Competitive Market Conditions With Respect to Mobile Wireless, Including Commercial Mobile Service, WT Docket No. 15-125, *Eighteenth Report*, DA 15-1487 (rel. December 23, 2015) (*Eighteenth Report*).

¹¹ *Ibid.* at ¶ 43.

¹² Federal Communications Commission. (2014). *Internet Access Services: Status as of December 31, 2013*. Retrieved from: <https://www.fcc.gov/reports-research/reports/internet-access-services-reports/internet-access-services-reports>.

- Of the approximately 3.9 million households in North Carolina as of December 31, 2013, approximately 2.3 million households had a fixed Internet connection of at least 3 Mbps downstream / 768 Kbps upstream, a subscribership ratio of 58%.¹³
- By comparison, only 438,000 of the approximately 3.7 million households in North Carolina as of December 31, 2010 had a fixed Internet connection of at least 3 Mbps downstream / 768 Kbps upstream, a subscribership ratio of only 12%.¹⁴

Two reports recently published by the Pew Research Center, *Social Media Usage: 2005-2015*¹⁵ and *Mobile Messaging and Social Media 2015*,¹⁶ highlight the growing use of social networking and mobile messaging applications among adults in the United States.

- Among existing Internet users, 60% were using some form of social networking in 2010, a figure which increased to 76% in 2015. As a proportion of the entire adult population in the United States, 46% were using social networking applications in 2010 and 65% in 2015.¹⁷
- With 2015 marking the first time Pew has asked specifically about mobile messaging applications as a separate kind of mobile activity apart from text messaging, Pew found that 49% of smartphone owners ages 18-29 use mobile messaging applications, while 37% of smartphone owners ages 30-49 and 24% of those ages 50 and older use mobile messaging applications.¹⁸

Illustrated by the myriad of statistics available, it is clear that consumers today have many alternatives for fulfilling their communications needs. North State's residential subscribers, as evidenced by the access line losses detailed in this report, are taking advantage of the many alternatives available to them.

II. Service Quality Results

Internal North State studies conducted during 2014 and 2015 indicate that satisfaction among North State customers has remained very high following the Company's Subsection (h) election in November 2012. Of North State residential customers surveyed during 2014, 81% "agree fully" or "agree somewhat" that North State offers better value for the money than its competitors. Further, 71% of those surveyed are "very likely" to recommend North State to others.

¹³ *Ibid.* at page 34.

¹⁴ Federal Communications Commission. (2011). *Internet Access Services: Status as of December 31, 2010*. Retrieved from: <https://www.fcc.gov/reports-research/reports/internet-access-services-reports/internet-access-services-reports>.

¹⁵ Perrin, Andrew. Pew Research Center. (2015). *Social Media Usage: 2005-2015*. Retrieved from: www.pewinternet.org/2015/10/08/social-networking-usage-2005-2015/.

¹⁶ Duggan, Maeve. Pew Research Center. (2015). *Mobile Messaging and Social Media 2015*. Retrieved from www.pewinternet.org/2015/08/19/mobile-messaging-and-social-media-2015/.

¹⁷ *Social Media Usage: 2005-2015*, page 2.

¹⁸ *Mobile Messaging and Social Media 2015*, page 5.



Studies conducted during 2015 focused on customer satisfaction with respect to the sales and service installation experience. On a scale of 1-10, new customers were asked to rank the performance of their salesperson and service installation technician in categories ranging from the knowledge and friendliness of the salesperson to the punctuality and willingness of the service installation technician to demonstrate how to use the service. On average, North State's salespersons earned an overall customer satisfaction score of 9.1 and service installation technicians earned an overall customer satisfaction score of 9.3.

One additional measure of customer satisfaction that North State tracks is the number of consumer complaints filed against the Company with either the North Carolina Utilities Commission ("NCUC") or the North Carolina Attorney General's Office. It should be noted that although North State has received a total of five consumer complaints since January 2013, none are related to service quality. North State received notice of one complaint filed with the Attorney General in 2013, one complaint filed with the NCUC and two complaints filed with the Attorney General in 2014, and one complaint filed with the NCUC in 2015. North State continues to strive to promptly resolve any consumer complaint in a manner that is satisfactory to the customer.

III. Analysis of the Level of Local Exchange Rates

As stated in its Subsection (h) election letter to the NCUC, North State continues to offer stand-alone basic residential line service to all customers who choose to subscribe to that service, in accordance with G.S. § 66-133.5 (h)(2). This service, which may be billed on a billing account that does not also contain another service, feature, or product sold by North State, includes unlimited calling within North State's Expanded Local Calling Area ("ELCA"), 911, directory assistance, operator services, relay service, long distance carrier access, and one local directory listing. Local exchange companies are permitted to increase the stand-alone basic residential service rate annually by a percentage not to exceed the percentage increase over the prior year in the Gross Domestic Product Price Index. At the time of its Subsection (h) election in November 2012, North State offered stand-alone basic residential line service at a monthly rate of \$13.70. North State opted against a rate increase for 2013, but did increase the rate to \$13.94 in November 2014, and to \$14.09 in June 2015.

North State also offers single-line basic residential service which includes unlimited calling within North State's Expanded Local Calling Area ("ELCA"), 911, directory assistance, operator services, relay service, long distance carrier access, and one local directory listing. At the time of its Subsection (h) election, North State offered single-line basic residential service at a monthly rate of \$13.70. Effective December 1, 2012, North State increased the rate to \$15.75. The rate was subsequently increased to \$17.50 in 2013, to \$21.00 in 2014, and most recently to \$21.50 in 2015.

North State's monthly rate for single-line basic residential service is comparable to similar services offered by competitors within North State's service area as well by providers in neighboring service areas. Those rates, which can be found on publicly available websites, range from \$13.43 to \$25.00. The pricing flexibility provided by House Bill 1180 and deregulation allows North State to participate more competitively in its market by responding more quickly to changing consumer preferences with pricing alternatives. In a fully competitive market where ILECs can compete on equal terms with other telecommunications service providers, North State remains committed to providing affordable, quality phone service for its subscribers.