



FRONTIER COMMUNICATIONS OF THE CAROLINAS LLC

**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 LLC (“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 Frontier’s 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 Frontier’s marketing activities, telecommunications relay service, the Lifeline program, NC 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, and rates, terms, and conditions of wholesale services.

Competition

Competition in the communications industry remains intense. Frontier experiences competition from many communication service providers, including cable operators, mobile carriers, long-distance providers, competitive local exchange carriers, and internet providers. Data specific to the North Carolina wireline market is no longer readily available from the Federal Communications Commission, as focus has shifted to availability of broadband services.

Electing regulation under Subsection H of North Carolina’s General Statutes has allowed Frontier more flexibility to offer telephone service options and pricing, and to compete in North Carolina’s telecommunications market more effectively.

Service Quality

Frontier continues to provide quality voice service throughout its North Carolina serving areas. Although Frontier customer survey results specific to North Carolina are not available, Frontier does track the number of customer telephone service complaints filed with the NC Commission and the NC Office of the Attorney General. The number of these complaints has declined in most years since it elected regulation under Subsection H.



Local Exchange Rates

Since election of Subsection H, increases to Frontier's rates for basic residential telephone service have remained below inflation and in most years did not increase at all. Monthly rates for this service are \$20.83 in the Durham area and in Union County, and \$22.45 in the western portion of the state.

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