

The seal of the Office of Regulatory Staff, South Carolina, is a circular emblem. It features a central figure of a palmetto tree, a symbol of South Carolina. The tree is set against a background of a sunburst. The words "OFFICE OF REGULATORY STAFF" are written in a circular path around the top of the seal, and "SOUTH CAROLINA" is written around the bottom. In the center, the letters "ORS" are prominently displayed.

Annual Report
The Status of Local Telephone
Competition in South Carolina

Compiled by
The Office of Regulatory Staff

2012

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INTRODUCTION

The South Carolina Office of Regulatory Staff (“ORS”) has been directed by the South Carolina General Assembly (SC Code Ann. Section 58-9-280) to compile information and monitor the status of local telephone competition in the state on an annual basis.¹ This document reports the status of competition in the local telephone exchange market in South Carolina, notes the effects of changes that occurred in the local telecommunications marketplace in 2012 and monitors the emergence of broadband and wireless services within the competitive local exchange market. The report also addresses other notable developments related to the telecommunications industry, such as consumer complaints that ORS receives and resolves and new industry trends that may affect the delivery of and access to critical telecommunications services in South Carolina.

TELECOMMUNICATIONS EVENTS OF 2012

Possibly the single most important event affecting the telecommunications industry nationwide and in South Carolina was the release of the Federal Communications Commission’s (“FCC”) order (FCC 11-161) implementing comprehensive reform and modernization of the federal Universal Service and Intercarrier Compensation systems “to ensure that robust, affordable voice and broadband service, both fixed and mobile, are available to Americans throughout the nation.”² While the full effects of FCC 11-161 are developing and being evaluated, the reforms will affect many, if not all, of South Carolina’s telecommunications companies.

¹ This report contains both data generated by ORS and state data published in the FCC’s Local Competition Report.

² FCC 11-161, REPORT AND ORDER AND FURTHER NOTICE OF PROPOSED RULEMAKING, paragraph 1, page 5.

2012 was a quiet year in terms of mergers and acquisitions affecting South Carolina telecommunications companies. During the year, WOW acquired Knology, a cable TV company serving South Carolina coastal areas. ORS anticipates continuing consolidation occurring in the telecommunications industry.

LOCAL EXCHANGE TELECOMMUNICATIONS MARKET

The Local Exchange Telecommunications Market is defined as the delivery of telephone service over a wired or physical line. One way that the FCC and ORS measure local competition is by counting the number of access lines or telephone lines sold or controlled by each carrier. Local exchange services (or telephone services) are provided by Incumbent Local Exchange Carriers (“ILECs”), Competitive Local Exchange Carriers (“CLECs”), and Voice over Internet Protocol (“VoIP”) providers. ILECs are the traditional local telephone companies that existed prior to the Federal Telecommunications Act of 1996 enacted by Congress to open the previously monopoly-controlled local telephone market to competing telecommunications vendors, CLECs.

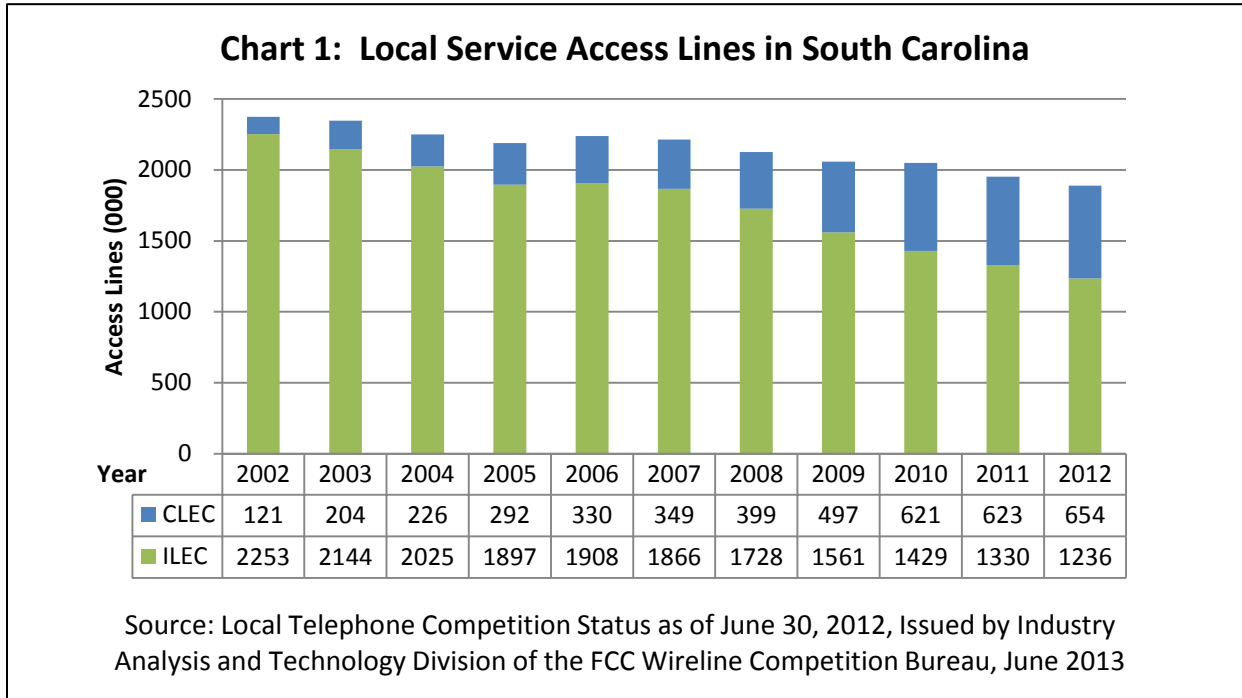
The number of wired access lines in South Carolina peaked in 2002 and has gradually declined since that time. This trend may be attributed to the increasing number of households replacing their wireline telephone either with a cell phone or a phone that delivers its service over the Internet (Voice over Internet Protocol or VoIP). VoIP is further defined as interconnected and non-interconnected.³ Interconnected VoIP providers are required to contribute to the Federal Universal Service Fund (“USF”) and Federal Telecommunications Relay Services Fund (“TRS”).⁴

³ See, 47 C.F.R. § 9.3 and 47 C.F.R. § 64.601(a).

⁴ See 2013 Instructions to Form 499-A, page 3.

Chart 1 illustrates the gradual decline in total wired access lines occurring since 2002.

Importantly, during that period ILEC lines declined by approximately 45%.

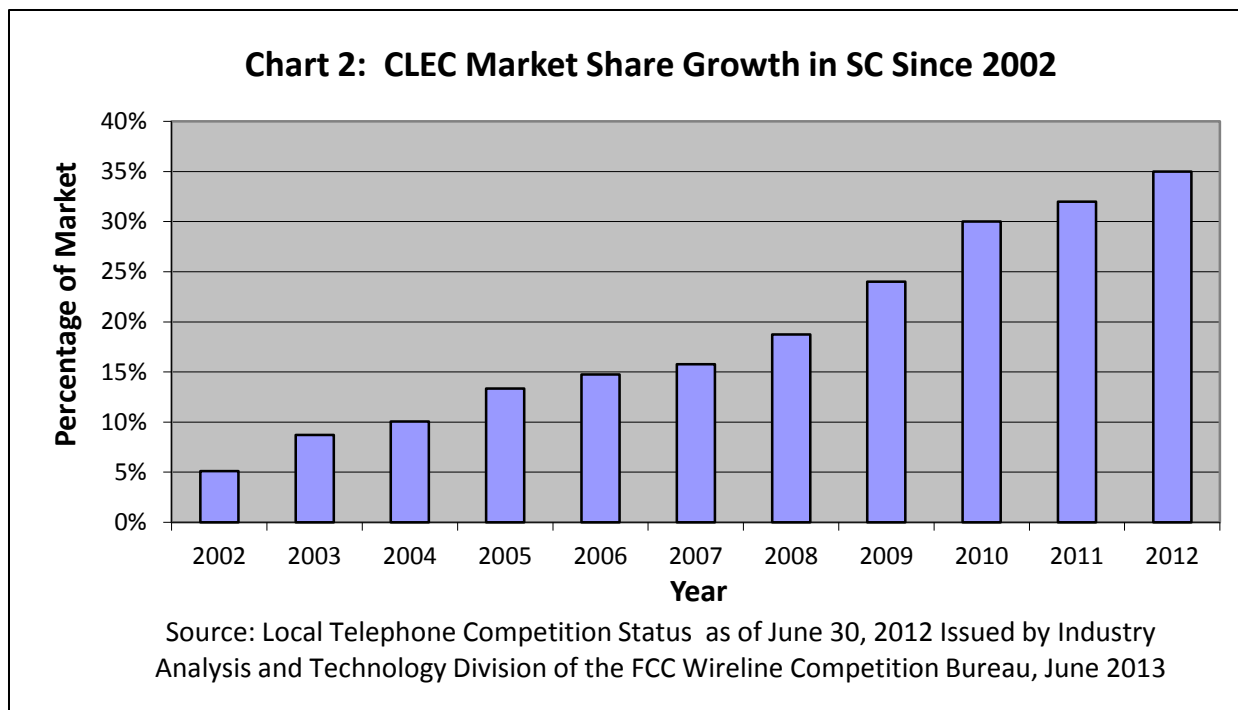


INCUMBENT LOCAL EXCHANGE CARRIERS

During 2012 the ILEC market share in South Carolina remained stable. Currently, 22 of the state’s 25 ILECs are operating under the Alternative Regulation provisions of the Code, Section 58-9-576(B) or (C). Three ILECs remain rate-of-return regulated (See Table 1, page 14).

COMPETITIVE LOCAL EXCHANGE CARRIERS

Chart 2 illustrates the growth in market share that South Carolina’s CLECs have experienced since 2002. Based on access lines reported to the FCC, CLEC market share grew again in 2012, increasing from 32% to 35% of the local exchange market.



ALTERNATIVE REGULATION

Prior to the development of competition in the telecommunications market, ILECs’ rates were regulated by the Public Service Commission of South Carolina (“Commission”) based on their rate of return. With the passage of the Telecommunications Act of 1996, the South Carolina General Assembly passed various forms of regulatory reform for the telecommunications industry. These legislative changes allowed ILECs to be regulated in a more flexible manner. In 2009, the South Carolina legislature allowed further freedom from regulation when it passed Act 7 (Section 58-9-576(C)) that provides local exchange companies (“LECs”) the ability to offer nearly all retail local service on a deregulated basis.

If an ILEC or a CLEC chooses Paragraph (C) Alternative Regulation status, as AT&T and CLECs Sprint and MCI have done, then its retail service offerings are deregulated --allowing these LECS the ability to set price, terms, and conditions without Commission review. In addition, an ILEC choosing Act 7 deregulation will be subject to a three-year phase-out of any

state Universal Service funding (USF) or Interim LEC funding (ILF) it receives, but it will continue to contribute to the state USF and ILF funds. The Commission retains authority over stand-alone basic residential service and wholesale services like switched access and services sold to other carriers. Finally, jurisdiction over complaints for Act 7 deregulated LECs will move from the Commission to the state court system. During 2012, no additional telecommunications companies chose Act 7 deregulation.

LIFELINE - ELIGIBLE TELECOMMUNICATIONS CARRIERS

Beginning in 2007, South Carolina began accepting applications from carriers requesting permission to become Eligible Telecommunications Carriers (ETCs) offering Lifeline and Link-up services to low-income households. In addition to the ILECs, South Carolina had eleven ETCs -- eight wireless and four wireline providers -- offering Lifeline at the end of 2012.

WIRELESS CARRIERS

The number of wireless carriers held constant in 2012. In 2011 and 2012, 16 facilities-based wireless carriers operated in South Carolina.⁵ As reflected on Chart 3, these wireless companies reported 3.9 million wireless subscribers, nearly the same as the previous year. Chart 4 provides a comparison of total wireless and wireline access lines in the state from 2002 to 2012. Chart 5 shows the combination of wireline voice with broadband in comparison to wireless lines.

⁵ FCC Local Telephone Competition Report: Status as of June 30, 2012.

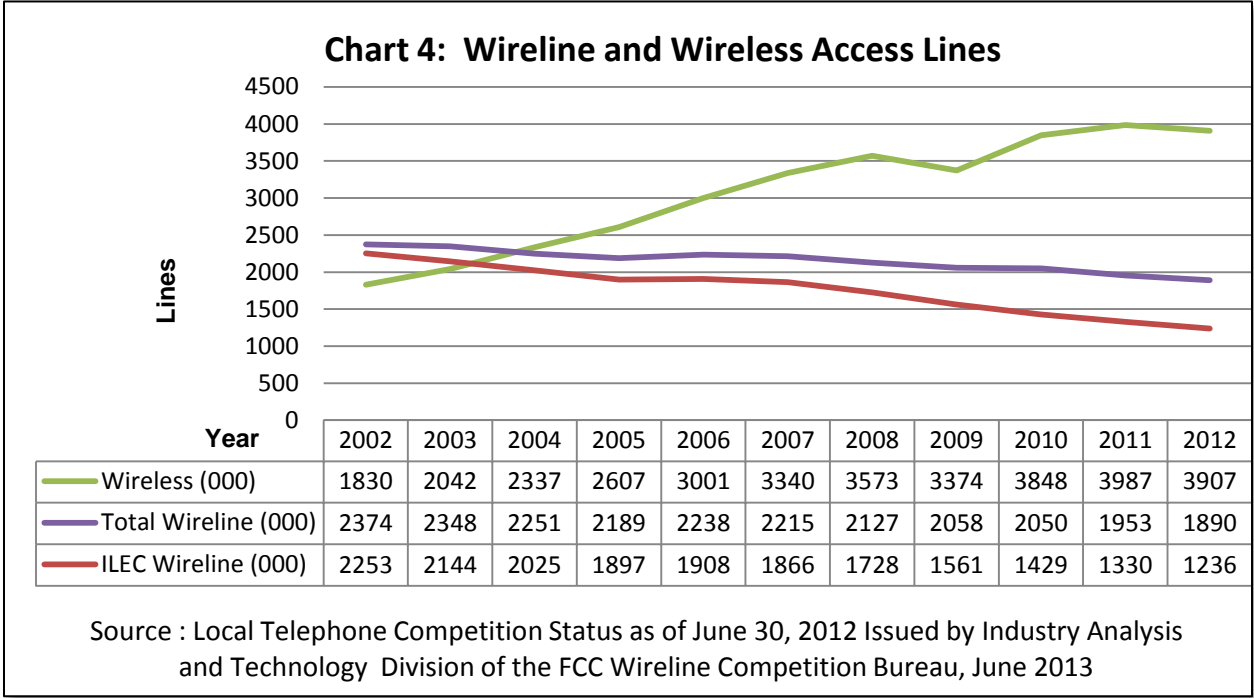
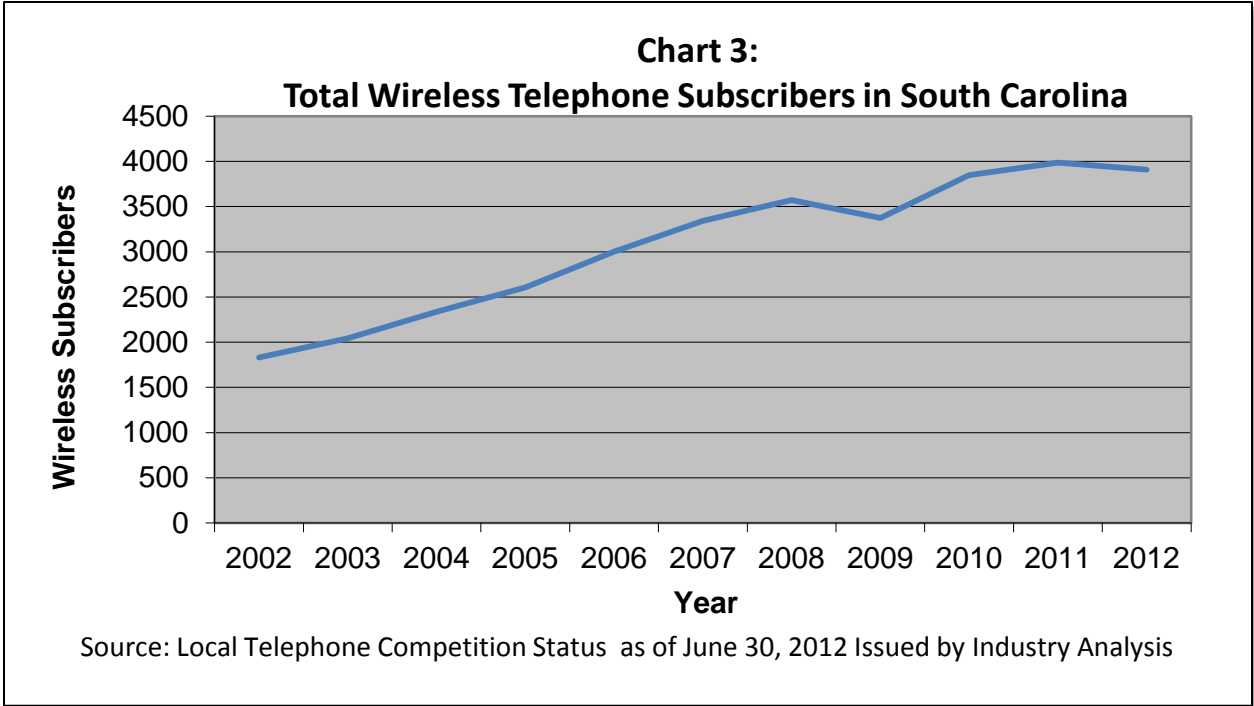
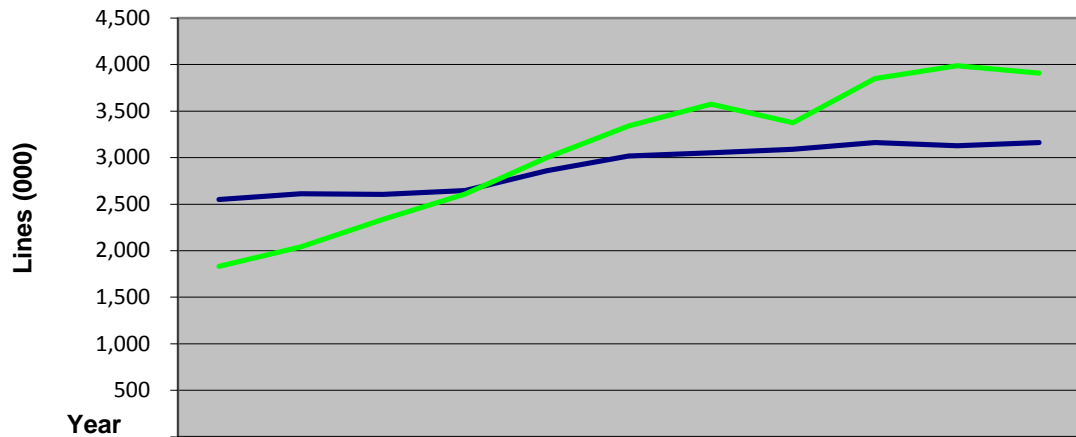


Chart 5: Wireline Voice/Broadband and Wireless Access Lines



— Wireline Combined	2,549	2,611	2,606	2,648	2,860	3,018	3,052	3,090	3,162	3,127	3,162
— Wireless	1,830	2,042	2,337	2,607	3,001	3,340	3,573	3,374	3,848	3,987	3,907

Source: Internet Access Services, Status as of June 30, 2012 Issued by Industry Analysis and Technology Division of the FCC Wireless Competition Bureau, June, 2013

BROADBAND DEPLOYMENT

Broadband access has grown significantly in South Carolina, rising from 25,229 in 1999, to 2.8 million in 2012, as demonstrated in Chart 6. In 2007, ORS predicted the number of broadband access lines would soon top 1 million. In fact, overall access has soared past expectations due to several factors such as industry advances, the popularity of wireless broadband, and the expanding role broadband is taking both in residential and business applications.

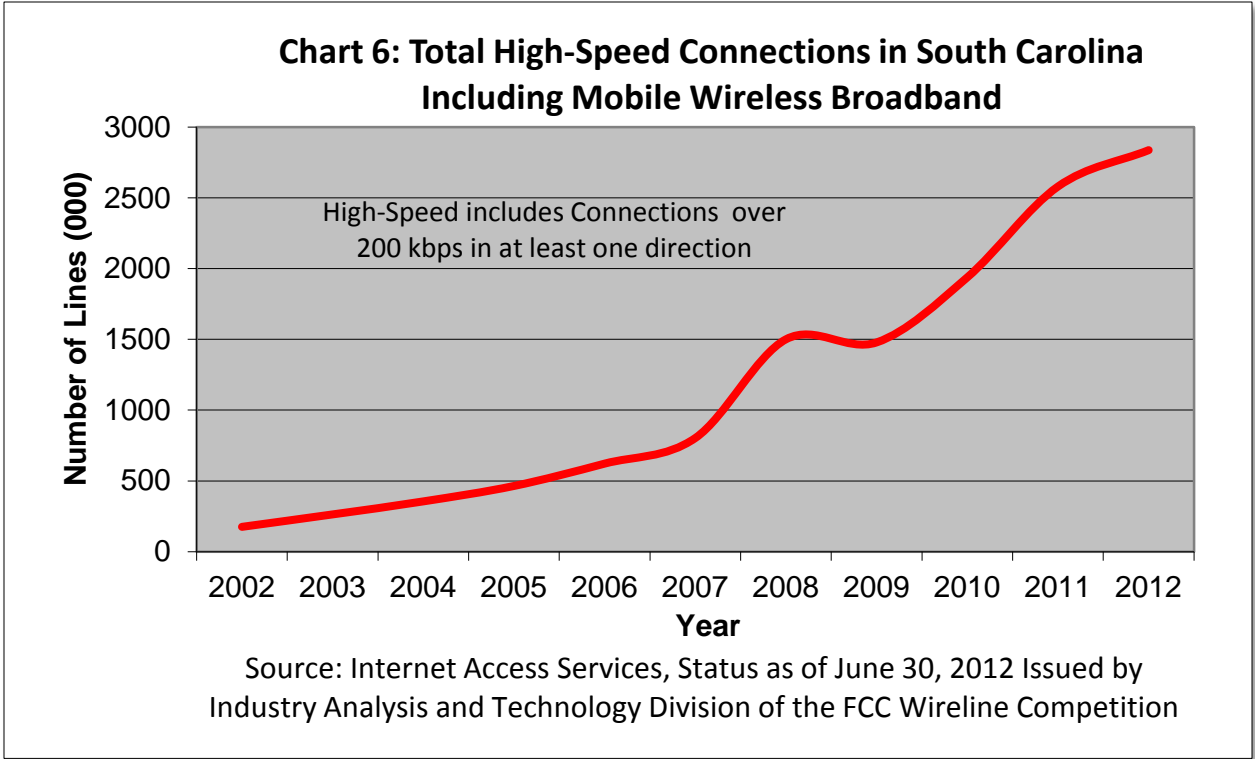
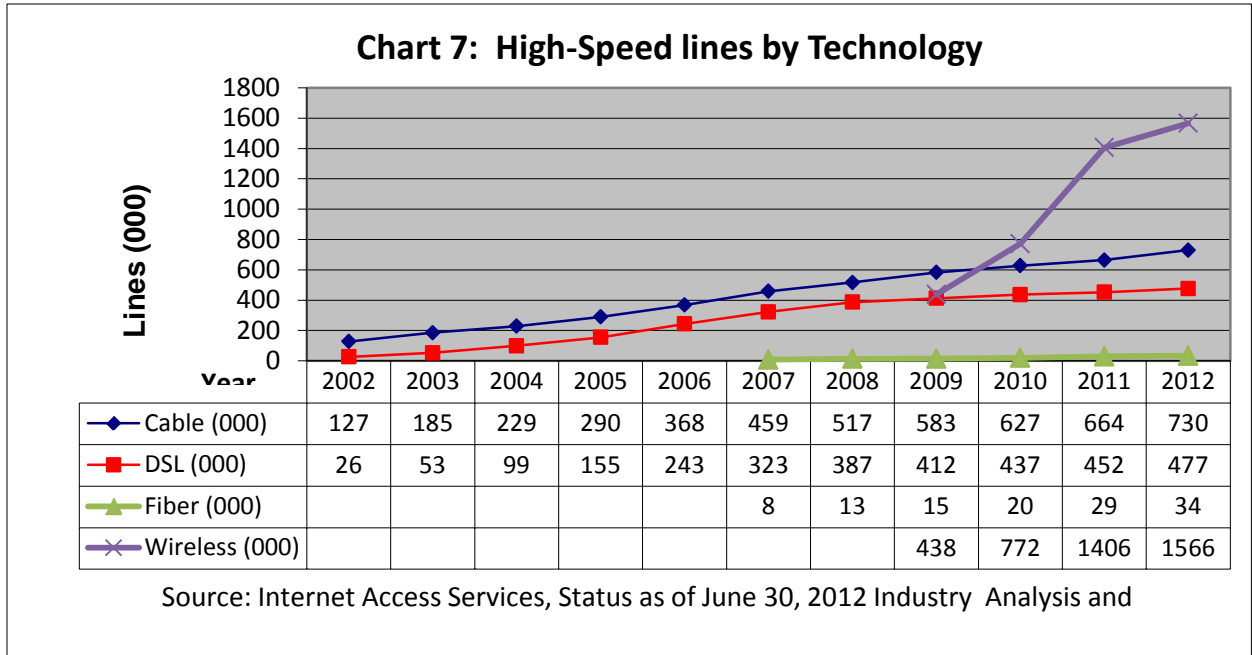


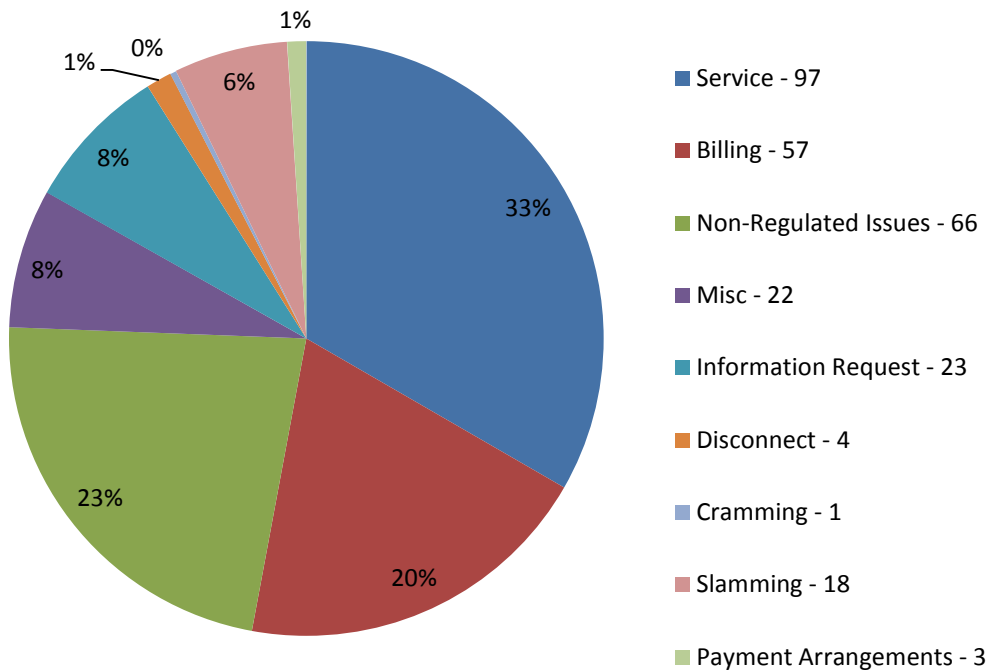
Chart 7 shows the growth of high-speed lines using DSL, coax, fiber and wireless technologies from 2002 to 2012. The FCC reports that in June 2012 South Carolina had 34,000 fiber connections.



CONSUMER SERVICES

Each year ORS assists South Carolina residential and business consumers to resolve issues related to their telephone service, and each year the largest number of complaints relate to service quality and billing. Service quality complaints accounted for 34% of the total, but non-regulated complaints (23%) supplanted billing (15%) as the second-highest category. ORS tracks a wide range of consumer complaints related to regulated and non-regulated telecommunications services. Chart 8 depicts a breakdown of complaint calls received by ORS during 2012.

**Chart 8: Consumer Services Division
Telecommunications Complaints by Type
2012**



CONCLUSION

Based on data ORS has gathered while investigating the status of local telecommunications competition in South Carolina over the past seven reports, the wireless market continues to grow steadily, while the wireline market for voice is declining due, at least in part, to wireless substitution. When wireline voice and broadband connections are viewed together, the future of wireline connections in the urban low-cost areas appears to exhibit stronger growth possibilities. In the rural, high-cost areas, wireless voice and data services appear to be gaining a strong hold on the market. ORS will monitor the market to see how wireless technologies continue to develop and how the FCC steers future broadband deployment.

Competitor supplied fiber-to-the-home with gigabit speeds (10 -100 times faster than typical ILEC or Cable TV networks can deliver) are being constructed or are operational in a growing number of communities across the nation. Proposals before the FCC are promoting a shift to an IP based telecommunications technology and a retirement of current circuit switched networks and technology. The FCC has authorized a broad set of voluntary experiments to evaluate the impacts to customers of a transition from a time-division multiplexed (TDM) circuit switched network to an all-Internet Protocol (IP) network.⁶ The transition to advanced technologies will be monitored by ORS and reported to the Commission to ensure that these advances are implemented in a manner that is beneficial to the state.

⁶ *AT&T Petition to Launch a Proceeding Concerning the TDM-to-IP Transition; Connect America Fund; Structure and Practices of the Video Relay Service Program; Telecommunications Relay Services And Speech-to-Speech Services for Individuals with Hearing and Speech Disabilities; Numbering Policies for Modern Communications*, GN Docket Nos. 13-5, 12-353, WC Docket Nos. 10-90, 13-97, CG Docket Nos. 10-51, 03-123, Order, Report and Order and Further Notice of Proposed Rulemaking, Report and Order, Order and Further Notice of Proposed Rulemaking, Proposal for Ongoing Data Initiative, FCC 14-5 (rel. Jan. 31, 2014)

Table 1: Alternative Regulation: ILECs

Carrier	Alt. Reg. § 58-9-576(B)	Alt. Reg. § 58-9-576(C) Act 7	Rate of Return Regulation
United Telephone Company of Carolinas dba CenturyLink, fka Embarq, fka Sprint	29-Sep-97 ¹		
BellSouth Telecommunications	13-Aug-99 ¹	1-Oct.-09 ²	
Frontier fka Verizon South, Inc.	14-Oct-00 ¹		
Windstream South Carolina	27-Sep-02 ¹		
Horry Telephone Coop.	30-Jan-03 ¹		
PBT Telecom	18-Feb-06 ¹		
Home Telephone Co.	7-Apr-06 ¹		
West Carolina Rural Tel. Coop.	16-Oct-06 ¹		
Piedmont Rural Telephone Coop.	12-Jan-07 ¹		
Lockhart Telephone Co.	9-Aug-07 ¹		
Farmers Telephone Coop.	1-May-08 ¹		
Bluffton Telephone Co.	4-Mar-05 ³		
Hargray Telephone Co.	4-Mar-05 ³		
McClellanville Telephone Co. (TDS)	30-May-05 ³		
Norway Telephone Co. (TDS)	30-May-05 ³		
St. Stephen Telephone Co. (TDS)	30-May-05 ³		
Williston Telephone Co. (TDS)	30-May-05 ³		
Fort Mill Telephone Co. dba Comporium	1-Aug-05 ³		
Lancaster Telephone Co. dba Comporium	1-Aug-05 ³		
Rock Hill Telephone Co. dba Comporium	1-Aug-05 ³		
Chester Telephone Co.	9-Aug-07 ³		
Ridgeway Telephone Co.	9-Aug-07 ³		
Chesnee Telephone Co.			X
Palmetto Rural Telephone Coop.			X
Sandhill Telephone Coop.			X

¹ Company requested Alternative Regulation based on interconnection agreement.

² Company requested Alternative Regulation based on **Section 58-9-576(C) which effectively deregulates retail service pricing.**

³ Company requested Alternative Regulation based on determination that at least two wireless providers have coverage generally available in the LEC's service area.