

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 in a large, serif font.

**Annual Report**  
**The Status of Local Telephone**  
**Competition in South Carolina**

Compiled by  
The Office of Regulatory Staff

2010

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## **INTRODUCTION**

The Office of Regulatory Staff (ORS) has been directed by the South Carolina General Assembly (SC Code Ann. Section 58-9-280 amended by Act 318 of 2006) to compile information and monitor the status of local telephone competition in the state on an annual basis. This document reports the status of competition in the local telephone exchange market in South Carolina, notes the effects of several changes that occurred in the local telecommunications marketplace last year, 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. This is the sixth report compiled by the ORS.

## **TELECOMMUNICATIONS EVENTS OF 2010**

The telecommunications industry in South Carolina has experienced the same realignments and uncertainty as the industry nationwide. Companies have merged operations to capture wider markets, availed themselves of new regulatory options, and waited for the Federal Communications Commission (FCC) to signal that long-awaited reforms are on the horizon. Although neither acquisition made much impact on South Carolina consumers, Windstream acquired NuVox, and CenturyLink bought Qwest during 2010. Each company cited a desire to incorporate the infrastructure of its acquisition into its own business model.

Closer to home, both Sprint and MCI opted to adopt Act 7 regulation and essentially become deregulated entities in this state. They follow the lead of AT&T which opted into Act 7 in 2009.

Allied Wireless, whose application for federal Universal Service Fund (USF) high-cost support has been held in abeyance by the Public Service Commission of South Carolina (PSC), is one of many companies waiting for the FCC to initiate reforms to the federal USF. With so many policy issues before the FCC at this time, many companies around the country are struggling to plan for the future of their businesses.

#### **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) and Competitive Local Exchange Carriers (CLECs). 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 with a cell phone or a phone that delivers its service over the Internet (Voice over Internet Protocol or VoIP).

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

### **INCUMBENT LOCAL EXCHANGE CARRIERS**

During 2010 the ILEC market share in South Carolina remained stable and virtually unchanged. Currently, 22 of the state's 25 ILECs are operating under the Alternative Regulation provisions of the Code. Three ILECs remain rate-of-return regulated.

### **COMPETITIVE LOCAL EXCHANGE CARRIERS**

Chart 2 illustrates the growth in market share that South Carolina's CLECs have experienced since 2000. Based on access lines reported to the FCC, CLEC market share grew again in 2010, increasing from 24% to 30% of the local exchange market.

### **ALTERNATIVE REGULATION**

Prior to the development of competition in the telecommunications market, incumbent local exchange carriers' prices were regulated by the PSC 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. Currently 22 of

South Carolina's 25 ILECs have elected and qualified for alternative regulation, and these ILECs are identified in Table 1. During 2009, one company changed its alternative regulation status. AT&T changed from paragraph (B) Alternative Regulation status to the new paragraph (C) status, placed into effect after the passage of Act 7 earlier in the year.

If an ILEC or a CLEC chooses paragraph (C) Alternative Regulation status, as Sprint and MCI did in 2010, then its retail service offerings are deregulated (i.e., no longer under the PSC's regulatory authority). In addition, a LEC choosing Act 7 deregulation will be subject to a three-year phase-out of any state Universal Service Funding or Interim LEC funding (ILF) it receives, but it will continue to contribute to the state USF and ILF funds. The PSC will retain 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 PSC to the state court system.

### **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 twelve ETCS, four wireless and eight wireline providers, offering Lifeline at the end of 2010. Also in 2010, South Carolina became one of dozens of states that granted permission to a wireless provider to provide free handsets to consumers as part of their Lifeline service offering. The Lifeline and Link-up program is projected to experience tremendous growth as a result of the introduction of this marketing strategy.

## **WIRELESS CARRIERS**

The number of wireless carriers remains relatively stable. In 2010, 14 facilities-based wireless carriers operated in South Carolina.<sup>1</sup> These wireless companies reported 3.85 million wireless subscribers in South Carolina, up 14 % from the previous year. Chart 4 provides a comparison of total wireless and wireline access lines in the state from 2000 to 2010. Chart 5 shows the combination of wireline voice with broadband in comparison to wireless lines.

## **BROADBAND DEPLOYMENT**

From 1999 to 2010 broadband access grew significantly in South Carolina, rising from 25,229 in 1999 to 2.1 million in 2010 as demonstrated in Chart 6. Since 2007, ORS has been expecting the number of broadband access lines to top 1 million. However, due to the industry's response to the popularity of wireless broadband and the expanding role broadband is taking in both residential and business applications, overall access has soared past expectations.

Chart 7 shows the growth of high-speed lines using DSL, coax, fiber and wireless technologies from 2000 to 2010. The FCC reports that in June 2010 South Carolina had 20,000 fiber connections.

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<sup>1</sup>FCC Local Telephone Competition Report: Status as of June 30, 2010.

## **CONSUMER SERVICES**

Each year the ORS assists South Carolina residential and business consumers to resolve issues related to their telephone services, and each year the largest number of complaints relate to service quality and billing. This year is somewhat different, however, with service quality complaints accounting for 34% of the total, and non-regulated complaints accounting for 21%. The increase in non-regulated complaints could be related to the deregulation of AT&T under Act 7. 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 the ORS during 2010.

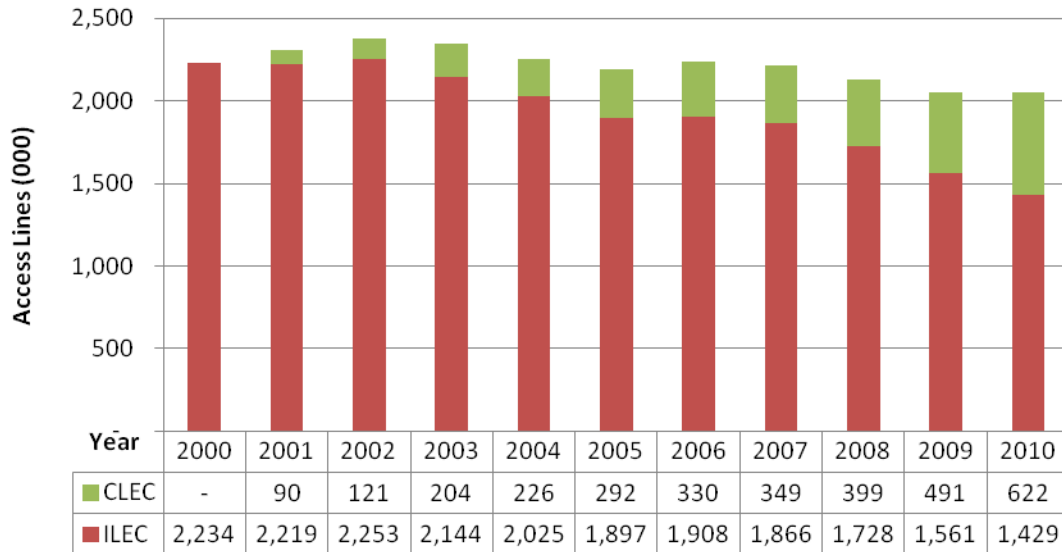
## **CONCLUSION**

Based on data the ORS has gathered while investigating the status of local telecommunications competition in South Carolina over the past four 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 much stronger growth possibilities. In the rural, high-cost areas, wireless voice and data services appear to be gaining a strong hold on the market. The ORS will monitor the market to see how wireless technologies continue to develop and how the FCC steers future broadband deployment.



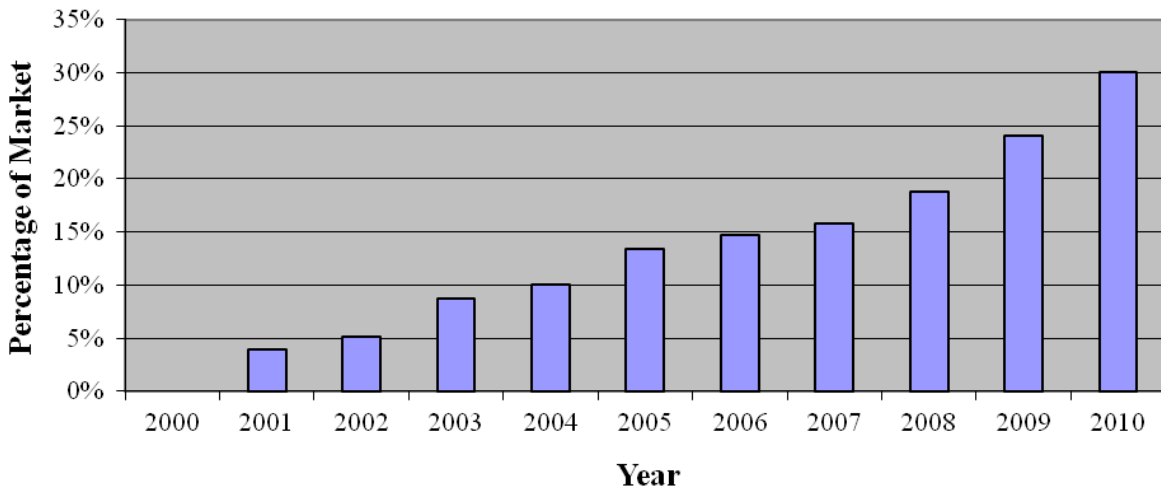
**Chart 1: Local Service Access Lines in South Carolina**

Source: Local Telephone Competition: Status as of June 30, 2010  
 Issued by Industry Analysis and Technology Division of the  
 FCC Wireline Competition Bureau



**Chart 2: CLEC Market Share Growth in SC Since 2000**

Data from the FCC Wireline Competition Bureau, March 2011



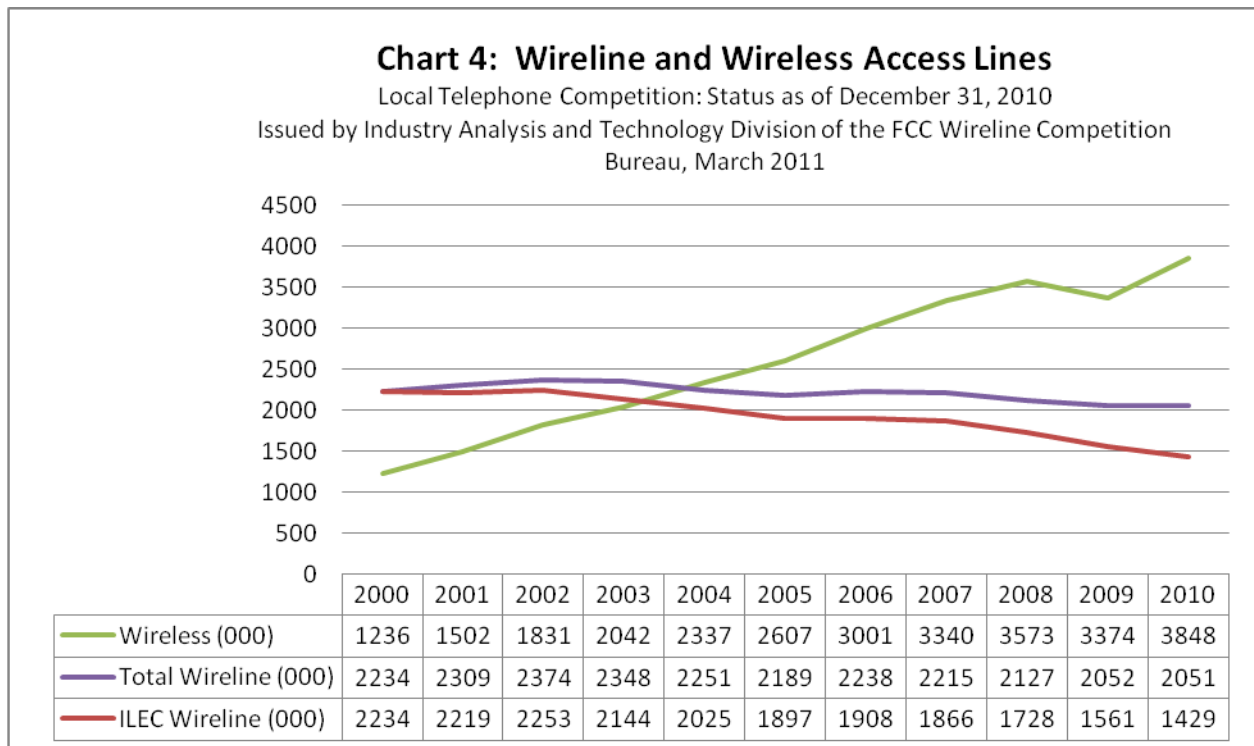
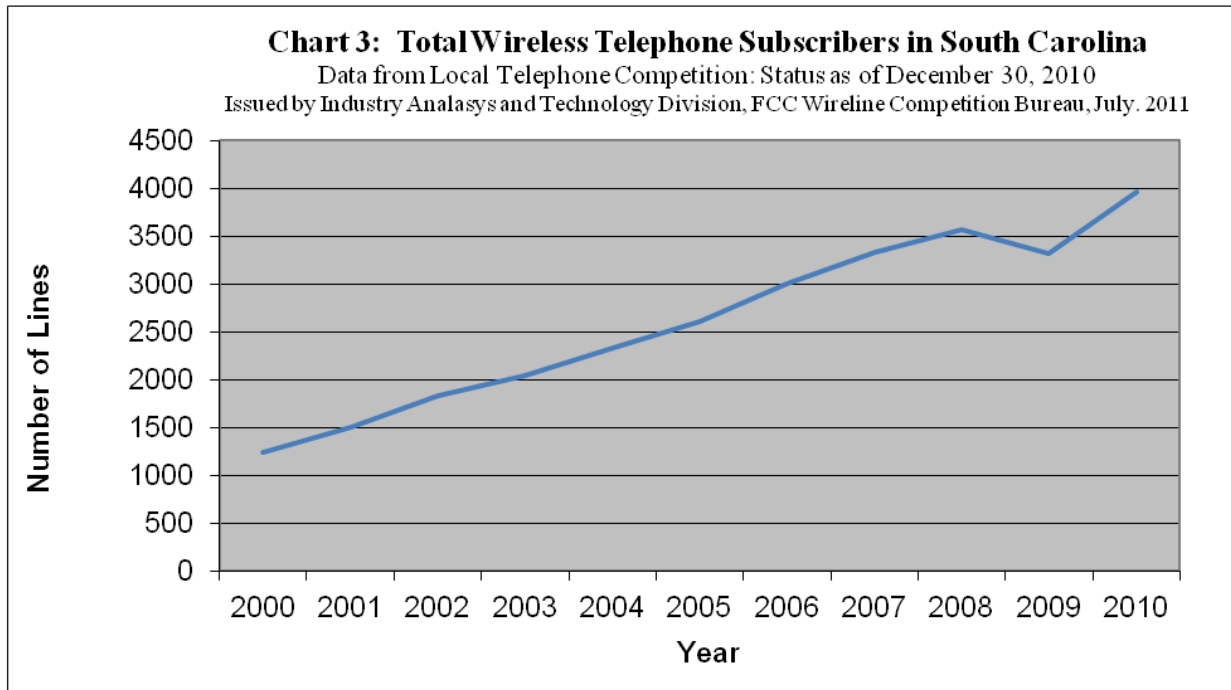
**Table 1: Alternative Regulation**

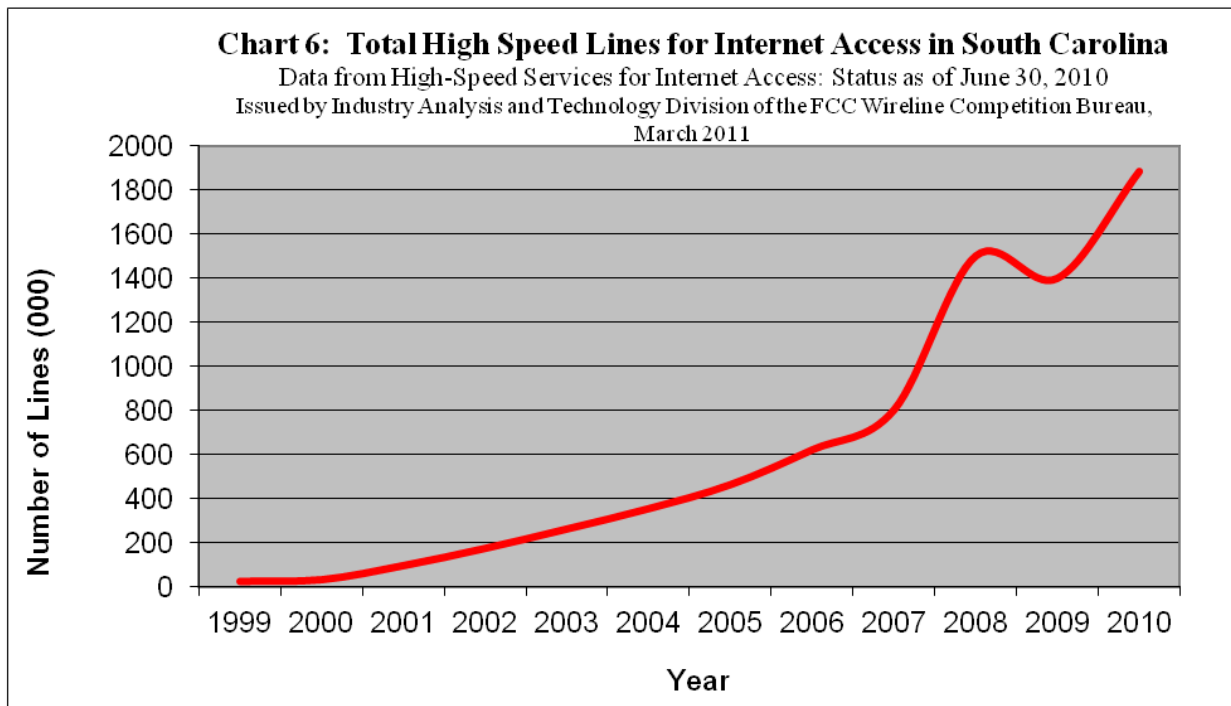
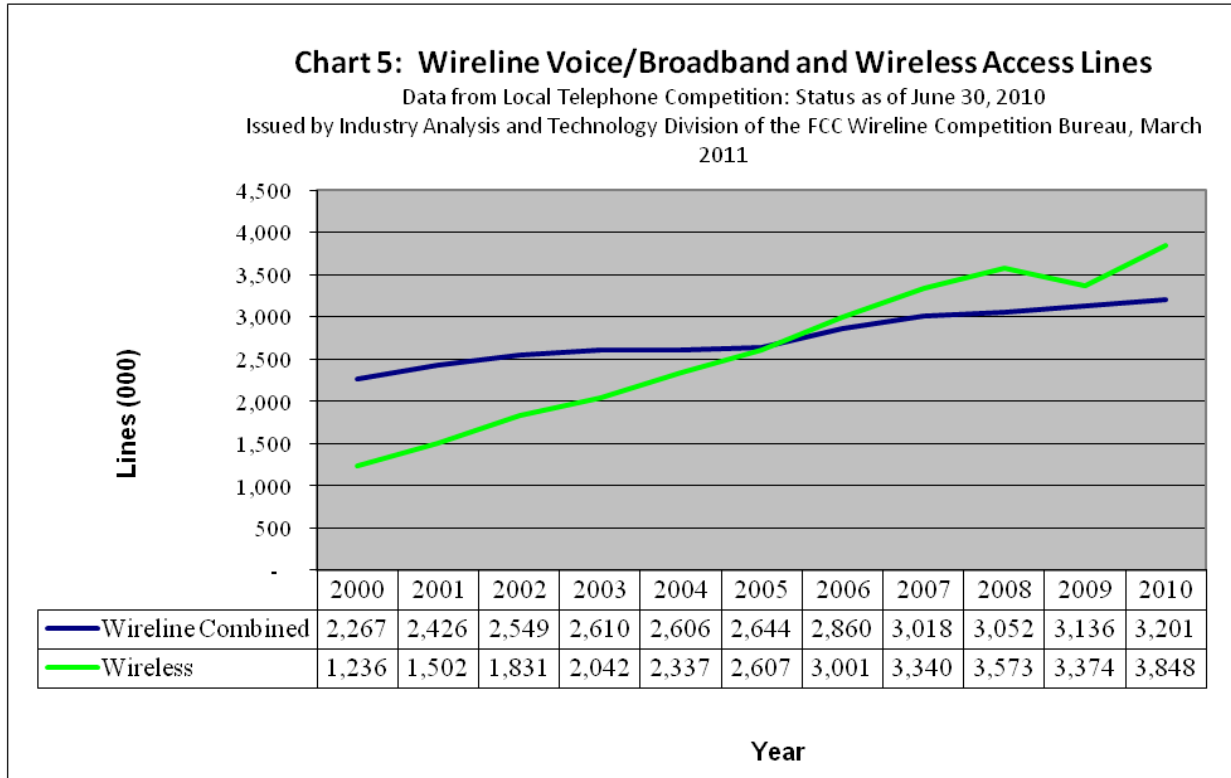
Carrier	Alt. Reg. § 58-9-576(B)	Alt. Reg. § 58-9-576(C)	Rate of Return Regulation
United Telephone Company of Carolinas dba CenturyLink, fka Embarq, fka Sprint	29-Sep-97 <sup>2</sup>		
BellSouth Telecommunications	13-Aug-99 <sup>1</sup>	1-Oct.-09 <sup>3</sup>	
Frontier fka Verizon South, Inc.	14-Oct-00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

<sup>2</sup> Company requested Alternative Regulation based on an interconnection agreement

<sup>3</sup> Company requested Alternative Regulation based on § 58-9-576(C) which effectively deregulates retail service pricing

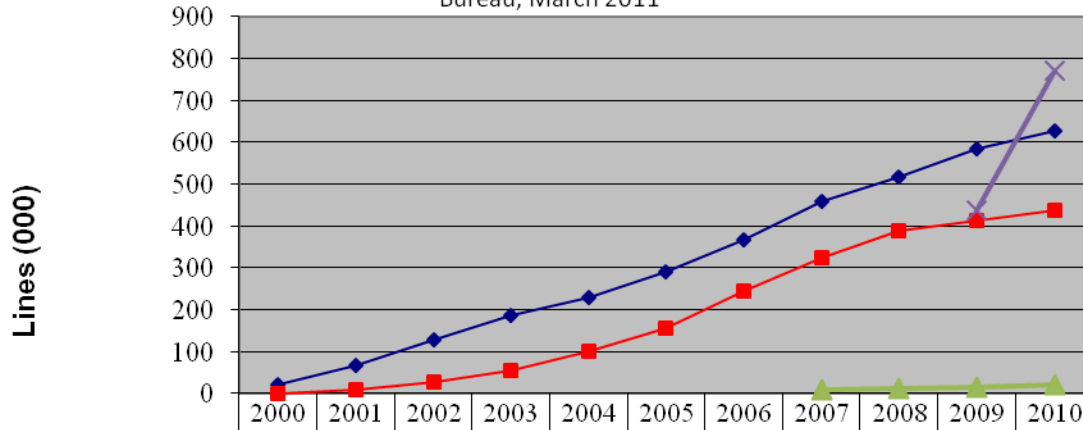
<sup>4</sup> Company requested Alternative Regulation based on a determination that at least two wireless providers have coverage generally available in the LEC's service area.





### Chart 7: High-Speed lines by Technology

Data from High-Speed Services for Internet Access: Status as of June 30, 2010  
 Issued by Industry Analysis and Technology Division of the FCC Wireline Competition  
 Bureau, March 2011



—◆— Cable (000)	20	68	127	185	229	290	368	459	517	583	627
—■— DSL (000)	0	10	26	53	99	155	243	323	387	412	437
—▲— Fiber (000)								8	13	15	20
—×— Wireless (000)										438	772

**Chart 8: Consumer Services Division  
Telecommunications Complaints by Type  
2010**

