

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 globe. 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

2011

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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 the 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 seventh report compiled by the ORS.

TELECOMMUNICATIONS EVENTS OF 2011

Possibly the single most important event of 2011 affecting the telecommunications industry nationwide and in South Carolina was the release of the FCC's 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."¹ 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 FCC 11-161, REPORT AND ORDER AND FURTHER NOTICE OF PROPOSED RULEMAKING, paragraph 1, page 5.

Two companies with significant operations in South Carolina were involved in mergers and acquisitions: 1) CenturyLink acquired Savvis and 2) Windstream purchased PAETEC. While neither acquisition made much impact on South Carolina consumers, they are important for understanding the significant changes in the telecommunications industry landscape. For example, CenturyLink's \$2.5 billion deal with Savvis gives it greater collocation and managed services capabilities with immediate global reach, which may lead to improved service for South Carolina customers, or may simply improve CenturyLink's bottom line.

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 either 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 wired access lines occurring since 2002.

INCUMBENT LOCAL EXCHANGE CARRIERS

During 2011 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, § 58-9-576(B) or (C). Three ILECs remain rate-of-return regulated. (See Table 1).

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 2011, increasing from 30% to 32% 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 (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. In 2009, the South Carolina legislature allowed further freedom from regulation when it passed Act 7 (§ 58-9-576 (C)) that provides local exchange companies ("LECs") the ability to offer nearly all retail local service on a deregulated basis. This means that LECs choosing this option are able to set the price, terms, and conditions for their local retail services with no PSC oversight.

If an ILEC or a CLEC chooses Paragraph (C) Alternative Regulation status (2009 Act 7 deregulation), as AT&T and CLECs Sprint and MCI have done, then its retail service offerings are deregulated -- i.e., no longer under the PSC's regulatory authority. 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 PSC will retain authority over stand-alone basic residential service (chosen by a relatively small portion of South Carolina consumers) 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. During 2011, 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 -- six wireless and five wireline providers -- offering Lifeline at the end of 2011. Also in 2011, South Carolina continued granting permission to wireless providers to provide free handsets to consumers as part of their Lifeline service offering. The Lifeline program experienced tremendous growth as enrollment soared to record levels in 2011. Much of this growth may be attributed to the free equipment and services offered by wireless ETCs to the Lifeline customer.

WIRELESS CARRIERS

The number of wireless carriers grew by approximately 14%. In 2011, 16 facilities-based wireless carriers operated in South Carolina.² These wireless companies reported 3.99 million wireless subscribers, up nearly 4% from the previous year. Chart 4 provides a comparison of total wireless and wireline access lines in the state from 2000 to 2011. Chart 5 shows the combination of wireline voice with broadband in comparison to wireless lines.

BROADBAND DEPLOYMENT

From 1999 to 2011, broadband access grew significantly in South Carolina, rising from 25,229 in 1999, to 2.6 million in 2011, as demonstrated in Chart 6. In 2007, the 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 2000 to 2011. The FCC reports that in June 2011 South Carolina had 29,000 fiber connections.

²FCC Local Telephone Competition Report: Status as of June 30, 2011.

CONSUMER SERVICES

Each year the 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. However, 2011 is somewhat different from past years. Service quality complaints accounted for 34% of the total, but non-regulated complaints (23%) supplanted billing (15%) as the second-highest category. The increase in non-regulated complaints could be related to the deregulation of AT&T under Act 7. The 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 2011

CONCLUSION

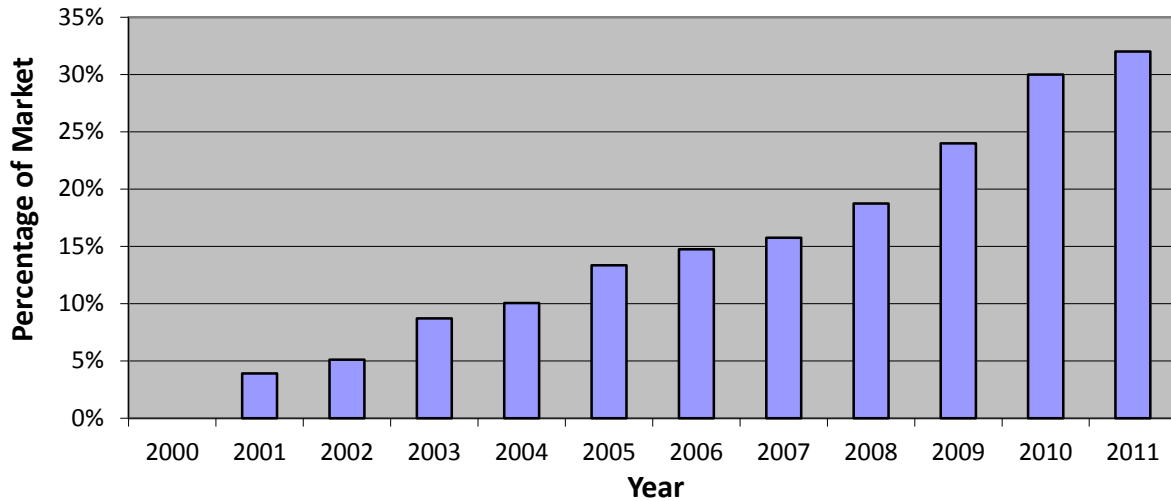
Based on data the ORS has gathered while investigating the status of local telecommunications competition in South Carolina over the past seven reports, the wireless market continues to grow steadily, while the wireline market for voice is declining due, at least in part, to wireless substitution. When wireline voice and broadband connections are viewed together, the future of wireline connections in the urban low-cost areas appears to exhibit 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, 2011, Issued by Industry Analysis and Technology Division of the FCC Wireline Competition Bureau, June 2012

Chart 2: CLEC Market Share Growth in SC Since 2000



Source: Local Telephone Competition Status as of June 30, 2011 Issued by Industry Analysis and Technology Division of the FCC Wireline Competition Bureau, June 2012

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 ³		
BellSouth Telecommunications	13-Aug-99 ¹	1-Oct.-09 ⁴	
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 ⁵		
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

³ Company requested Alternative Regulation based on an interconnection agreement

⁴ Company requested Alternative Regulation based on **§ 58-9-576(C) which effectively deregulates retail service pricing**

⁵ Company requested Alternative Regulation based on a determination that at least two wireless providers have coverage generally available in the LEC's service area.

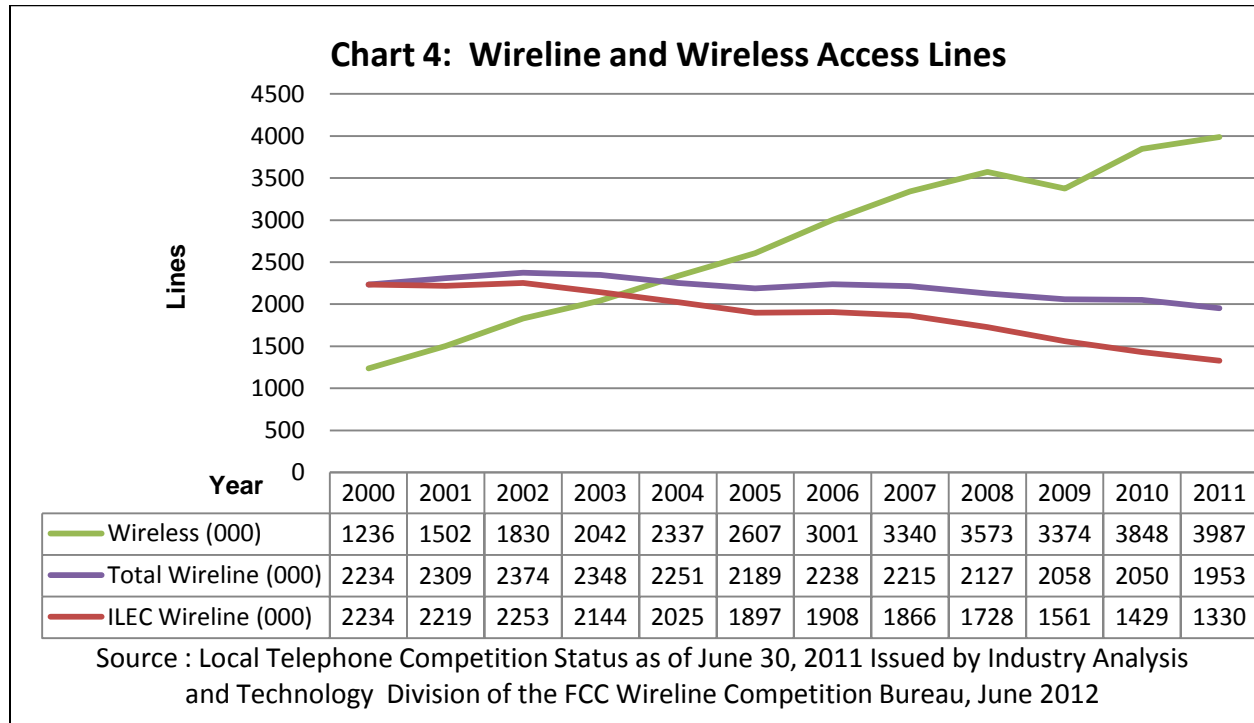
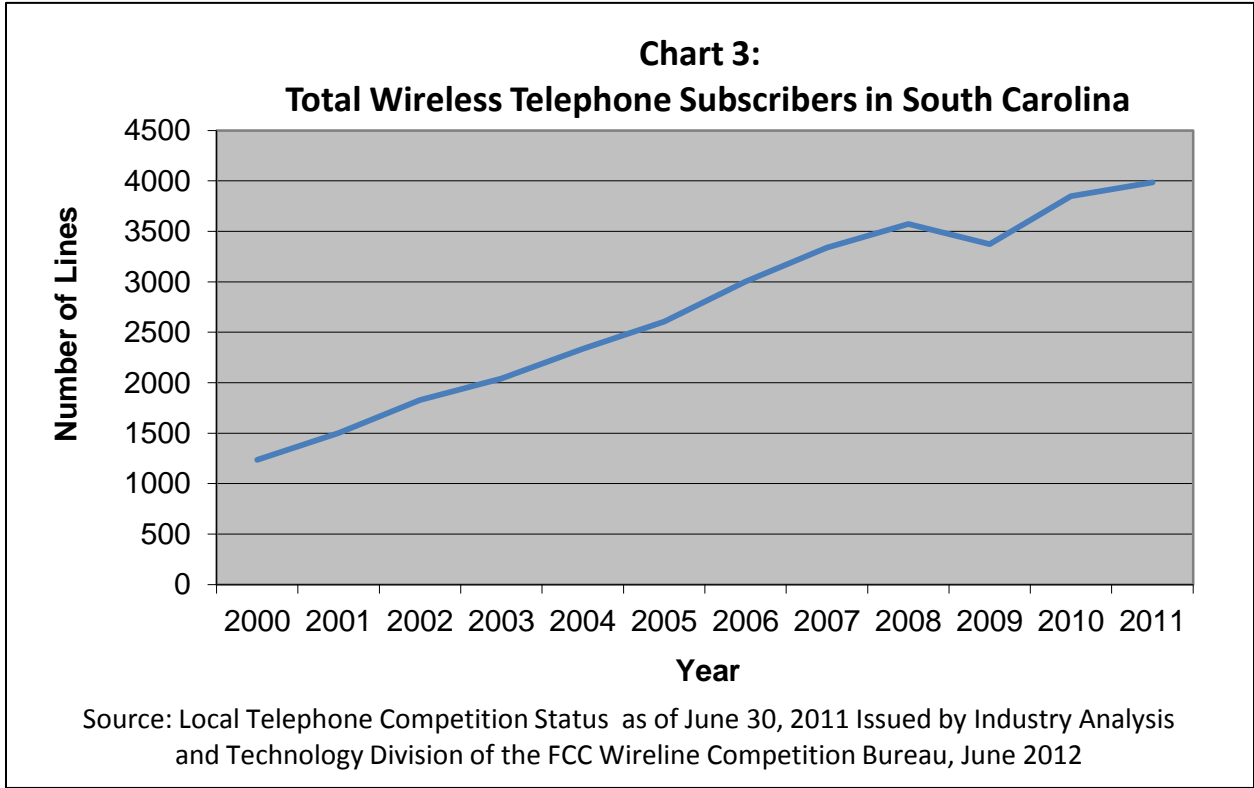
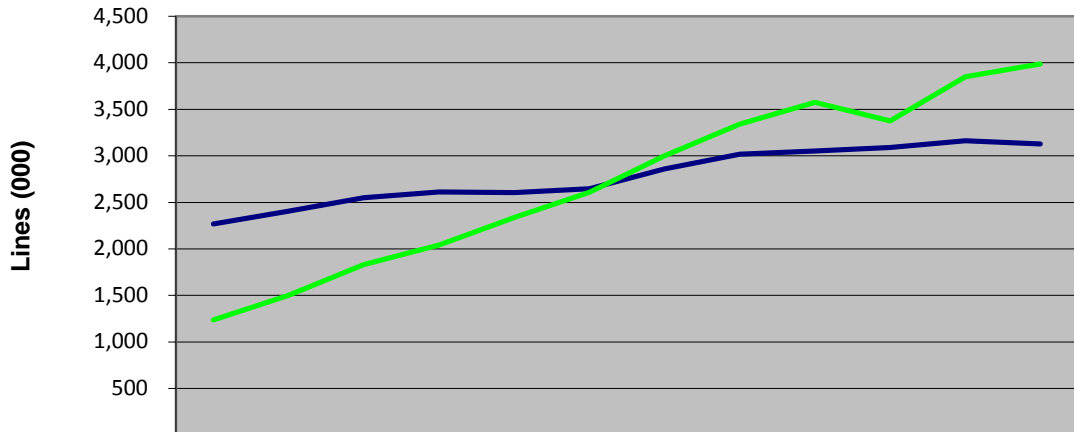


Chart 5: Wireline Voice/Broadband and Wireless Access Lines

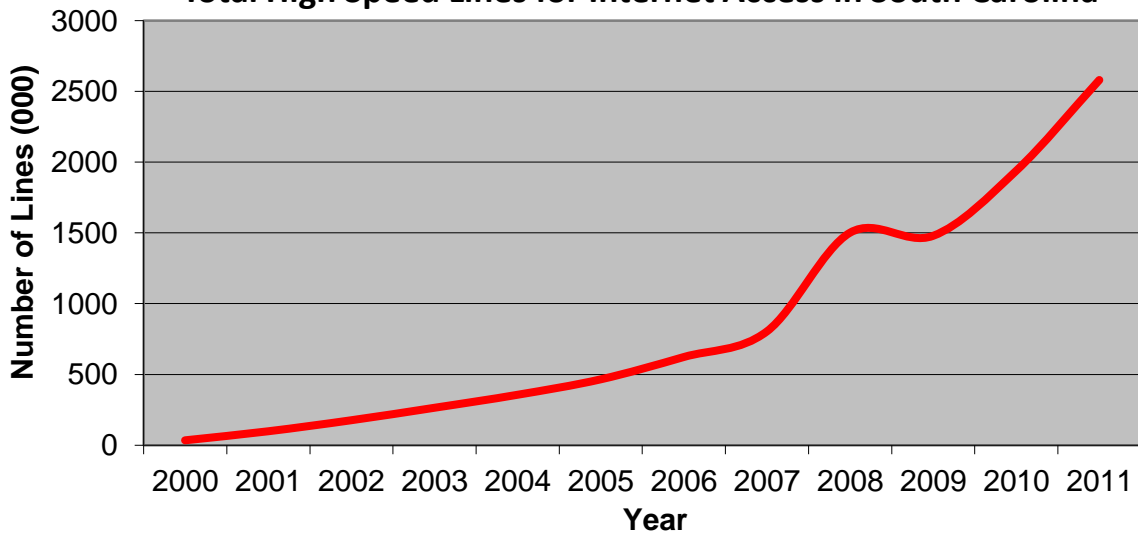


Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Wireline Combined	2,267	2,406	2,549	2,611	2,606	2,648	2,860	3,018	3,052	3,090	3,162	3,127
Wireless	1,236	1,502	1,830	2,042	2,337	2,607	3,001	3,340	3,573	3,374	3,848	3,987

Source: Internet Access Services, Status as of June 30, 2011 Issued by Industry Analysis and Technology Division of the FCC Wireless Competition Bureau, June, 2012

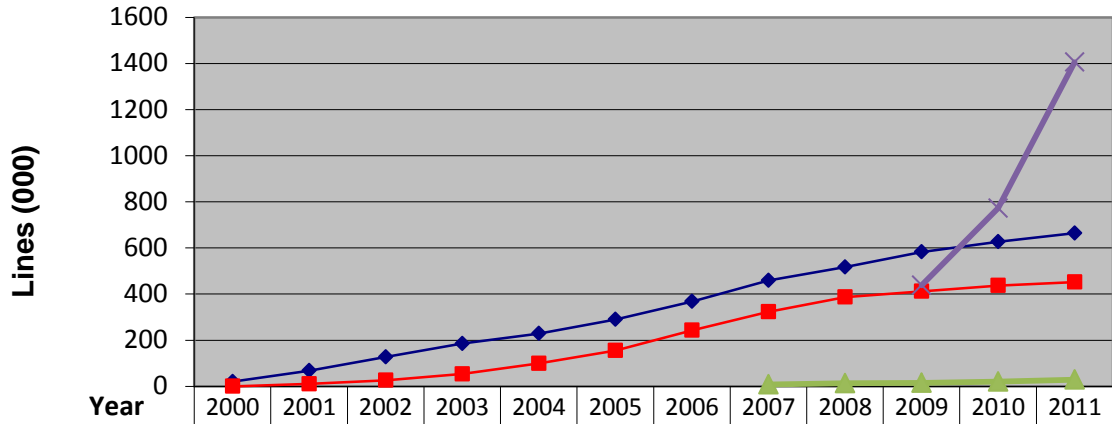
Chart 6:

Total High Speed Lines for Internet Access in South Carolina



Source: Internet Access Services, Status as of June 30, 2011 Issued by Industry Analysis and Technology Division of the FCC Wireline Competition Bureau, June 2012

Chart 7: High-Speed lines by Technology



Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
—◆— Cable (000)	20	68	127	185	229	290	368	459	517	583	627	664
—■— DSL (000)	0	10	26	53	99	155	243	323	387	412	437	452
—▲— Fiber (000)								8	13	15	20	29
—×— Wireless (000)										438	772	1406

Source: Internet Access Services, Status as of June 30, 2011 Industry Analysis and Technology Division of the FCC Wireline Competition Bureau, June 2012

