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**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

NEWS RELEASE

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**SURVEY OF LOCAL TELECOMMUNICATIONS COMPETITION IN NORTH
CAROLINA**

In April 2004, the North Carolina Utilities Commission announced that it had initiated an independent study of the status of telecommunications competition within the State of North Carolina. This study was undertaken as part of the Commission's ongoing evaluation of competition for local telephone service in the State. The Commission engaged Research Triangle Institute (RTI) as an independent consultant to perform the study. RTI is an international consulting firm based in the Research Triangle Park. In conducting this study, RTI surveyed incumbent local exchange carriers, competitive local providers, and other organizations actually or potentially providing alternatives to traditional voice and data services in North Carolina, such as wireless and "voice over internet protocol" services.

Today, RTI filed its report with the Commission. RTI's full report is available for review on the Commission's web site at www.ncuc.net. A copy of RTI's Executive Summary is attached to this press release.

Executive Summary

This report presents the findings of a survey of local telecommunications competition in North Carolina conducted during the months of July, August, and September 2004. RTI International (RTI) conducted this survey at the request of the North Carolina Utilities Commission (the Commission). The purpose of this survey was to document the extent of local telecommunications competition for telecommunications services and local markets (e.g., Rate Centers) within North Carolina. This survey was a pioneering effort, having not been conducted before in North Carolina. It was modeled after a similar study completed in January 2004 by the Iowa Utilities Board, but it was more ambitious in terms of coverage of services and providers and in terms of timetable.

The survey was Web based, and survey respondents entered their data (except in a few cases where they provided data on a disk or in hard copy form) on a secure RTI project Web site. The survey included switched and nonswitched services, service plans, and advertising and marketing efforts. It was sent to 271 incumbent local exchange companies (ILECs), competing local providers (CLPs), wireless companies, and Voice over Internet Protocol (VoIP) companies known or thought to be providing service in North Carolina as of March 31, 2004.

The survey process included an invitation to providers by the Chair of the Commission to attend a Public Informational Meeting in Raleigh on May 13, 2004. Subsequently, the Commission and RTI formed an External Advisory Committee (EAC) to assist in reviewing project plans and encourage provider participation. The EAC met on May 27, 2004, to review these plans, which included a draft of the survey questionnaire.

RTI initiated administration of the survey with a letter to participants on June 21, 2004. This letter included a hard copy of the survey instructions and data collection forms. The original deadline for survey completion was July 30, 2004. The Commission subsequently extended this deadline to August 31, 2004. Survey responses continued to be submitted through September 21, 2004.

Of the 271 companies invited to participate in the survey, 87 (32.1 percent) indicated they offered no local telecommunications service in North Carolina as of March 31, 2004. Of the remaining 184 companies, 105 (57.1 percent) completed the survey. Only four companies refused to participate. The remaining 75 companies did not respond, although a very small number of those did seek extensions and some provided very incomplete data.

Survey response rates varied by provider group. All but one of the 25 ILECs in North Carolina responded. Of the 191 CLPs surveyed, 73 (38.2 percent) indicated they did not provide service in North Carolina as of March 31, 2004. Of the remaining 118 CLPs, 68 (57.6 percent) responded with usable data. Thirty-five (35) wireless companies were surveyed. Seven indicated they did not provide service in North Carolina as of March 31, 2004. Of the remaining 28 companies, 12 (42.9 percent) responded with usable data, at least on connections. Twenty (20) VoIP providers were surveyed. Seven indicated they did not provide service in North Carolina as of March 31, 2004. Of the remaining 13 companies, only one (7.7 percent) completed the survey.

A key finding from the survey process is that the schedule was overly ambitious, especially given that the survey was administered during the summer season. This was reflected in part in the need to extend the survey response period by a month. Several wireless companies would only submit data after a nondisclosure agreement (NDA) was in place. Also, the record-keeping systems of several companies, especially wireless and VoIP companies, are not set up to provide the geographically granular detail (certainly not below the Rate Center level) requested in the survey, nor were they able to provide some of the higher-level service (e.g., business versus residential) detail. As a result, the status of competition

between wireline and wireless, and of either one with VoIP, could not be assessed with these data.

The survey data provide a preliminary assessment of the extent of wireline competition in local telecommunications markets in North Carolina, and that only within wireline competition. This is understandable because the survey was a pioneering, first-of-a-kind effort in North Carolina. This assessment of the extent of competition is preliminary in the sense that the survey results provide only market shares and concentration ratios, and then only for connections data. Other factors to consider in an assessment of competition are usage (e.g., minutes of use) and revenues and their trends over time, and a review of provider practices (e.g., in pricing or service provision) to ascertain whether they are anticompetitive. In addition, provider surveys could be complemented by surveys of telecommunications customers to ascertain consumer preferences for services and how they are priced and provided. Both types of surveys should be replicated over time to understand demand- and supply-side trends in the telecommunications markets, especially since they are so dynamic.

Significant data reliability issues exist with respect to the data provided by respondents for nonswitched connections, so findings for nonswitched services are tentative. Therefore, the results for nonswitched services are presented with significantly less confidence than the results for switched connections. Examples of these issues are contained in Section 3.2.3 of this report.

An overarching result from the analysis of the survey data is that wireline competition, as measured by market shares of CLPs in connections, is mottled across services and areas. Typically, and not surprisingly, CLP market shares are

- higher for services to businesses than services to residences (except for residential prepaid telephone service, in which the CLP market share is very large);
- very small for residential nonprepaid telephone service;
- higher for nonswitched services than switched services, despite the data reliability issues;
- higher for services in metropolitan markets than in rural areas; and

- higher for provisioning by UNE-Ps and UNE-Ls.

Of the 430 Rate Centers in North Carolina, 74 (17.2 percent) have no switched services provided by a CLP, and 197 (45.8 percent) have no nonswitched services provided by a CLP. Of the 356 Rate Centers that have switched services provided by at least one CLP, 106 (29.8 percent) are served by only one to three CLPs. Of the 233 Rate Centers that have nonswitched services provided by at least one CLP, 213 (91.4 percent) are served by only one to three CLPs.

Many more CLPs reported they provide switched services (62) than those who reported they provide nonswitched services (21). Of the 62 CLPs who reported they provide switched services, 11 (17.7 percent) serve four or fewer Rate Centers each, and 19 (30.6 percent) serve more than 90 Rate Centers. Of the 21 CLPs who reported they provide nonswitched services, 13 (61.9 percent) serve four or fewer Rate Centers each, and only one serves more than 40 Rate Centers (this respondent reported the provision of nonswitched services to more than 200 Rate Centers).

These findings regarding the status of competition within switched and nonswitched wireline services may be tenuous. The District of Columbia (DC) Federal Appeals Court's suspension of the Federal Communication Commission's (FCC's) Triennial Review Order (TRO) this summer, and the FCC's decision not to challenge the federal court's order, has, at a minimum, created considerable uncertainty about the ability of CLPs to compete in local telecommunications markets. The ability of CLPs to compete in the future via leasing of unbundled network element loops (UNE-Ls) and/or unbundled network element platforms (UNE-Ps) from ILECs is particularly problematic.