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, set against a blue background. The words "OFFICE OF REGULATORY STAFF" are written in a circular path around the top, and "SOUTH CAROLINA" 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

2014

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## **INTRODUCTION**

The South Carolina Office of Regulatory Staff (ORS) is required to compile information and monitor the status of local telephone competition in the State on an annual basis.<sup>1</sup> 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 2014, 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.

In past years, these annual reports depended largely on data provided by carriers to the Federal Communications Commission (FCC) in FCC Form 477. At the time this report was prepared, the FCC Form 477 data was not available for use. As a result ORS has used data from the South Carolina annual reports filed by telecommunications companies with the Commission and ORS for the 2014 data necessary to produce this year's report.

South Carolina Annual Reports were submitted by 25 Incumbent Local Exchange Companies (ILECs), 116 Competitive Local Exchange Companies (CLECs), 94 Interexchange Companies (IXCs), and 18 Lifeline Eligible Telecommunications Companies (ETCs). Currently, uncertified Voice over Internet Protocol (VoIP) providers and Wireless carriers are not required to report.

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<sup>1</sup> This report contains both data generated by ORS and state data published in the FCC's Local Competition Report.

## **TELECOMMUNICATIONS EVENTS OF 2014**

Traditional telephone users continue to migrate their voice communications use to wireless and/or VoIP using their broadband connection.

### **LOCAL TELEPHONE COMPETITION**

FCC Form 477 is used by the FCC to collect subscribership information from providers of local telephone service - incumbent local exchange carriers (ILECs), competitive local exchange carriers (CLECs), mobile telephone providers, and interconnected Voice over Internet Protocol (interconnected VoIP or IVoIP) service providers. This year's Form 477 data was not available from the FCC at the time this Report was being prepared.

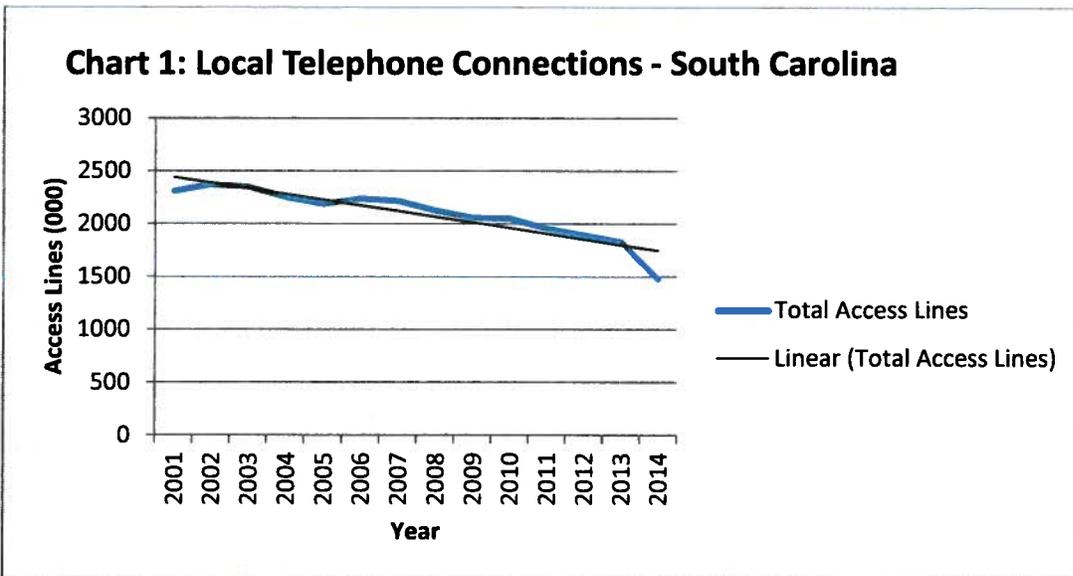
The local telephone market is defined as the delivery of voice telephone service to residential and/or business customers over a wired or wireless communications path regardless of the technology used. This market includes traditional wired telephone service, replacement VoIP service, and wireless or cellular telephone service. Each of these services allows two or more individuals to engage in a simultaneous, speaking conversation even though they are not all located in the same place and these services are considered direct substitutes for each other. Local competition is measured by counting the number of access lines, telephone lines, or wireless handsets sold or controlled by each provider.

Local telephone services are provided by ILECs, CLECs, VoIP providers, and wireless or cellular phone companies. ILECs are the traditional local telephone companies that existed prior to the Federal Telecommunications Act of 1996.

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 via

Internet protocol, or VoIP service. VoIP is further defined as interconnected and non-interconnected.<sup>2</sup> Interconnected VoIP and cell phone providers are required to contribute to the Federal Universal Service Fund (USF) and Federal Telecommunications Relay Services Fund (TRS),<sup>3</sup> and some, though not all VoIP providers, are contributing to South Carolina’s USF and TRS funds. On the federal level, interconnected VOIP providers are generally being treated in a number of respects as traditional telecommunications carriers.

Chart 1 illustrates the gradual decline in total wired access lines occurring since 2003. Data used in this chart (2001 – 2013) are from the FCC Form 477. The final year however is from Annual Reports submitted in South Carolina. ORS believes that the number of access lines reported in 2014 South Carolina annual reports are lower than reported to the FCC. ORS will update this report when data are available from the FCC.



<sup>2</sup> See, 47 C.F.R. § 9.3 and 47 C.F.R. § 64.601(a).

<sup>3</sup> See 47 C.F.R. § 64.604(c)(5)(iii)(A) for TRS and 47 C.F.R. § 54.706 for USF.

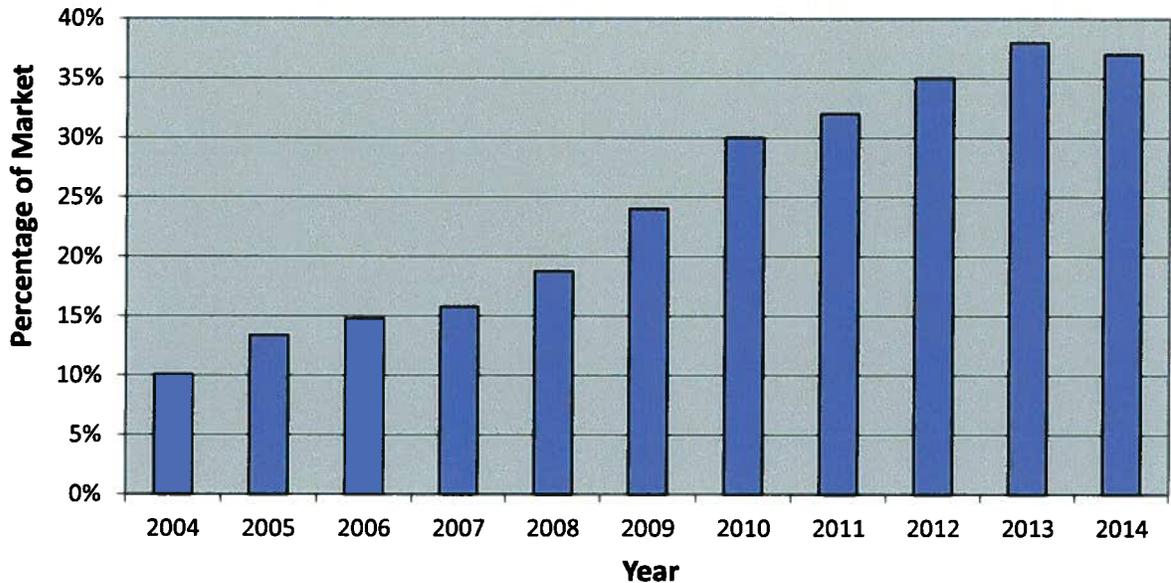
### **INCUMBENT LOCAL EXCHANGE CARRIERS**

During 2013 the ILEC market share continued to decline, and the same happened in 2014, however, data reported in 2014 South Carolina Annual Reports shows the reduction to be 22% from 2013 to 2014. This decline does not follow the previous trend illustrated by the linear trend line in Chart 1. In 2013, 22 of the State's 25 ILECs were operating under the Alternative Regulation provisions of the Code, Section 58-9-576(B) or (C). In 2014 two ILECs opted into Alternative Regulation (58-9-576(B)), leaving just one rate-of-return regulated ILEC in the state (See Table 1, page 11).

### **COMPETITIVE LOCAL EXCHANGE CARRIERS**

Chart 2 illustrates the growth in market share that South Carolina's CLECs have experienced since 2003. Based on access lines reported to ORS in company South Carolina Annual Report filings, CLEC market share dropped off in 2014, decreasing from 38% to 37% of the local telephone market. As the FCC data for 2014 becomes available ORS may update this information.

**Chart 2: CLEC Market Share Growth in SC Since 2004**



Source: Local Telephone Competition Status as of June 30, 2013 Issued by Industry Analysis and Technology Division of the FCC Wireline Competition Bureau, June 2014  
\* 2014 Data extracted from 2014 South Carolina Annual Reports

## **VOIP PROVIDERS**

2014 FCC data on VoIP providers was not available at this writing and South Carolina does not collect specific VoIP data at this time.

## **ALTERNATIVE REGULATION**

Prior to the development of competition in the telecommunications market, each ILEC's rates were regulated by the Public Service Commission of South Carolina (Commission) based on the telephone utility's rate of return. With the passage of the federal Telecommunications Act of 1996, and legislative changes in South Carolina, ILECs are regulated in a more flexible manner. Section 58-9-576(C) provides local exchange companies the ability to offer nearly all retail local service on a deregulated basis.

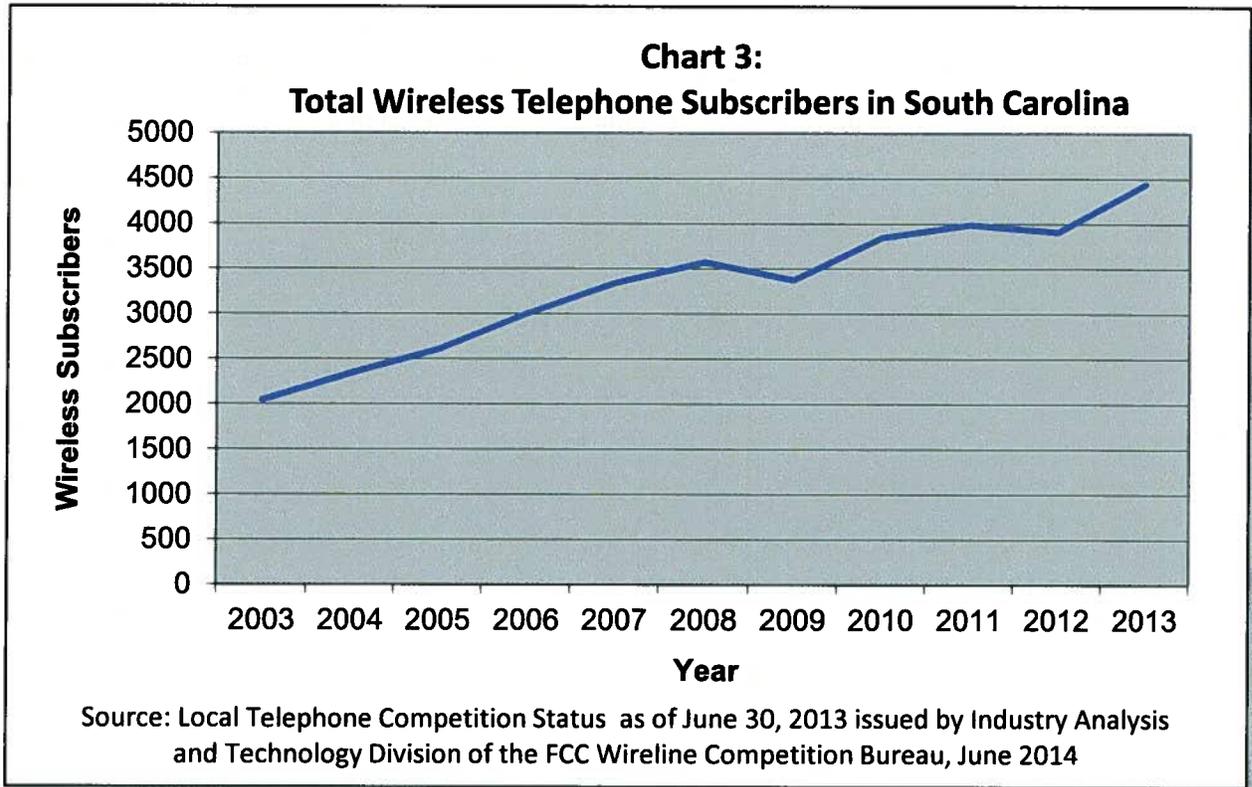
If an ILEC or a CLEC opts for alternative regulation pursuant to Section 58-9-576(C), then its retail service offerings are deregulated -- allowing them the ability to set price, terms, and conditions without Commission review. Additionally, an ILEC choosing Section 58-9-576(C) deregulation will be subject to a three-year phase-down of any state Universal Service Fund (USF) support or Interim LEC Fund (ILF) support it receives, but will continue to contribute to the State USF and ILF funds. The Commission retains authority over wholesale services like switched access and services sold to other carriers as well as limited authority over stand-alone basic residential lines. During 2014, one (1) telecommunications company chose 58-9-576(C) 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 eighteen (18) Lifeline ETCs -- sixteen (16) wireless and two wireline providers -- offering Lifeline at the end of 2014.

#### **WIRELESS CARRIERS**

South Carolina does not collect wireless industry data, and the FCC's 2014 data is not yet available. Chart 3 shows wireless growth from 2003 to 2013. Wireless handsets have more than doubled since 2003, rising by 117% during the ten year period.



### **BROADBAND DEPLOYMENT**

Broadband access has grown significantly in South Carolina. As illustrated in Chart 4, the number of high-speed internet-access lines has increased from 25,229 in 1999 to nearly 3.5 million in 2013. In fact, overall broadband 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.

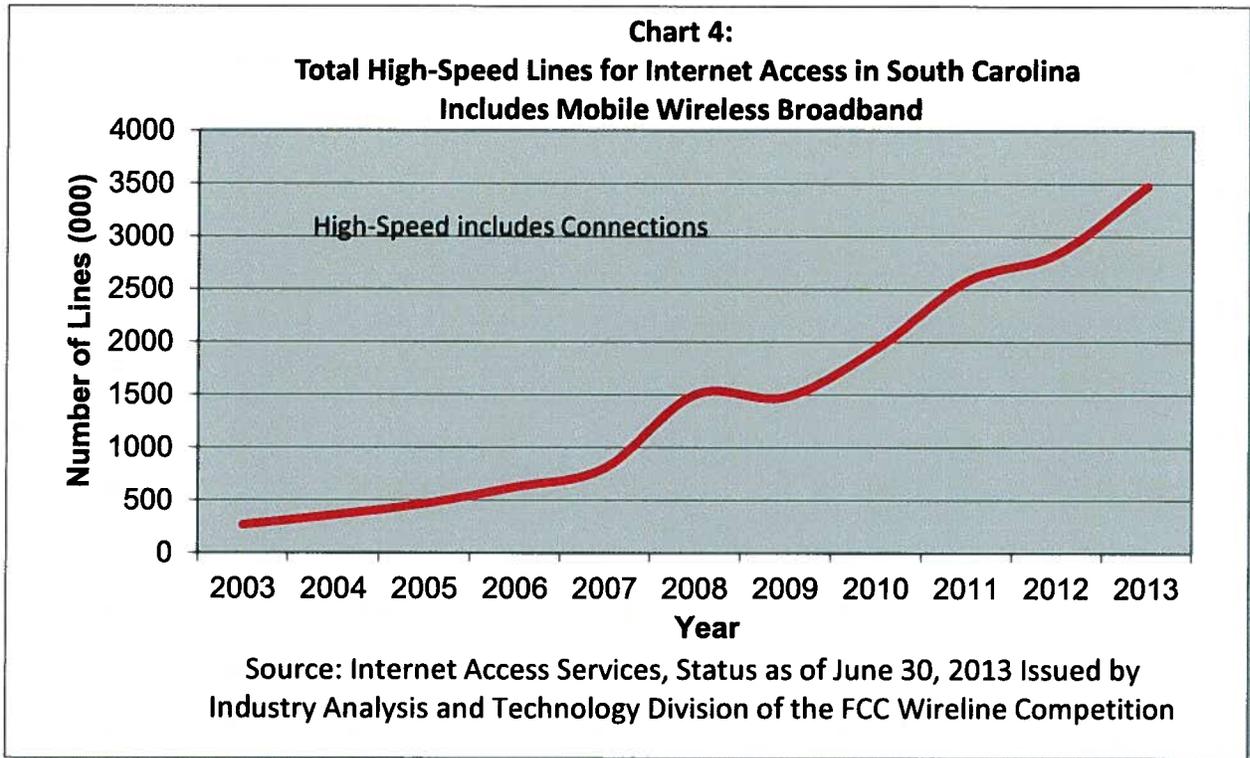
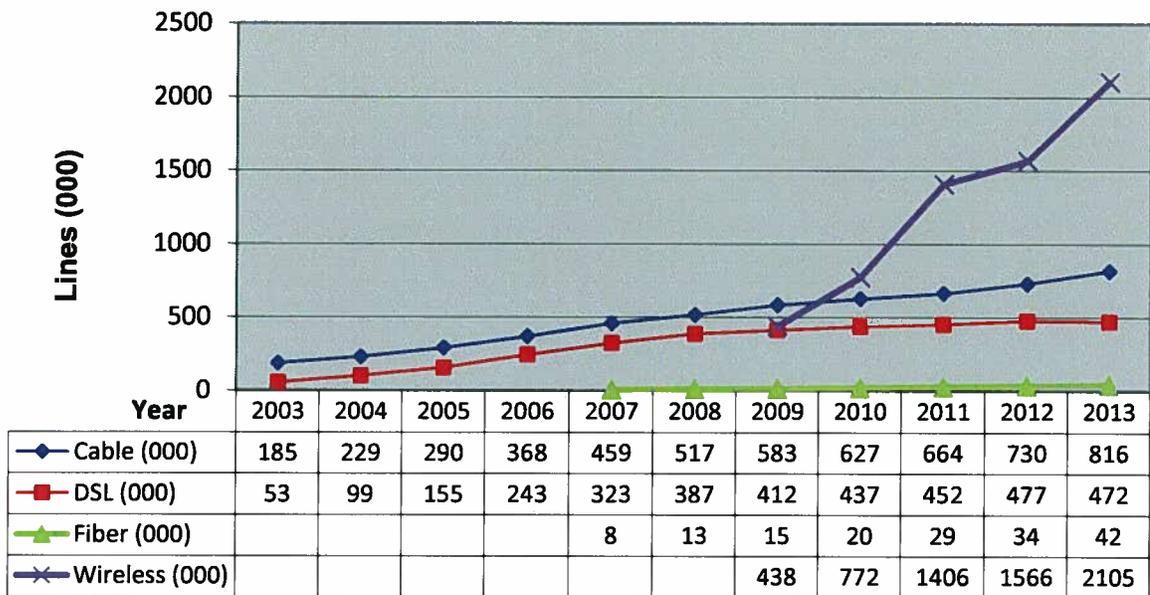


Chart 5 shows the growth of high-speed lines using DSL, coax, fiber, and wireless technologies from 2003 to 2013. The FCC reports that in June 2013 South Carolina had 42,000 fiber connections.

**Chart 5: High-Speed lines by Technology**

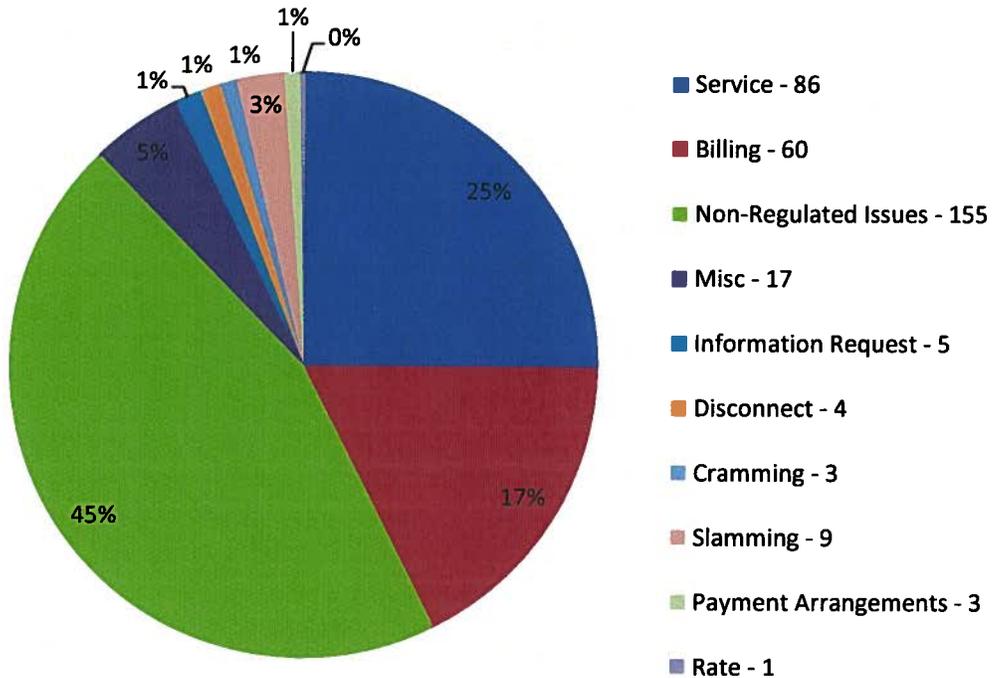


Source: Internet Access Services, Status as of June 30, 2013 Industry Analysis and Technology Division of the FCC Wireline Competition Bureau, June 2014

**CONSUMER SERVICES**

Each year the ORS assists South Carolina residential and business consumers in resolving issues related to their telephone service; two of the largest telecommunications complaint areas relate to service quality and billing. Non-regulated issues dominated complaints this year accounting for 45% of the total. Service quality complaints accounted for 25% of telecommunications complaints, and billing issues rounded out the top three at 17%. The ORS tracks a wide range of consumer complaints related to regulated and non-regulated telecommunications services. Chart 6 depicts a breakdown of telecommunications complaint calls received by the ORS during 2014.

**Chart 6 - Consumer Services Division  
Telecommunications Complaints by Type  
2014**



**CONCLUSION**

Voice services are increasingly provided by wireless and VoIP providers using the underlying telecommunications network built by South Carolina’s telephone utilities. This report provides data illustrating that wireless and VoIP service providers are gaining market share, while traditional landline local exchange carrier market share has decreased. The local telephone landscape continues to evolve.

**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 <sup>1</sup>		
BellSouth Telecommunications	13-Aug-99 <sup>1</sup>	1-Oct.-09 <sup>2</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>3</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.	23-Aug-2014 <sup>1</sup>		
Palmetto Rural Telephone Coop.	1-May-2014 <sup>1</sup>		
Sandhill Telephone Coop.			X

<sup>1</sup> Company requested Alternative Regulation based on interconnection agreement.

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

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