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 of the seal, 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

2013

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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.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 2013, 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.

Much of the data that appears in this report was provided to the Federal Communications Commission (FCC) in FCC Form 477. According to the FCC, data was submitted by 17 Incumbent Local Exchange Companies (ILECs), 137 Competitive Local Exchange Companies (CLECs), 108 Voice over Internet Protocol (VoIP) providers, and 12 Wireless carriers.

TELECOMMUNICATIONS EVENTS OF 2013

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

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

Protocol (interconnected VoIP or IVoIP) service providers. Traditional wireline service is being replaced by VoIP technology.

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 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.

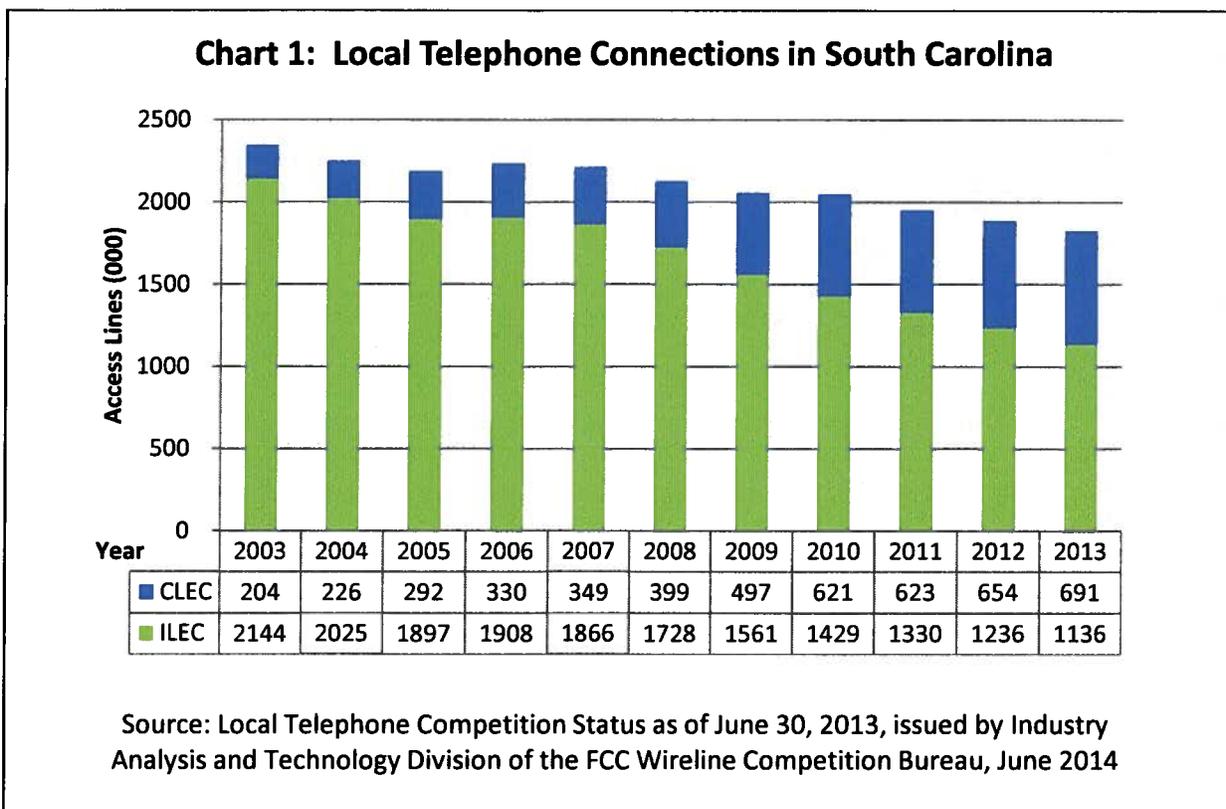
Local telephone services are provided by ILECs, CLECs, VoIP providers, and wireless or cellular phone companies. ILECs are the traditional local telephone companies that existed prior to the Federal Telecommunications Act of 1996.

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.² Interconnected VoIP providers are required to contribute to the Federal Universal Service Fund (USF) and Federal Telecommunications Relay Services Fund (TRS),³ and some, though not all, 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.

² See, 47 C.F.R. § 9.3 and 47 C.F.R. § 64.601(a).

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

Chart 1 illustrates the gradual decline in total wired access lines occurring since 2003. Importantly, during that period ILEC lines declined by approximately 47% and have fallen by 50% since their peak in 2002.

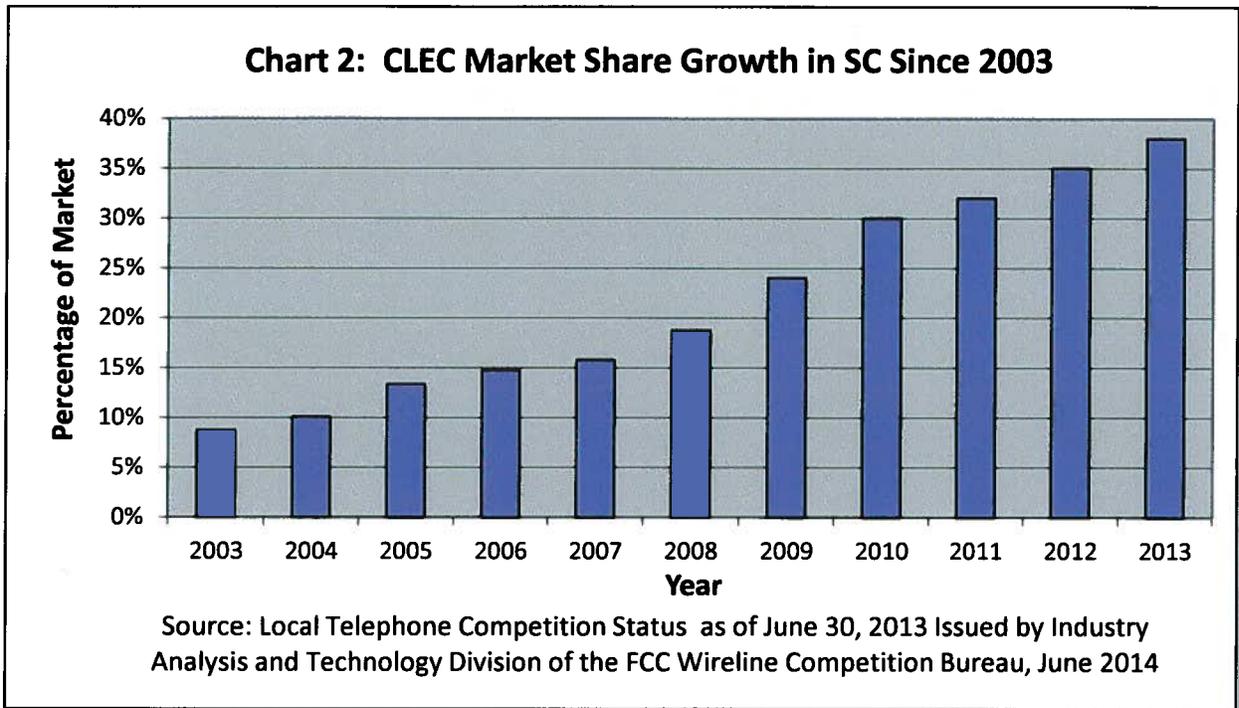


INCUMBENT LOCAL EXCHANGE CARRIERS

During 2013 the ILEC market share continued its steady decline in South Carolina, with market share dropping to 62%. 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). Three ILECs remained rate-of-return regulated in 2013 (See Table 1, page 14), but two of them opted into Alternative Regulation provisions in 2014.

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 the FCC, CLEC market share grew again in 2013, increasing from 35% to 38% of the local telephone market.



VOIP PROVIDERS

In June of 2013, the FCC reported 108 VoIP providers serving subscribers in South Carolina. Some of these VoIP providers are ILECs, some are CLECs, and some are uncertificated providers of VoIP telephone service. In 2013, nearly 57% of CLEC Wireline customers purchased their telephone service from a VoIP provider.⁴

⁴ Local Telephone Competition: Status as of June 30, 2013, Industry Analysis and Technology Division, Wireline Competition Bureau, June, 2014; Table 9.

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 Act 7 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 2013, two (2) telecommunications companies chose Act 7 (58-9-576(C)) deregulation.

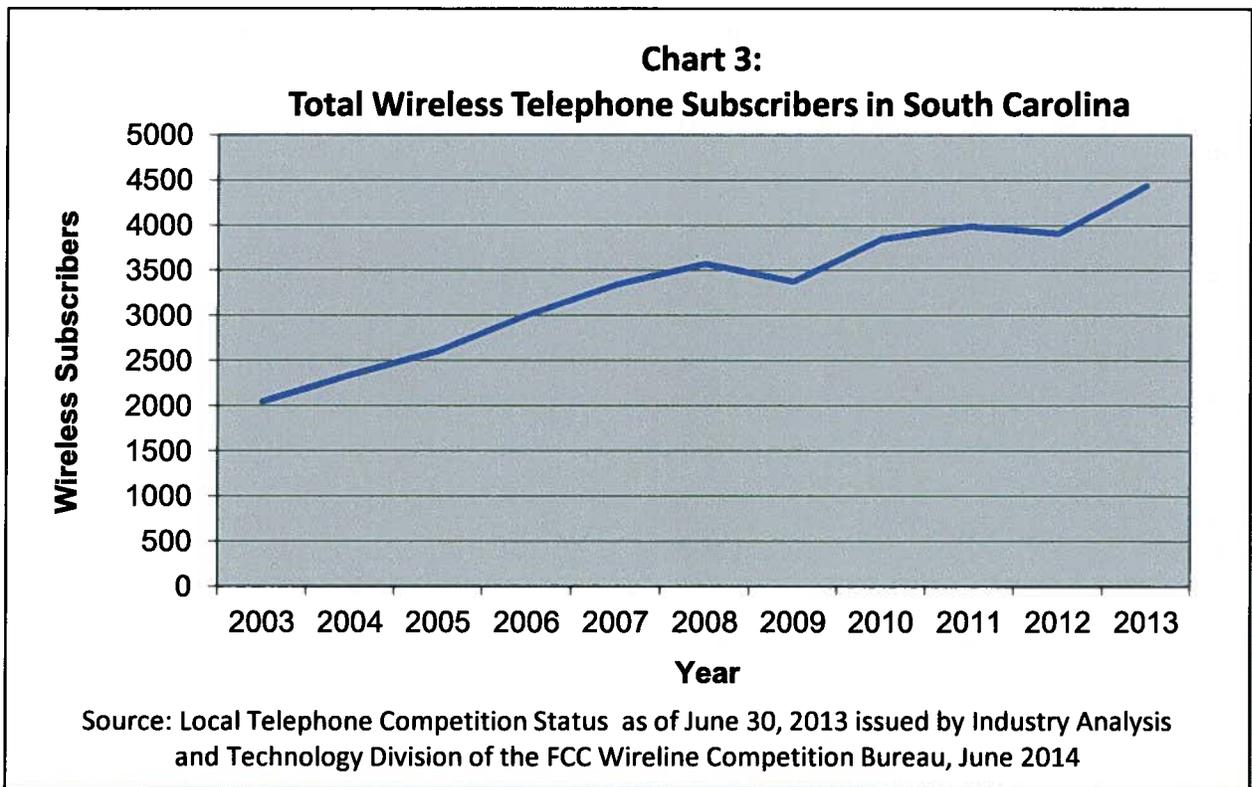
LIFELINE - ELIGIBLE TELECOMMUNICATIONS CARRIERS

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 sixteen (16) Lifeline ETCs -- fourteen (14) wireless and three wireline providers⁵ -- offering Lifeline at the end of 2013.

⁵ One South Carolina Lifeline ETC is authorized to provide both wireline and wireless lifeline service.

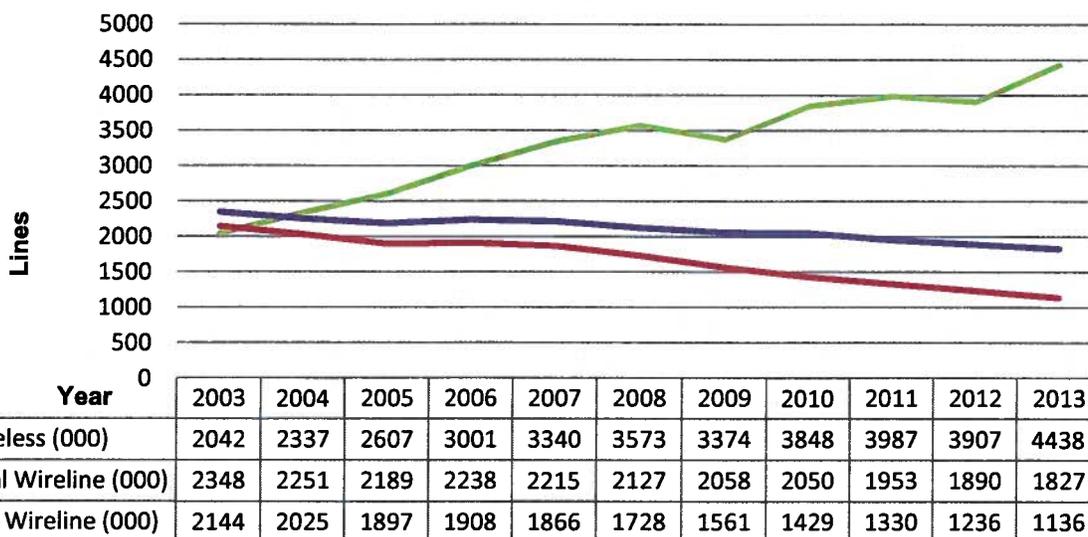
WIRELESS CARRIERS

In 2011 and 2012 there were 16 facilities-based wireless carriers operating in South Carolina, but in 2013 the number dropped to 12.⁶ As reflected on Chart 3, these wireless companies reported 4.4 million wireless subscribers, a jump of nearly 14% over the previous year. Chart 4 provides a comparison of total wireless and wireline access lines in South Carolina from 2003 to 2013. Chart 5 shows the combination of wireline voice with broadband in comparison to wireless lines.



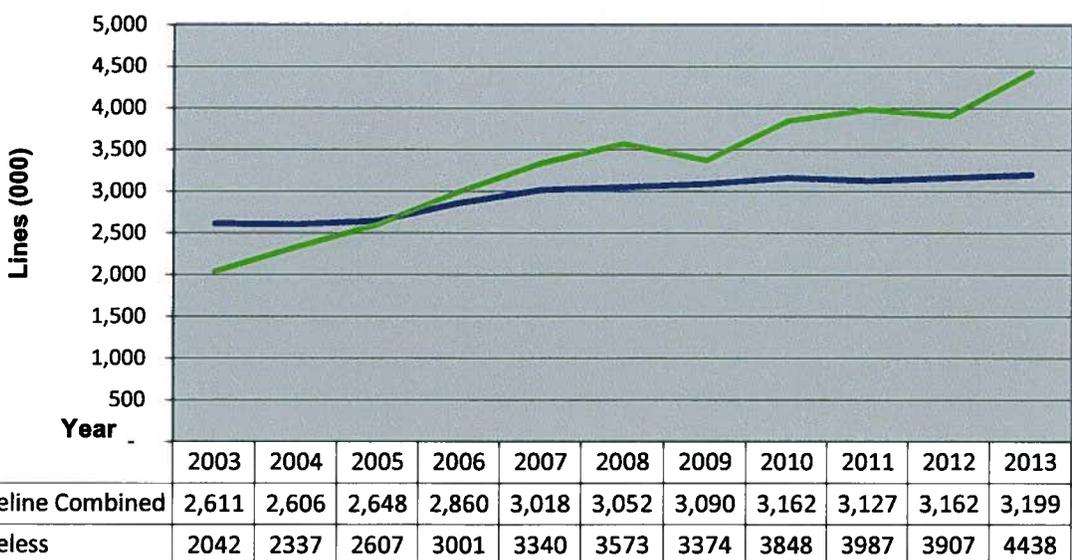
⁶ FCC Local Telephone Competition Report: Status as of June 30, 2013.

Chart 4: Wireline and Wireless Access Lines



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

Chart 5: Wireline Voice/Broadband and Wireless Access Lines



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

BROADBAND DEPLOYMENT

Broadband access has grown significantly in South Carolina. As illustrated in Chart 6, 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.

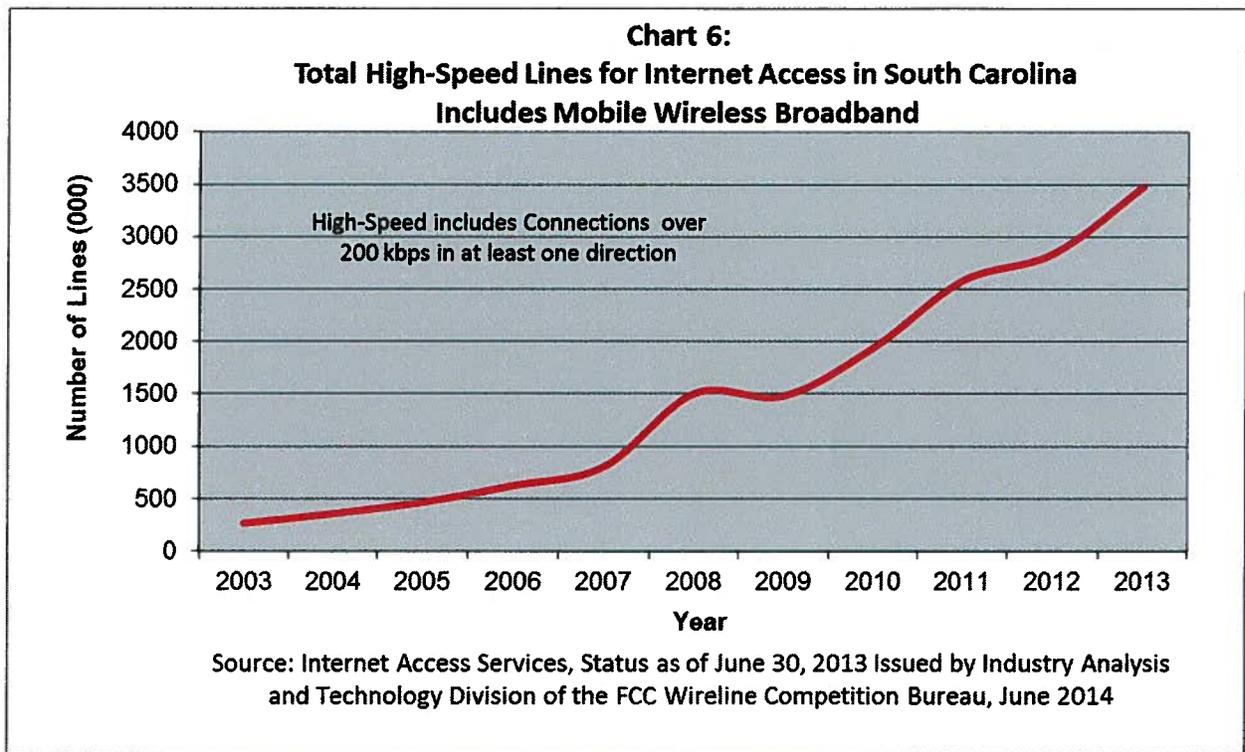
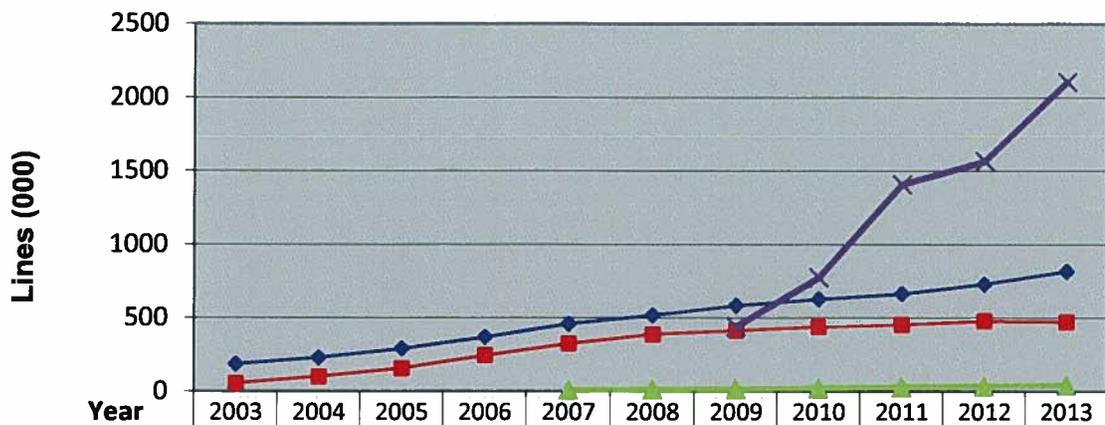


Chart 7 shows the growth of high-speed lines using DSL, coax, fiber, and wireless technologies from 2003 to 2013. The FCC reports that in June 2013 South Carolina had 42,000 fiber connections.

Chart 7: High-Speed lines by Technology



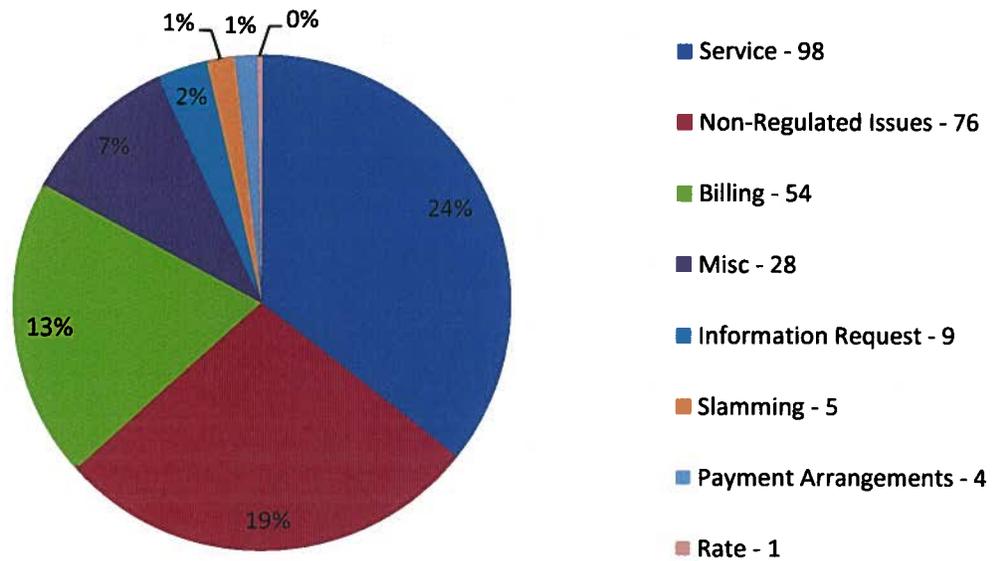
—◆— Cable (000)	185	229	290	368	459	517	583	627	664	730	816
—■— DSL (000)	53	99	155	243	323	387	412	437	452	477	472
—▲— Fiber (000)					8	13	15	20	29	34	42
—×— Wireless (000)							438	772	1406	1566	2105

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 to resolve issues related to their telephone service; two of the largest telecommunications complaint areas relate to service quality and billing. Service quality complaints accounted for 24% of telecommunications complaints, non-regulated issues were second with 19%, and billing issues were third at 13%. 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 2013.

Consumer Services Division Telecommunications Complaints by Type 2013



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 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.	23-Aug-2014 ¹		
Palmetto Rural Telephone Coop.	1-May-2014 ¹		
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.