



North Carolina
Telephone Cooperative
Coalition

Special points of interest:

- Legislators Pass Video Service Competition Act
- Congress Labors Over New Telecom Bill
- FCC Acts on Universal Service

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LEGISLATORS PASS VIDEO SERVICE COMPETITION ACT

The North Carolina General Assembly helped consumers this year by adopting the Video Service Competition Act (HB 2047), which most industry observers believe will lead to lower costs and improved service for cable TV customers in North Carolina. The new law will introduce video service competition into North Carolina by creating a statewide franchising process for cable and video service providers.

The passage of this legislation followed months of legislative studies and negotiations between interested parties, including the cable industry, the telecommunications industry, the Utilities Commission, the Attorney General, PEG channel advocates, the NC League of Municipalities and The Association of County Commissioners. CaroLink companies were heavily involved in supporting this legislation. Many employees of CaroLink companies talked with their local legislators about the importance of opening the cable TV market to competition. These grassroots efforts helped inform legislators about the pro-consumer aspects of the legislation. That local involvement was critical in

ultimately achieving unanimous support in the N.C. Senate and strong, bipartisan support in the N.C. House (passing on its final reading by a vote of 111 to 5).

So what does this new legislation mean to CaroLink companies? Below is a brief outline of some of the most important parts of this new law:

State-Issued Video Franchises

Starting January 1, 2007, a person who intends to provide cable service or video programming service may file a notice of franchise with the Secretary of State and thereby avoid negotiating separate franchising agreements with local municipalities. The person must begin providing service in the designated franchise area within 120 days after the notice of franchise is filed. Holders of State-issued franchises must file an annual service report with the Secretary of State detailing, among other things, their service area and the number of households passed in such service area. Incumbent cable providers may opt-out of their existing local franchise agreements in the event that a notice is filed that one

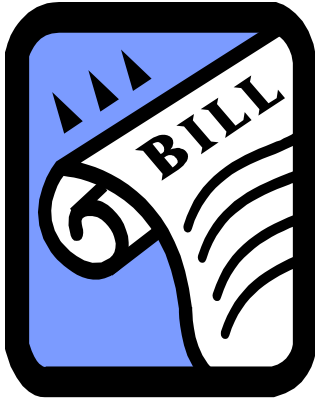
or more households in the franchise area of the existing agreement are passed by both the incumbent and the holder of a State-issued franchise.

Local Revenues, Peg Channels, and Public Buildings

The new law promotes much needed video programming competition, while protecting local government revenues. The legislation eliminates current local franchise fees in lieu of a uniform State sales tax rate. The bill contains a complicated formula by which a portion of State sales tax receipts are redistributed to local governments to offset the loss of local franchise tax revenue. The bill also sets minimum requirements for the transmission of PEG channels and service to public buildings by holders of a State-issued franchise.

Consumer Protections

The legislation contains consumer protection provisions prohibiting discrimination and requiring compliance with FCC service standards, but it expressly prohibits build-out requirements. The Consumer Protection Division of the Attorney General's office is designated as the State agency to receive and respond to consumer complaints.



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CONGRESS LABORS OVER NEW TELECOM BILL

Congress is at it again. When the Telecom Act of 1996 was enacted, the first major rewrite of the 1934 Act was hailed as a new era in the Telecommunications Industry. New rules would be adopted for interconnection between incumbent carriers and new entrants, universal service would be maintained and modernized and consumers would experience a rapid convergence of the various technologies thereby producing a robustly competitive local exchange market. While a competitive marketplace has certainly developed, some would argue that it has occurred in spite of the Telecom Act of 1996 and not because of it.

Uncertainties still exist in regards to interconnection rules, universal service issues have hardly been addressed and only recently, to a large extent at the State level, have any meaningful changes been made to facilitate competition between traditional telephone compa-

nies and the cable television industry.

Recently, the U.S. House of Representatives passed new telecommunications legislation. However, the House version is significantly different from the bill that is moving forward in the Senate. The differences are so great that it is unlikely that any new, comprehensive telecommunications laws will be passed before elections this fall.

While the current debates revisit some of the issues addressed in the Telecom Act of 1996, changing technologies have resulted in new issues that need to be addressed. Issues such as net neutrality, federal video franchising, regulatory authority for voice-over-Internet protocol (VoIP), the status of universal service funding in a broadband world and sharing of CATV head-end facilities have taken on increased importance.

For rural carriers, the issue of universal service funding

(new proposals have recently been advanced) and the need to modernize funding mechanisms for the new broadband world is of paramount importance. In addition, the ability of telephone companies to provide video services is critical as customers move to a broadband environment and demand for traditional voice telephone service declines. For rural companies, a crucial element for rural carriers to provide video services on an economic basis is the ability to share head-end facilities with other rural carriers. Further, arguments suggesting that mandating build-out requirements for video services is helpful to rural companies are inaccurate. In fact, rural companies choosing to extend video services into sparsely populated areas will hardly be helped by legislative mandates that require those companies to build into areas with even less densely populated areas.

TMCs GRANTED ACCESS TO PUBLIC RIGHT-OF-WAYS

The General Assembly passed a bill in 2005 that clarified that public utilities have access to public rights-of-way once a map or plat of a subdivision is recorded or a public street is dedicated. However, TMCs are not included as part of the definition of a "public utility" under N.C. law. The General Assembly passed legislation (SB 1523) this year to correct this oversight and to ensure that TMCs are now included among providers of telecommunications services that are granted access to public rights-of-way for purposes of installing, maintaining, and operating lines, cables, and facilities for the provision of service to the public.

The need for the change demonstrates the fast pace of change within the telecommunications industry. In 2005, territory served by TMCs had generally not been targeted by new market entrants so the inclusion of TMCs was not thought to be necessary. In only one year, the market had changed and the General Assembly amended the law to reflect the dynamics of the rural telecommunications market.

LEGISLATORS SET TO STUDY TELECOMMUNICATIONS ISSUES

On the last day of session, the General Assembly authorized over one hundred studies that legislative committees may undertake prior to the legislature reconvening on January 24, 2007. Two of these studies may be of particular interest to Carol-Link members. First, the Joint Legislative Transportation Oversight Committee is authorized to study the use of incentives, disincentives and other contractual measures by the Department of Transportation to expedite the relocation of public utilities for highway construction projects. The second study authorizes the Joint Legislative Utility Review Committee to continue its study of the State's 911 system and report to the full General Assembly on the advisability of creating a statewide, uniform 911 charge.

The studies process is an important means of generating legislative consensus prior to introducing significant legislative reforms. For example, the fact that video franchising legislation had first gone through the studies process was critical to it garnering support from legislators who might have otherwise been skeptical of the legislation.

GENERAL ASSEMBLY TACKLES BIG ISSUES IN 2006

Although this was supposed to be a "Short Session" year during which legislators come to Raleigh, adjust the budget, and avoid making major policy changes before an election, 2006 proved to be an exception to this general rule. As the dust settled at the end of session, most observers agreed that the General Assembly had one of its most productive "short sessions" in recent memory.

The following is a list of some major issues tackled by the General Assembly in 2006:

State Budget

Thanks largely to a \$2 billion surplus, lawmakers approved a \$18.87 billion final spending plan for the 2006-07 fiscal year. Large portions of the budget's increased spending went to education, the court system, building construction and emergency reserves. Teachers received an average 8% salary increase, while other state employees received an increase of 5.5%. The final budget increased state spending by about 10% over the previous fiscal year and was criticized by some Republican leaders for setting the State up for a budget shortfall in 2007.

Tax Changes

The General Assembly enacted several tax changes of note. Specifically, legislators passed bills to:

- Reduce the State sales tax by .25% to 4.25% effective December 1, 2006 and cut the sales tax rate an additional .25% to 4% effective July 1, 2007;
- Lower the individual income tax rate for North Carolina's highest wage earners from 8.25% to 8% starting January 1, 2007, with an additional reduction to 7.75% scheduled to go into effect January 1, 2008;
- Provide small businesses (those with no more than 25 eligible employees) with a \$250 tax credit for the cost of providing health insurance for employees who make up to \$40,000 a year;
- Exempt qualifying "Internet data centers" from the State sales tax on electricity and eligible business property (this provision relates to efforts by the Department of Commerce to recruit a new facility to be located somewhere in the Triad region); and
- Cap the State motor fuel tax at 29.9 cents/gallon through June 30, 2007.

Economic Development/Business Environment

Legislators approved a comprehensive rewrite of the State's business incentive program - the Bill Lee Act. Among other things, the legislation reduces the number of county development tiers from five to three. The legislation also expands the types of businesses eligible for tax incentives to include research and development, information technology and services and company headquarters.

As part of the budget, legislative leaders doubled the amount of money the Department of Commerce can use for job-

development grants (JDIG) and appropriated an additional \$15 million to the One North Carolina Fund, which the Governor uses for business recruitment.

Despite opposition from parts of the business community, House and Senate leaders also approved a \$1 increase in the State's minimum wage to \$6.15 an hour. This represents the first increase in the minimum wage since 1997.

Ethics & Lobbying Reforms

In response to state and federal investigations of alleged campaign finance violations, the General Assembly enacted what one experienced observer called "the biggest reform package in the area of ethics, campaign finance, and lobbying law reform since the mid-70's."

The final reform package was not unveiled to lawmakers until the last day of session. As a result, most observers are still working to understand the nuances of the 60-page bill. The following is a summary of some of the new requirements contained in the ethics bill and related legislation:

- Prohibits legislators from receiving gifts (of any value) from lobbyists and their principals;
- Prohibits lobbyists from providing campaign contributions to legislators and from "bundling" campaign contributions from multiple contributors;
- Expands the definition of "lobbying" to include discussions with executive branch officials (i.e. persons wishing to influence executive branch action will now have to register as lobbyists);
- Prohibits legislators from converting campaign funds to personal use;
- Expands the requirement that legislators and other public officials file economic interest statements with the State Ethics Board; and
- Requires more disclosure of spending by groups and individuals who conduct "issue-oriented" campaigns that mention individual candidates by name.

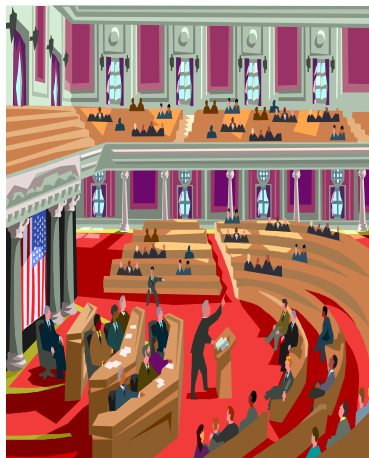
These changes are scheduled to become effective on January 1, 2007.

Other Issues

After many years of being stalled in the House, the General Assembly voted this year to ban video poker in North Carolina following a twelve month phase-out.

Legislators also voted to place a one-year moratorium on permitting new landfills in North Carolina. Senator Marc Basnight led the fight for a moratorium after it was announced that two mega landfills were planned for counties in his district. A wide array of business interests opposed the moratorium, arguing that it would increase the cost of doing business in North Carolina and create monopolies for existing landfills.

In the final hours of session, House and Senate members passed bills toughening the State's laws against sex offenders, making it more difficult for illegal immigrants to obtain drivers licenses, and creating the nation's first innocence commission with the authority to overturn wrongful convictions.



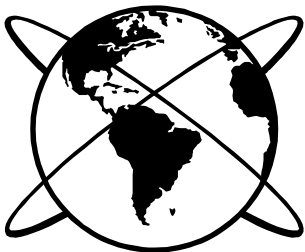
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*Telecommunications –
Yesterday,
Today and Tomorrow*



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FCC ACTS ON UNIVERSAL SERVICE

Facing the loss of universal service funding (USF) from digital subscriber lines (DSL), the FCC has adopted an interim solution that requires VoIP providers to pay into the universal fund and increase the percentage of interstate usage used by some wireless carriers to estimate the amount of interstate revenues generated by some wireless carriers. Although the amount of funding produced by the changes has not been accurately quantified, the assumption is that the new changes will at least cover the loss of USF support from DSL facilities.

The action by the FCC was long awaited. Although all five members of the FCC supported the interim solution, the two Democratic Commissioners expressed concern that the decision did not go far enough to assure the USF's future financial viability. Democratic Commissioner Michael Copps expressed further concerns that removing DSL support from the fund might adversely impact the deployment of broadband facilities in rural areas. Representatives from the National Telecommunications Cooperative Association (NTCA) also expressed concern the FCC's action might undermine the ability to achieve broadband service to all Americans by 2007.