



North Carolina
Telephone Cooperative
Coalition

Special points of interest:

- 2007 General Assembly Session Reasonably Productive
- General Assembly Enacts Comprehensive 911 Reform
- Carolink PAC Support Remains Strong

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2007 GENERAL ASSEMBLY SESSION REASONABLY PRODUCTIVE

The 2007 Session of the General Assembly adjourned around 10:30 p.m. on August 2, 2007. Members will return in May of 2008 to begin the short session. To some extent, the session was impacted by and sandwiched between the continuing problems of former Speaker Jim Black. The session started with the former Speaker's guilty plea in federal court and ended with his sentencing on state charges. Even new Speaker Joe Hackney acknowledged that the developments were often a distraction for members. Former Speaker Black's problems were also interrupted by resignations due to personnel improprieties, accusations of campaign finance irregularities and the alleged misuse of state funds for non-profit organizations favored by members. All in all, it was not the General Assembly's finest hour.

Contrary to some reports, it was not a "do nothing session". Of the more than 3500 pieces of legislation introduced, 409 bills cleared the process. Of those, 344 laws were enacted, 68 joint resolutions were ratified and a total of 7 resolutions adopted by the Senate and House. At the close of the session, 169 bills were on the Governor's desk. Twenty-six more were to be delivered to the Governor. With 344 laws enacted and 195 pre-

resented to the Governor for signature, it is possible that a total of 539 bills could become law, which is a significant increase over the 463 enacted during the 2005 session.

To some degree, the session was lengthened due to the debate on whether counties should continue to pay for a portion of Medicaid. North Carolina joined a



majority of states with the state assuming local government's portion of Medicaid funding. While that sounds like a good idea, the State's generosity was accompanied, according to local governments, by taking revenue dollars from local governments to fund the State's new Medicaid responsibilities. This resulted in a significant dispute about new revenue sources for local governments. One new funding source was a proposed tax on real estate transfers, which was strongly opposed by state associations for realtors and homebuilders. Ultimately, the General Assembly, with a push from the Governor,

gave counties the option of approving a four-tenths of one percent real estate transfer tax or a one-fourth percent increase in the sales tax. Voter approval must be obtained through a referendum.

The General Assembly also passed landmark energy legislation. The bill requires electric utilities to move, over several years, to a point where 12.5% of the State's energy is generated by renewable resources. The bill also contains provisions for energy efficiency and demand side management, which would provide incentives for companies to reduce peak load requirements in order to reduce the need for new power plant construction. At the same time, the legislation, among other things, permits electric

utilities to recover the cost of chemical agents used to reduce coal emissions through a surcharge and provides sales tax exemptions for electric sales to some industrial customers. Although the provisions related to Construction Work in Progress (CWIP) were less than the electric utilities had initially proposed, they will be able to recover prudent CWIP costs before a plant goes into service but can do so only through the filing of a general rate case.

Progress was also made on some health care issues.

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GENERAL ASSEMBLY ENACTS COMPREHENSIVE 911 REFORM



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After more than ten years of effort, debate and negotiations, the General Assembly this year enacted comprehensive reform of the State's 911 system. Governor Easley signed the bill on August 19. The current system was implemented in 1989 when the telephone industry was much different than it is today. CarolinaLink was instrumental in passing the new legislation, which modernizes North Carolina's 911 system by creating a single statewide 911 fee for all voice communication services, regardless of technology.

After several years of negotiation with the Association of County Commissioners and other local government officials, CarolinaLink helped develop consensus legislation that creates a single statewide 911 fee of 70¢, which will be charged on all wireless, wireline, and VoIP voice communication services. CarolinaLink appreciates the cooperation of local government officials and other industry members that assisted in developing and supporting passage of this much needed modernization of the State's 911 System.

HB 1755, co-sponsored by Representatives Drew Saunders (D-Mecklenburg) and Harold Brubaker (R-Randolph), levels the

playing field among competing voice communication technologies. Under current law, there is no limit on the amount of 911 fees local governments may charge wireline customers. As a result, some CaroLink members face 911 fees as high as \$3.00. In contrast, wireless customers pay a statewide rate of 70¢, and Internet phone service customers are not required to pay any 911 fee. HB 1755 eliminates this disparity and ensures that all voice communication service customers pay the same 70¢ rate.

In addition to eliminating the competitive disadvantage inherent in the present system, this legislation protects counties and local 911 centers by ensuring that these 911 centers will continue to receive the same (or more) revenue as they have in the past. HB 1755 also expands the use of 911 funds by allowing local governments to use 911 funds for training 911 personnel. Additionally, the legislation provides a significant one-time financial benefit to many local governments by allowing counties to shift existing 911 fund balances to their general funds.

Under the legislation, the powers and duties of the existing Wireless 911 Board are expanded to create a new statewide 911 Board responsible for administering and distrib-

uting all 911 funds. The Board will consist of private and public members, including representatives of wireless, wireline, and VoIP providers. The Board is granted expanded powers to investigate the revenues and expenditures of local 911 centers (called public safety answering points ("PSAPs")) to ensure that they comply with statutory restrictions on the use of monies distributed from the 911 fund. The 911 Board is also authorized to provide significant grants to PSAPs in rural and other high-cost areas to provide facility and service enhancements. This will help assure that citizens throughout the state receive emergency services of consistent quality. This is particularly important in today's environment where more than one-half of the calls to PSAPs are initiated by wireless customers.

CarolinaLink is pleased that after so many years, members of the General Assembly embraced the need for comprehensive reforms to modernize the State's 911 system to reflect the technological demands of the 21st Century. This resulted in almost unanimous support for HB 1755 in both the House and the Senate. The reforms adopted by the legislation will go into effect January 1, 2008.

CONGRESS LOOKS FURTHER AT RURAL BROADBAND

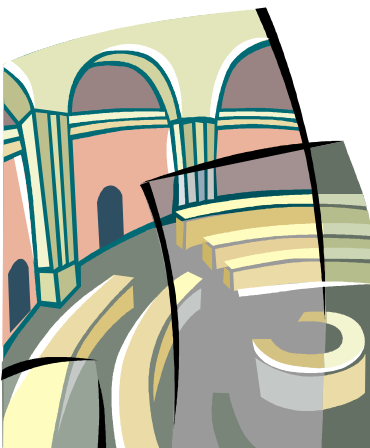
Just as the General Assembly appropriated funds to the E-NC Authority to provide matching grants for rural broadband connectivity, Congress is also getting in on the act. The Rural Broadband Reauthorization Act, introduced in May, seeks deployment of broadband service to rural areas that currently are not being served.

The Act uses a number of approaches to accomplish its objectives including the adoption of some of the principles used in the RUS telephony program. The act also provides for increased amortization periods for broadband loans that will permit companies receiving the money to repay the loans over a longer period of time. It is much like lowering monthly mortgage payments by getting a 30-year loan rather than a 15-year loan.

The Act also seeks to expand eligibility requirements so that some companies with more than 2% of the nation's

access lines can obtain loans. At the same time, the Rural Utility Service (RUS) is required to use greater flexibility in determining what constitutes adequate security for a loan. In addition, the Act proposes to provide start-up money that will encourage the formation of public-private partnerships.

Certainly, both federal and state efforts that help improve infrastructure in rural areas are encouraging. At the same time, the apparent assumption that providing broadband service and nothing else will cause prosperity to break out is probably not correct. Low incomes, inadequate water and sewer and inadequately funded schools can be found in many rural areas. While broadband service is important, providing broadband to someone who can't afford a computer may not be the best means of addressing the problem.



In this session, North Carolina joined other states that provide parity in coverage for persons with mental health issues. Although alcohol and substance abuse are not included, the law means that some mental health related illnesses receive the same coverage as that provided for physical illnesses. The General Assembly also created a high-risk insurance pool for citizens who have trouble obtaining health insurance coverage. In an effort to put North Carolina in the forefront of cancer research, a \$50 million appropriation was approved to fund the operations of a new cancer research facility in Chapel Hill.

The General Assembly also took action to improve the election process. One law provides for "one-stop" registration and voting prior to election-day. The legislation includes protections against fraud and, hopefully, will increase voter participation. The State's experiment with the public financing of judicial races was extended to statewide races for Insurance Commissioner, State Auditor and Superintendent of Public Instruction. While there are many proponents for public financing of campaigns, opponents argue that such financing will reduce citizen participation in the election process and require individuals to provide financial support to candidates they otherwise might choose not to support.

While many people continue to digest the ethics reforms passed during the 2006 Session, the General Assembly continued with its reform efforts this year. Legislation was adopted that requires disclosure of contributions made to legal defense funds organized to assist with the defense of public officials. Another bill provides that elected officials convicted of public corruption will not be entitled to any government pension. Ethics reform is likely to remain a hot topic as some observers push for even more comprehensive changes.

At the conclusion of the session, new regulations were adopted, after lengthy negotiations and debate, for the regulation of landfills. Another bill essentially banned future hog lagoon construction. The bill provides economic incentives for farmers to replace existing lagoons with more environmentally friendly alternatives. The General Assembly also added new substantive and procedural requirements for local governments and others seeking to transfer water from one river basin to another. This has been a controversial topic in the Catawba River basin in recent years. Water resource allocation issues are expected to draw more legislative attention in years to come.

Closer to home, CarolinaLink supported E-911 legislation and legislation to streamline the location of tower sites for wireless service. Both laws are discussed separately in this newsletter as well as a bill relating to municipal entry into the telecommunications business.

The General Assembly also approved a bill that permits telephone companies to provide service promotions with only one day's notice to the Utilities Commission. In the past, regulatory delays have, in some instances, made it difficult for regulated telephone companies to compete effectively. In response to a joint effort by telephone, electric and natural gas companies, the General Assembly passed a law increasing penalties for the theft of metals. The penalties are particularly severe for the theft of metals that are currently being used to provide service to customers. As the price of copper has increased, these service-interrupting thefts have been very problematic for rural telephone companies. Additional funding was also provided to the e-NC Authority to

make matching grants for broadband connections in un-served or under-served areas.

There are two possible areas that could be subject to further study prior to the 2008 short session. The General Assembly will study the best means of assuring that sales taxes and E-911 charges are assessed fairly against pre-paid wireless providers. The E-911 bill includes a one-year exemption for pre-paid providers so that this issue can be studied. It is also possible that a second study will review the degree of broadband deployment for rural areas, although the rural broadband study appears to be less certain.

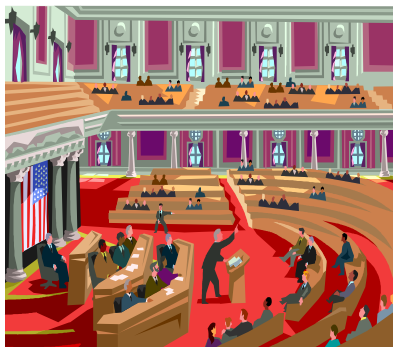
USF FUNDING PROBLEMS RECEIVE A LOT OF TALK BUT NO ACTION

The concept of universal service has been around almost as long as the telephone industry. The basic idea is that all areas of the country should have access to reasonably affordable basic telephone service. With the passage of the Telecommunications Act of 1996, Congress created the Universal Service Fund (USF), which appears as a surcharge on the telephone bills of virtually everyone. During the Fund's existence, more than \$40 billion has been collected. Money collected is directed to four separate and distinct programs. A portion of the Fund goes to schools and libraries for connection to the Internet. A second part of the Fund helps to subsidize telephone service for the poor and a third provides subsidies to rural health care facilities.

The fourth part of the Fund, and by far the largest, provides support to provide telephone service to high cost, mostly rural areas. Historically, this support went to traditional telephone companies that have provided service to rural areas for decades. With the development and increased deployment of wireless services to rural areas, wireless companies seized on the opportunity to receive universal service funding. This resulted in multiple telephones to the same premises receiving a subsidy. Wireless companies, whose cost of providing service to rural areas is generally lower than the cost of service for traditional telephone companies, receive the same subsidy as their higher cost competitors. As a result, some observers argue that wireless companies are being paid in excess of their underlying cost to provide duplicative service to rural customers. This has resulted in unprecedented escalation of USF funding requirements and many participants are starting to balk. In fact, USF payments to wireless companies have increased almost tenfold since 2003.

A board composed of state and federal regulators have recommended to the Federal Communications Commission (FCC) that a cap be placed on funds to competitive wireless carriers. Not surprisingly, some wireless carriers in rural areas oppose the idea of a cap. Rather than limiting the Fund, some have suggested that the USF should be extended not only to support for voice service but to support of broadband access as well.

FCC Chairman Kevin Martin, a North Carolina native, has been critical of the current system and has suggested a type of auction approach through which a single, low bid provider would be chosen to provide service in a specific rural area. Whatever the solution, it seems clear the current system is not working and that the current rates of growth in the USF are not sustainable. At some point, public policy makers will have to quit talking and start acting.



REGULATION OF GOVERNMENT-OWNED NETWORKS

At the request of several independent telephone companies and the cable industry, legislation was introduced this year to regulate the ability of North Carolina municipalities to provide telecommunications and cable services in competition with the private sector. The legislation would, among other things, prohibit local governments from cross-subsidizing publicly-owned telecommunications ventures using tax dollars. It would also subject local government telecommunications ventures to the same level of state regulation as regulated private companies that provide the same services.

The legislation was introduced in response to proposals by several North Carolina municipalities to create their own voice and broadband networks to compete with private telecommunications providers. For telephone companies, the legislation was also in response to a recent decision by the

North Carolina Court of Appeals (upheld without opinion by the N.C. Supreme Court) which permits municipalities to enter the telephone business. Existing statutes already permit municipalities to provide cable telephone services as a public enterprise.

In other states, such government-owned networks have sometimes resulted in significant taxpayer financed losses. Many legislators are wary of allowing local governments to enter the telecommunications business without adequate safeguards for taxpayers, particularly when those services are offered in competition with existing services provided by the private sector. These legislators hope to avoid the mistakes made in the 1970s and 1980s, when many North Carolina municipalities incurred significant public debt in an effort to provide municipal-owned electric service.

The proposed regulation of government-owned networks was very controversial and strongly opposed by the North Carolina League of Municipalities. Rather than engaging in a significant legislative fight with opponents, sponsors of the legislation decided to request a legislative study of the issue and may potentially introduce similar legislation in future sessions of the General Assembly.

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STREAMLINED REGULATION OF WIRELESS FACILITIES

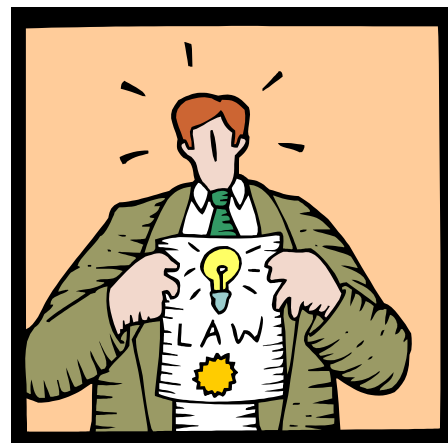
The 2007 General Assembly adopted legislation that will streamline local government regulation of wireless facilities. This legislation is particularly helpful to CarolinaLink member companies that offer wireless services.

Over the past five years, the wireless industry has witnessed a dramatic increase in the delay and costs associated with placing towers in North Carolina. In many cases, committee testimony suggested that these costs and delays are caused by the involvement of private consultants. Such delays have resulted in wireless providers being unable to improve network reception in many parts of North Carolina or wireless companies, and ultimately customers, having to pay more than is reasonably necessary.

Legislation approved this year by the General Assembly (SB 831) streamlines the process and timeline for the construction of wireless towers and shortens the timeline for obtaining local government permits for the joint use (co-location) of wireless towers. It also provides some financial certainty to the wireless industry by requiring all local government fees to be based on reasonable costs and provided to the permit applicant upfront (rather than at the end of the permit application process).

The legislation protects and preserves the right of local governments to control the zoning aspects of tower placement and to obtain necessary information for public safety. However, it discourages local governments from getting involved in the business aspects of wireless communications.

After significant compromise between the wireless industry and the County Commissioners Association and League of Municipalities, both the North Carolina House of Representatives and the Senate passed SB 831 during the last week of the 2007 Session.



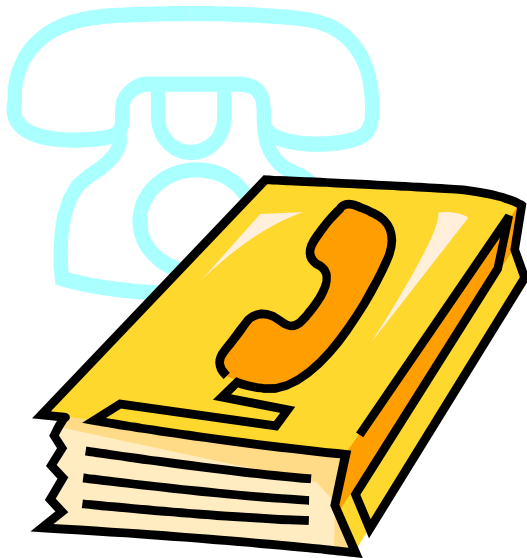
MISGUIDED DIRECTORY BILL DEFEATED

The telecommunications industry and independent directory publishers were successful in stopping a bill that sought to restrict the methods available for distribution of telephone directories. The bill, introduced by Senator Janet Cowell, who may run for State Treasurer in 2008, also proposed significant financial penalties for any violations of the new regulations.

Although the bill was presented as a response to significant consumer protests about direct home delivery of directories, it also appeared to be an environmental initiative that singled out telephone directories for exclusive and disparate treatment. While the industry is sensitive to the potential environmental impacts caused by directories, the adverse impact of the proposed legislation on the directory publishing industry in North Carolina was estimated at approximately \$50 million annually, which appeared to far outweigh the undefined benefits.

It is also significant that directory publishers use a high percentage of recycled material in the publication of telephone directories. In addition, most all telephone companies, including CarolinaLink members, sponsor extensive recycling programs. Some companies, along with other corporate citizens and public agencies establish recycling points for the collection of directories. Other companies sponsor programs within the school systems and pay each school a certain amount for each directory that is collected for recycling.

In the final analysis, protecting the environment is an individual responsibility of each citizen. Let's remember to take recycling seriously. When a new directory is delivered, please remember to dispose of your old telephone directory at a recognized directory-recycling center.



CAROLINK PAC SUPPORT REMAINS STRONG

With the controversy surrounding former Speaker Jim Black and additional inquiries into other campaign financing irregularities, public frustration with the political process is clearly growing. Without question, the employees, directors and retirees of CarolinaLink member companies, who make up the membership of the CaroLink Political Action Committee (PAC), often feel that same frustration. In spite of those frustrations and although the membership of any PAC changes somewhat over time, the membership in the CaroLink PAC has remained virtually constant. Membership in the PAC is completely voluntary and that commitment and dedication is greatly appreciated.

With North Carolina's population shifting more to urban areas, it is important that the voices of rural citizens be heard. Since rural areas have fewer Representatives and Senators than in the past, it is important that those elected representatives be effective and experienced. Running for office has become so expensive that many good candidates are discouraged from seeking office. CarolinaLink's ability to contribute to candidates who are sensitive to rural areas generally and rural telephone companies specifically would be impossible without the voluntary contributions of PAC members.

A PAC Board of Trustees that includes one employee from each of the nine member companies makes decisions on contributions. Current PAC directors include the following: David Babson, ATMC; Wanda King, Piedmont; Frankie Cagle; Randolph; Steve Hardin, Skyline; Jeffrey Shipp, Star; Mike Lawson, Surry; Terry Raupe, Tri County; Clayton Porter, Wilkes and David Williams, Yadkin Valley. Jeffrey Shipp recently was elected to replace Wanda King as Treasurer of the PAC. Wanda, who chose to step down as treasurer, will continue to represent Piedmont on the PAC Board.

Any PAC member who wants more information should contact your company's Board member or contact the CarolinaLink Office. Information can also be obtained from CaroLink's website at www.carolinalink.org.

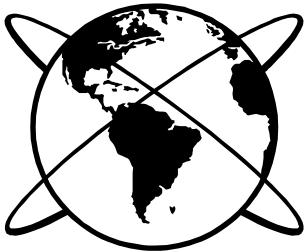
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*Telecommunications –
Yesterday,
Today and Tomorrow*



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RUSS NAMED CEO AT ATMC; WOODARD RETIRES

Allen Russ, formerly Chief Operating Officer, has been named General Manager and Chief Executive Officer of ATMC (formerly Atlantic Telephone Membership Corporation). The ATMC Board of Directors made the appointment. Russ is a Brunswick County native who began his telephone career with BellSouth in 1966. He held a variety of positions with BellSouth and retired with 33 years of service. He joined ATMC in 1999 as purchasing agent.

Russ replaced Percy Woodard, who retired after 34 years service with the company. Woodard was promoted to General Manager in 1999 and led the company through several years of extraordinary growth. He and his family will continue to live in Brunswick County.

FINLEY NAMED UTILITIES COMMISSION CHAIR

On April 10, 2007, Edward S. Finley, Jr. was appointed as the new Chair of the North Carolina Utilities Commission. Governor Easley made the appointment. Governor Easley previously appointed Finley to the Commission in January 2007. Finley received both his undergraduate and law degrees from the University of North Carolina at Chapel Hill. Prior to his appointment, Finley had practiced law in Raleigh for more than 30 years, concentrating primarily in public utility regulation. Finley and his wife, Ginger, have two adult sons, Edward and Robert.

Finley replaces Jo Anne Sanford, who resigned as Chair of the Commission. She is now engaged in the private practice of law in Raleigh.

NCTIA RECOGNIZES MIKE STANLEY

On August 21, 2007, the North Carolina Telephone Industry Association (NCTIA) presented its Distinguished Service Award to Michael S. Stanley, General Manager of Surry Telephone Membership Corporation. The award, which was approved by the NCTIA's Board of Directors, was presented at a luncheon during the Association's Annual Convention.

Mike began his career with Surry TMC in 1969 following service in the U.S. Army and Vietnam. He was named General Manager in 1983 and has guided the company through a period of tremendous growth and technological change. In addition to his duties with Surry TMC and national and state telephone associations, Mike has been active in his community including leadership positions with the Lion's Club, Economic Development and the local hospital.

Mike and his wife, Peggy, have three sons and four grandchildren.