

The Linkage

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North Carolina
Telephone Cooperative
Coalition

Special points of interest:

- General Assembly Focuses on Lottery, Budget Issues
- 911 Surcharge Fees
- Central Office Equipment Tax Eliminated, Telecommunications Sales Tax Increased

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GENERAL ASSEMBLY FOCUSES ON LOTTERY, BUDGET ISSUES

Heading into the last few weeks of the legislative session, it appeared that the General Assembly would fail to pass a "headliner" legislative initiative this year. That all changed with the dramatic Senate vote authorizing North Carolina's first lottery. After weeks of procedural maneuvering, Lieutenant Governor Beverly Perdue broke a 24-24 tie to pass the lottery. Two Republican opponents were absent.

In addition to the lottery, most of this year's legislative session focused on the state budget. Following months of tumultuous negotiations between the House, Senate and Governor, the General Assembly adopted a \$17.2 billion budget. The budget included new money for education and significant increases to maintain current Medicaid funding levels. Many state employees expressed disappointment with a salary increase of only 2% or \$850, which ever is greater. Overall the General Assembly financed this budget by maintaining a half-cent sales tax increase scheduled to end in July and by

raising taxes on a variety of goods including candy, entertainment and telecommunications services.

Outside of the budget and lottery, the General Assembly tackled only a few other major issues this session. Legislators passed lobbying reform legislation designed to provide more comprehensive disclosure of lobbyist expenditures on legislators. The House and Senate also passed workers compensation reform legislation, though it was significantly watered down in order to gain the support of the North Carolina Academy of Trial Lawyers. The House passed a bill to increase the State's minimum wage by one dollar; however, this legislation was not approved by the Senate. Other substantive legislative proposals were not considered, including medical liability reform legislation and legislation to reduce the state's corporate income tax, two issues which were the top priorities of the State's medical and business communities.

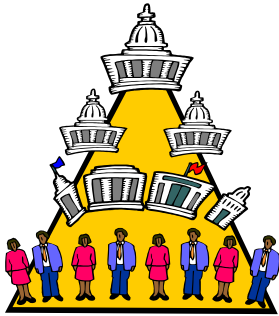
GENERAL ASSEMBLY ADDRESSES SIGNIFICANT TELECOM ISSUES

The North Carolina General Assembly passed several significant pieces of legislation in 2005 affecting telecommunications companies. Legislators also decided to study several other major telecom issues in anticipation of legislative action in 2006. As part of this process, CarolinaLink provided information to help legislators understand how such legislative changes may impact -- both positively and negatively -- the interests of the State's telephone cooperatives and their members.

CENTRAL OFFICE EQUIPMENT TAX ELIMINATED, TELECOMMUNICATIONS SALES TAX INCREASED

This year marked the culmination of national efforts to streamline state sales tax rates. As part of this process, legislators were set to repeal the 1%/\$80 cap on sales taxes paid by telephone companies for central office equipment.

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...Local governments favor raising revenue using E-911 fees because they are collected by telephone companies, "hiding" the true cost of government services...

For years, local governments have sought to expand the uses of funds received from the E-911 surcharge fee placed on your telephone bill. Such surcharge fees were originally adopted only to pay for the cost of equipment to receive incoming emergency calls and survey and name streets and roads. The charge was to be limited to \$1.00 per month and be phased out once the original purposes were accomplished. Now that the E-911 infrastructure is in place, local governments want to use surcharge fees to pay for other expenses, some of which are related to receiving emergency calls but many of which are not.

CarolinaLink, in conjunction with other local telephone companies, has opposed expanding the use of E-911 surcharge fees, arguing that they are, in fact, a hidden tax on telephone consumers. Fees vary across the State and, in some areas, present a significant percentage of the rate for local telephone service. Currently, fees are not capped and may be raised at the discretion of local governments. Local governments favor raising revenue using E-911 fees because they are collected by telephone companies, "hiding" the true cost of government services from the public. CarolinaLink is concerned that allowing local governments to expand their use of E-911 fees would only invite further fee increases on cooperative members and other telephone customers. In addition, such costs discourage customers from subscribing

to traditional telephone service at a time when some CarolinaLink companies are seeing a decrease in the number of lines that they are serving. As the lines served by the companies continue to decrease, local governments will be forced to increase the level of the surcharge in order to maintain the current level of revenues received from the surcharge.

Several bills were introduced this session seeking to expand the use of E-911 surcharge fees. The Senate Commerce Committee resoundingly defeated an effort to expand the use of such fees to include "training" 911 operators. None of the other bills addressing this issue were considered in committee.

In an attempt to end the annual legislative fights over the use of E-911 surcharge funds, Representatives Harold Brubaker (R-Randolph) and Drew Saunders (D-Mecklenburg), the co-chairmen of the House Public Utilities Committee, introduced legislation to eliminate the responsibility of telephone companies to collect E-911 fees. Under their bill, the responsibility for collecting E-911 fees would shift to local governments, eliminating the "hidden" tax on telephone customers. Through these efforts, it was hoped that the continual controversy would end between governmental units seeking to increase the use of the hidden tax funds and the telephone industry that is made less competitive by having to compete with other types of telephone service that either pay a lesser charge for E-911 service

or no charge at all. After much debate, the General Assembly passed legislation asking the Joint Legislative Utility Review Committee to study the issue of E-911 fees and report back to the 2006 Short Session of the General Assembly with recommendations for legislative action. While the study is being conducted, 911 surcharge fees are frozen at the rates charged by local governments on July 1, 2005. Issues to be studied include: shifting fee collection responsibilities to local governments, establishing a single statewide E-911 fee, and establishing a single statewide 911 board to administer such fees. The legislation creating the rate freeze and study also reduced the statewide E-911 fee for wireless customers to \$0.70 per month, a rate substantially below the rates charged by many counties for traditional E-911 service.

WOULD COMMANDMENTS HAVE SURVIVED?

The late President, Ronald Reagan, once said, "I have wondered at times about what the Ten Commandments would have looked like if Moses had run them through the U.S. Congress."

One can only wonder what would have happened to the same document had it been considered in the recently concluded session of the General Assembly. It is, of course, impossible to determine accurately the likely result. Quite possibly, it would have been subjected to a straight, party-line vote, although there might have been a few defections in either direction.

Although the exact outcome might be difficult to project, the likely process for consideration is more easily evaluated. Without question, there would have been some potential for debate. As a result, the proposal likely would have been buried in the bowels of the budget bill or a technical corrections package. The language would have been so un-descriptive of the proposal that most citizens would have only learned about it after the fact.

BROADBAND DEREGULATION

The General Assembly passed legislation in June limiting the authority of the Utilities Commission to regulate broadband service provided by North Carolina telephone companies. Under this legislation, "broadband service" is defined as "any service that consists of or includes a high-speed access capability to transmit at a rate of not less than 200 kilobits per second in either the upstream or downstream direction and either (i) is used to provide access to the Internet, or (ii) provides computer processing, information storage, information content, or protocol conversion, including any service applications

or information service provided over such high-speed access service."

In August, the FCC adopted a similar deregulatory approach by classifying telephone broadband services as an unregulated "information service." The combination of the new state legislation and the FCC Order means that the deployment of broadband service by North Carolina telephone companies will be subject to minimal regulation at both the federal and state levels.



CHANGES IN LAW COULD IMPACT INTERCONNECTION AGREEMENTS

Although some CarolinaLink member companies were impacted by the need to negotiate interconnection agreements with wireless carriers and new competitors slower than their urban counterparts, the labor-intensive process has been underway for a long time and continues today. Unfortunately, Utilities Commission Docket P-55, Sub 1549 indicates that the process is never concluded and can be impacted by external forces.

Docket No. P-55, Sub 1549 arises from a Petition filed by Bell South on November 4, 2004. In its Petition, Bell South asked the Commission to start a generic docket to determine changes needed to existing interconnection agreements as a result of legal mandates from federal regulators and the federal courts. The Commission agreed with Bell South's assertion that a single, generic docket might be preferable to as many as 250 separate proceedings involving the many competitors operating in North Carolina.

In a complaint proceeding and companion docket filed by ITC^DeltaCom against Bell South (Docket No. P-500, Sub 18), the Commission transferred change of law issues raised in that docket to the generic proceeding. The Commission's Order of August 18, 2005, in Docket No. P-500, Sub 18, includes three appendices, which help demonstrate the complex issues that still need to be addressed. Appendix A contains almost 30 "new" issues that are being transferred to the generic docket and Appen-

dix B outlines 15 issues that are already part of that proceeding. The scope and complexity of those issues reveal clearly why the telecommunications industry still faces an uncertain future almost ten years after the passage of the Telecommunication Act of 1996.

Both of the referenced Dockets can be reviewed by doing a docket search on the Commission's website. Hearings are scheduled in the generic docket on October 18, 2005.

PREFERRED TELECOMMUNICATIONS PROVIDERS & UNIVERSAL SERVICE ISSUES

The General Assembly passed two bills this year addressing the right-of-way access and public service obligations of local telephone providers in situations in which developers have entered into preferred contracts with other telecommunications service providers.



The first bill (H.B. 1469) insures that when any map or plat of a subdivision is recorded and reflects the dedication of a public street, then the dedicated public street becomes immediately available for use by any public utility or cable television system to install lines or cables for the provision of service to the public. This law clarifies existing case law requiring developers to grant access to telephone

companies to provide telecommunications services to new subdivisions once the public streets in such subdivisions are recorded, regardless of whether the developer has entered into a preferred provider contract with another telephone company.

VIDEO PROGRAMMING

In the waning hours of the General Assembly, a provision was added to a piece of legislation that would have eliminated the need for telephone companies to obtain a cable franchise from a local government in order to provide video programming over their telephone facilities. This change would ease market entry for telephone companies seeking to compete with cable companies providing video programming. The proposal faced strong opposition from cable companies and local governments and was ultimately removed from the bill in favor of a study. We anticipate that the General Assembly will study this issue over the next few months and that video programming legislation will be introduced for consideration during the General Assembly's Short Session starting in May 2006. At the same time, the General Assembly should review the requirement that telephone companies obtain a franchise from local governmental entities in addition to a certificate of public convenience and necessity from state regulators. In a competitive market, the need for this additional franchising step has been rendered meaningless.

The additional step does little to protect the public but inevitably delays the introduction of a competitive market.

The second bill (H.B. 1468) clarifies that in situations in which a telecommunications service provider enters into an agreement to provide service for a subdivision and the local exchange carrier is denied access to the subdivision by the property owner, then the telecommunications service provider entering into the agreement becomes the universal service provider for such subdivision. This change eliminates the possibility that a local exchange carrier would be required, as the universal service provider of last resort, to install a telephone line for a single customer through an entire subdivision otherwise served by a telecommunications service provider with a preferred contract with the developer.

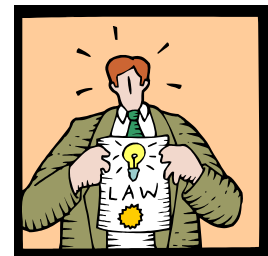
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This repeal would have resulted in companies paying taxes on new equipment at the State's general 7% sales tax rate. The elimination of the cap would have significantly increased the sales tax burden on CarolinaLink companies and in effect, imposed a retail tax on an input that telephone companies need in order to provide retail services to the public. Fortunately, legislators recognized the potential for this tax increase to discourage the deployment of modern facilities and agreed to eliminate the sales tax on telephone central office equipment in its entirety.

On a related front, as part of the "Streamlined Sales Tax Project," legislators voted to increase the sales tax on telecommunications services from 6% to the State's general 7% rate, which will impact CarolinaLink members.



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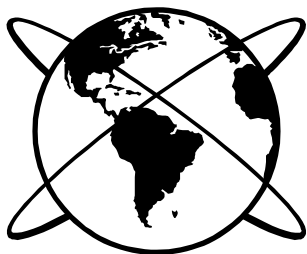
The Linkage

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*Telecommunications –
Yesterday,
Today and Tomorrow*



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ELBERT PERRELL RETIRES

On March 31, 2005, Elbert R. Perrell retired from Piedmont TMC after 40 years of dedicated service. Mr. Perrell was honored with a reception attended by employees and directors of Piedmont as well as many friends and colleagues from the telephone industry. He was manager of Piedmont TMC and a member of the Board of Directors of CarolinaLink at the time of his retirement.

During his time as manager, Mr. Perrell insisted that Piedmont's members be served with the latest telecommunications technology. He also believed strongly in a sense of community and understood that the telephone company needed the support of the community to be successful. Although he was often viewed as a man of few words, it paid to listen when he spoke because his comments were always helpful and based on a wealth of knowledge gained in his 40 years of service to the industry.

While we wish him well in his retirement, he will be missed as an active member of our industry.

P. R. HANKINS, JR. RETIRES FROM ATMC BOARD

P. R. Hankins, Jr., a member of the ATMC Board of Directors since 1971, retired from the Board earlier this year. During his time on the Board, Mr. Hankins served on every board committee and served the Company as Secretary/ Treasurer from 1986 to 2003.

Mr. Hankins, who was also a retired Superintendent of the Brunswick County School System, was honored at a retirement dinner held at the Company's new headquarters building on May 31, 2005.