



# The National Regulatory Research Institute

**State Retail Rate  
Regulation of Local  
Exchange Providers  
as of September 2004**

**Prepared by  
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**STATE RETAIL RATE REGULATION OF LOCAL EXCHANGE PROVIDERS  
AS OF SEPTEMBER 2004**

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## EXECUTIVE SUMMARY

Following the trend of previous years, local exchange carriers are still transitioning from traditional forms of rate regulation—i.e. rate-of-return regulation (ROR)—towards alternative forms of regulation, including rate freeze, price caps, flexible regulation and deregulation. Among these regulatory regimes, price cap regulation is the most commonly adopted by states to regulate the rates of their incumbent local exchange carriers, particularly of larger incumbents.

The enclosed tables and figures show the status of retail rate regulation of local exchange carriers in the United States as of September 2004. The information included in this report was obtained from the Supplemental White Papers on Retail Rate Regulation of Local Exchange Providers, published each year by *State Telephone Regulation Report*. Staff members from 32 states and the District of Columbia reviewed this information and provided revisions, improving the accuracy of the report.

A total of 37 states use some form of price cap regulation (see Table 1 and Figure 1). Of them, only six states (AL, DE, DC, LA, RI and TX) apply it to all their ILECs, including Regional Bell Operating Companies (RBOCs) and other competitors. The most common trend is for the states to regulate the rates of their large incumbents under a price cap plan while maintaining their smaller incumbents under ROR regulation (18 states); other states have granted smaller incumbents flexible regulation or rate deregulation, either partial or complete, while regulating large ILECs under price caps (7 states). As it is explained in Table 4, many small incumbents can opt to change to price caps or some other form of alternative regulation, but many have decided to remain under traditional forms of regulation. Finally, the remaining six states (AR, KY, MN, NY, ND, and OR) use a mix of regimes, including price caps, to regulate both their large and small incumbents.

Despite the prevalence of price caps, traditional rate of return regulation (ROR) is still in use in 36 states, mostly to regulate smaller incumbents, as illustrated in Figure 2. The number of states that use ROR for all their ILECs has decreased over time; as of September 2004, only Alaska, Hawaii, Montana, New Hampshire and Washington did so. Arizona and Idaho are special cases; both states use ROR for all their ILECs, but Qwest is under hybrid plans that combine ROR with price caps in Arizona and with deregulation in Idaho.

An increasing tendency among states is to apply different regulatory regimes to each of their incumbent local exchange carriers, combining price caps with ROR, price flexibility and deregulation, as shown in Tables 1 and 2, and in greater detail in Table 4. As of September of 2004 eleven states were using a combination of regimes to regulate the ILECs providing service in their territories.

Classifying carriers under a specific type of rate regulatory regime has become more difficult in recent years, as more states implement alternative regulation plans. These plans combine features of different regulatory regimes, such as rate freeze, price cap regulation or even rate-of-return regulation with pricing flexibility or deregulation, so as to adequately respond to the increasing level of competition faced by a particular carrier in its different baskets of services. Massachusetts, New York, Ohio, Pennsylvania and Wyoming are cases in point. As a result of these combinations, a single label such as price cap plan or deregulation becomes inadequate to appropriately define the characteristics of these hybrid alternative regulation plans. Finally, complete rate deregulation has been implemented only in Nebraska and more recently in South Dakota, states where Qwest is the largest ILEC.

With respect to the competitive local exchange carriers (CLECs), the prevalent regulatory trend is rate flexibility (27 states), closely followed by rate deregulation (21 states), as illustrated in Table 1 and Figure 3. This trend is based on the assumption in most states that the retail rates of CLECs are competitive. Only three states (DE, NJ and VA) impose some regulations over CLEC rates, either by capping the rates for some services at the incumbent's level or by setting cost-based floors. Regardless of the type of rate regulation they operate under, CLECs are required in most states to obtain state certification by demonstrating technical, financial and managerial competence before beginning operations in the state. Only Kentucky, Massachusetts, Montana and Washington allow CLECs to operate by simply registering with the public commission or another appropriate authority; North Dakota requires certification only to facilities-based CLECs. As for the requirements to file tariffs and notify rate and service changes, Montana, Nevada, North Carolina and Oregon provide their CLECs the greatest flexibility, even when compared to states that do not review CLECs' rates. Competitive carriers in these four states are not required to file tariffs or provide notification of changes and the rate changes are not normally reviewed by their respective state commission. Table 5 provides greater detail on the state commission requirements on CLECs regarding certification, rate filings, rate changes, reviews and notifications.

Table 3 presents the major changes in retail rate regulation that occurred since April of 2003. During the 2003-2004 period, the rate plans of major ILECs in 14 states (AZ, CA, CO, DE, IL, KY, LA, MN, MS, NC, OK, SC, WV and WI) and the District of Columbia went under review and the majority of these plans were extended with some changes. New plans were established for major ILECs in Indiana (SBC, VZ, and Sprint), Kentucky (Alltel KY) and Massachusetts (VZ), while state commissions in Maryland, Vermont, Virginia and North Carolina opened dockets to evaluate existing plans for

Verizon (MD, VT) and Sprint (NC) or, as in the case of Virginia, new price cap plans for Verizon VA and Verizon South. In fact, Verizon's rate plans and proposals were reviewed or are currently been reviewed in 21 of the 42 states reporting changes since April of 2003, the highest number among Regional Bell Operating Companies (RBOCs).

Nevertheless, among the RBOCs, Qwest had the most radical changes in its rate regulation during the 2003-2004 period, changes justified by the increased presence of competition in its area of service. This carrier filed proposals for deregulation or greater price flexibility in eight of its fourteen regional states (AZ, CO, ID, MN, SD, UT, WA and WY). Although Qwest's application for full rate deregulation in the seven largest exchanges in Idaho was unsuccessful, it won statewide retail rate deregulation from the South Dakota PUC in October of 2003, making it the only RBOC having obtained full retail rate deregulation in two of its regional states (NE and now, SD). Qwest is also requesting full price flexibility for all retail services in competitive zones in Arizona, and for all but basic services in Colorado; it was granted deregulation for business rates in three major metropolitan areas in Minnesota and of all analog business telecom services in all markets in Washington; it increased the number of rate deregulated local residential lines in the most populated areas of Utah, and moved from a price cap plan to a cost-based pricing flexibility regime in Wyoming, all since April 2003.

SBC and Verizon are also following this trend, proposing full deregulation of retail rates in Missouri and Maryland, respectively. In Massachusetts, Verizon's new alternative regulation plan provides it greater flexibility for pricing non-basic residential and all business services, while a plan proposed by the company in Vermont would grant it rate deregulation for all but basic residential services, if approved. BellSouth has also made inroads towards retail rate deregulation in North and South Carolina during this period. In North Carolina it proposed a reclassification of services for its price cap plan that would move most services into the full pricing flexibility category; meanwhile, in South Carolina, the Legislature enacted rate deregulation for all retail service bundles from price-regulated incumbents (BS, VZ and Sprint), and the state government has until the end of 2004 to act on the measure.

Among the states reporting changes during this period, Alabama is conducting the most comprehensive review of regulation. The Public Service Commission opened a comprehensive regulatory review (Case 28950) of all local exchange providers to determine if the technological, structural and policy changes that occurred since the 1996 Telecom Act require a corresponding regulatory change. In the proposed plan, carriers would be regulated according to level of competition they are facing.

In sum, the trend among states is towards providing greater price flexibility to incumbent carriers as the level of competition in local exchange services increases in their regional areas. This flexibility is expressed either by deregulating certain services, such as non-basic and competitive services, or certain carriers based on their size, such as telephone cooperatives and other smaller incumbents. Some larger incumbents are also making inroads in achieving full retail rate deregulation in competitive zones. As for CLECs, rate flexibility is the prevailing trend.

The tables included in this report provide different levels of detail. Table 1 presents a distribution of the states by type of rate regulation regime applied to their ILECs and CLECs. Figures 1 and 3 illustrate this information. Table 2 provides basic information on the specific type of plan applied to large incumbents, other incumbents and CLECs. Table 3 summarizes major changes in rate regulation that occurred since April 2003. Tables 4 and 5 provide more detailed information on the specifics of the retail rate regulation plans of ILECs and CLECs, respectively, including earnings regulation, notice periods, as well as requirements on infrastructure investment and quality of service.

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**Table 1. Distribution of States by Type of Retail Rate Regulatory Regime  
(as of September 2004)**

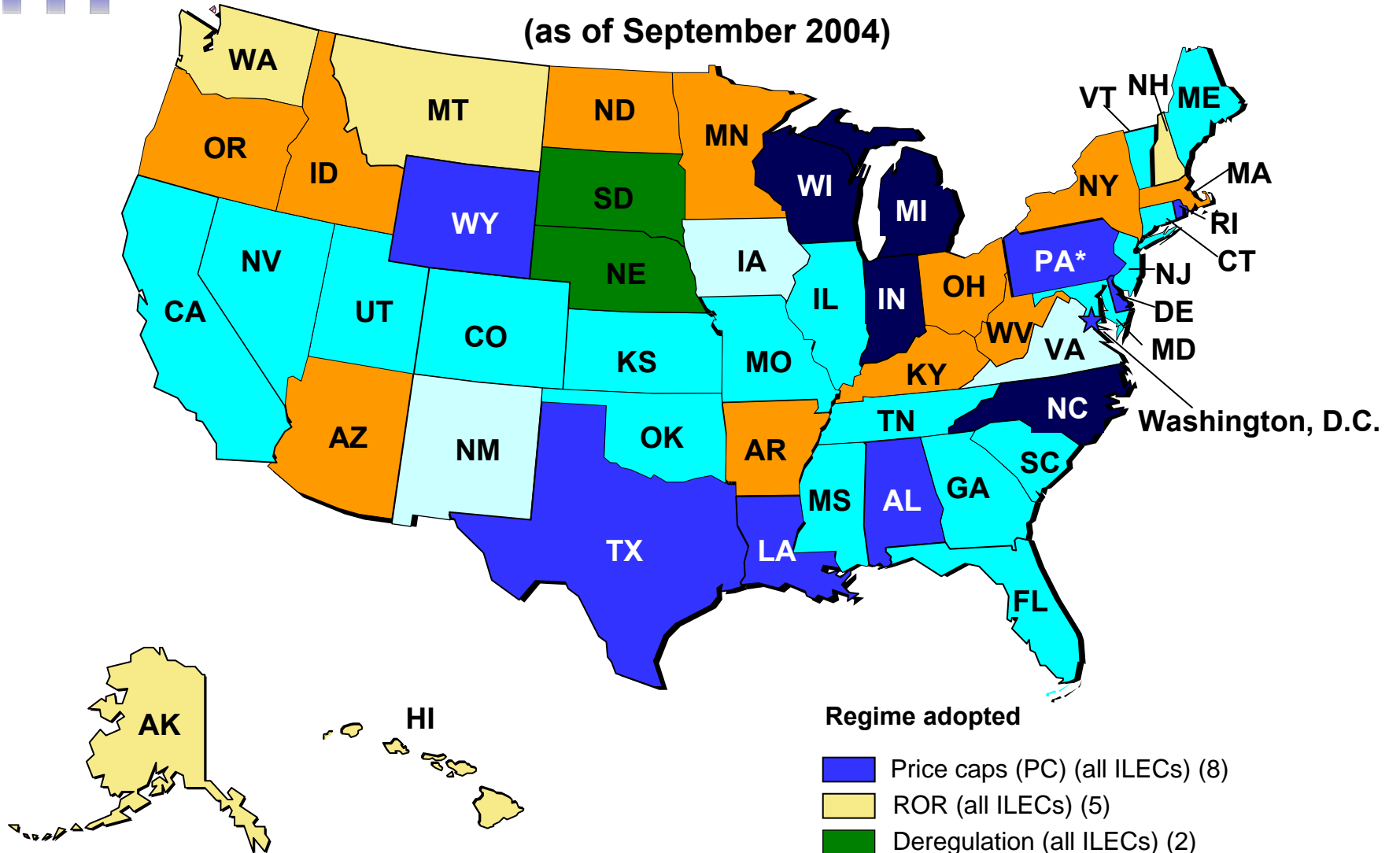
Regulatory Regime	Price caps (All incumbents)	ROR (All incumbents)	Deregulation (All incumbents)	Price caps for large incumbents & ROR (Other incumbents)	Price caps for large incumbents & Deregulation (Other incumbents)	Price caps for large incumbents & mix of regimes for other incumbents	Mix of regimes for large and other incumbents	CLECs		
								Rate flexibility	Some rates regulated	Rates not reviewed
<b>States</b>	AL (BLS and others), DE (VZ), DC (VZ), LA (BLS and others), PA (Alternative Regulation: VZ PA, VZ North, Commonwealth Telephone, and others), RI (VZ), TX (SBC, VZ, FON, Valor Telecom, and others), WY (Cost-based pricing flexibility: Q and others)	AK ( large and small incumbents), HI (VZ HI), MT (Q and others), NH (VZ and others), WA (Q, VZ, and others)	NE (Q and others), SD (Q and others),	CA (Caps: SBC, VZ, Surewest Telecom, CZN/Frontier), CO (Caps: Q), CT (Caps: SBC, VZ), FL (Caps: BS, VZ, FON and 6 other incumbents; ROR: only one small incumbent), GA (Caps: BS and 25 other incumbents ; ROR: Only 9 small incumbents), IL (Caps: SBC), KS (Caps: SBC, FON), ME (Caps: VZ), MD (Caps: VZ), MS (Caps: BS), MO (Caps: SBC, CTL, FON, Spectra/CTL), NV (Caps: Sprint NV, SBC), NJ (Caps: VZ), OK (Caps: SBC), SC (Caps: BS, FON, VZ), TN (Caps: BS, FON, CZN), UT (Caps: Q), VT (Caps: VZ)	IA (Caps: Q, Iowa Telecom Services, Frontier Communications of Iowa), NM (Caps: Q, Valor Telecom; deregulation: other incumbents with fewer than 50,000 lines), VA (Caps: VZ VA, VZ South, Sprint Telcos)	IN (Caps: SBC, FON, VZ; flexibility: investor-owned incumbents with fewer than 30,000 lines; deregulation: telephone cooperatives), MI (Caps: SBC, VZ; local rate freeze & deregulation of intrastate switched access rates: other incumbents), NC (Caps: BS, FON [Centel, Carolina Tel & Telegraph], VZ, Alltel, Mebtel, Concord Tel and North State Communications; ROR: remaining 8 smaller incumbents), WI (Caps: SBC, VZ; flexible price-based regulation: 26 small incumbents; streamlined ROR with some pricing flexibility: 42 incumbents; traditional ROR: 2 incumbents; rate deregulated: 12 telephone cooperatives)	AR (Caps: SBC, Alltel, others, & ROR: CTL), AZ (ROR with price caps: Q & ROR: others); ID (ROR & deregulation: Q South, & ROR: others), KY (Caps: BS, Alltel KY; Rate freeze: CBT & ROR: KY Alltel, others); MA (Alternative reg: VZ; ROR: others) MN (Caps: Q, FON, CZN; ROR: CZN [formerly GTE], & flexibility: others); NY (Tariff regulation: VZ; Price caps: Frontier Telephone of Rochester; ROR: others), ND (Caps: Q; ROR: ND Telephone, & deregulation: retail rates of investor-owned companies with less than 8,000 lines and of all coop.), OH (Alternative Reg: SBC, FON, CTL, CBT, Chillicothe Horizon; ROR: others), OR (Caps: Q; ROR: VZ, FON, CTL, & deregulation: others), WV (Flexibility: VZ, Frontier/CZN, & ROR: others)	AL, AK, AZ, CA, CO, FL, GA, HI, IL, IN, IA, KY, LA, MD, MI, MN, MS, MO, NM, NY, OH, OK, PA, UT, VT, WA, WV	DE (cost-based rate floor), NJ (basic exchange, vertical services and switched access cannot exceed VZ's rates without cost justification), VA (rates capped at incumbent's rate unless regulatory waiver is obtained; subsequent increases require notice to customers and Corp. Comm'n)	AR, CT, DC, ID, KS, ME, MA, MT, NE, NV, NH, NC, ND, OR, RI, SC, SD, TN, TX, WI, WY
<b>TOTAL</b>	<b>8</b>	<b>5</b>	<b>2</b>	<b>18</b>	<b>3</b>	<b>4</b>	<b>11</b>	<b>27</b>	<b>3</b>	<b>21</b>

Sources: State Telephone Regulation Report , July-August, 2004, Vol. 22 (15, 16 & 17) & State Regulatory Commissions.

BLS= BellSouth	FON= Sprint
CBT= Cincinnati Bell	Q=Qwest
CTL=Century Telecom	SBC=Southwestern Bell
CZN=Citizens Communications/Frontier	VZ=Verizon



**Fig. 1: Retail Rate Regulation of Incumbent Local Exchange Providers**  
(as of September 2004)



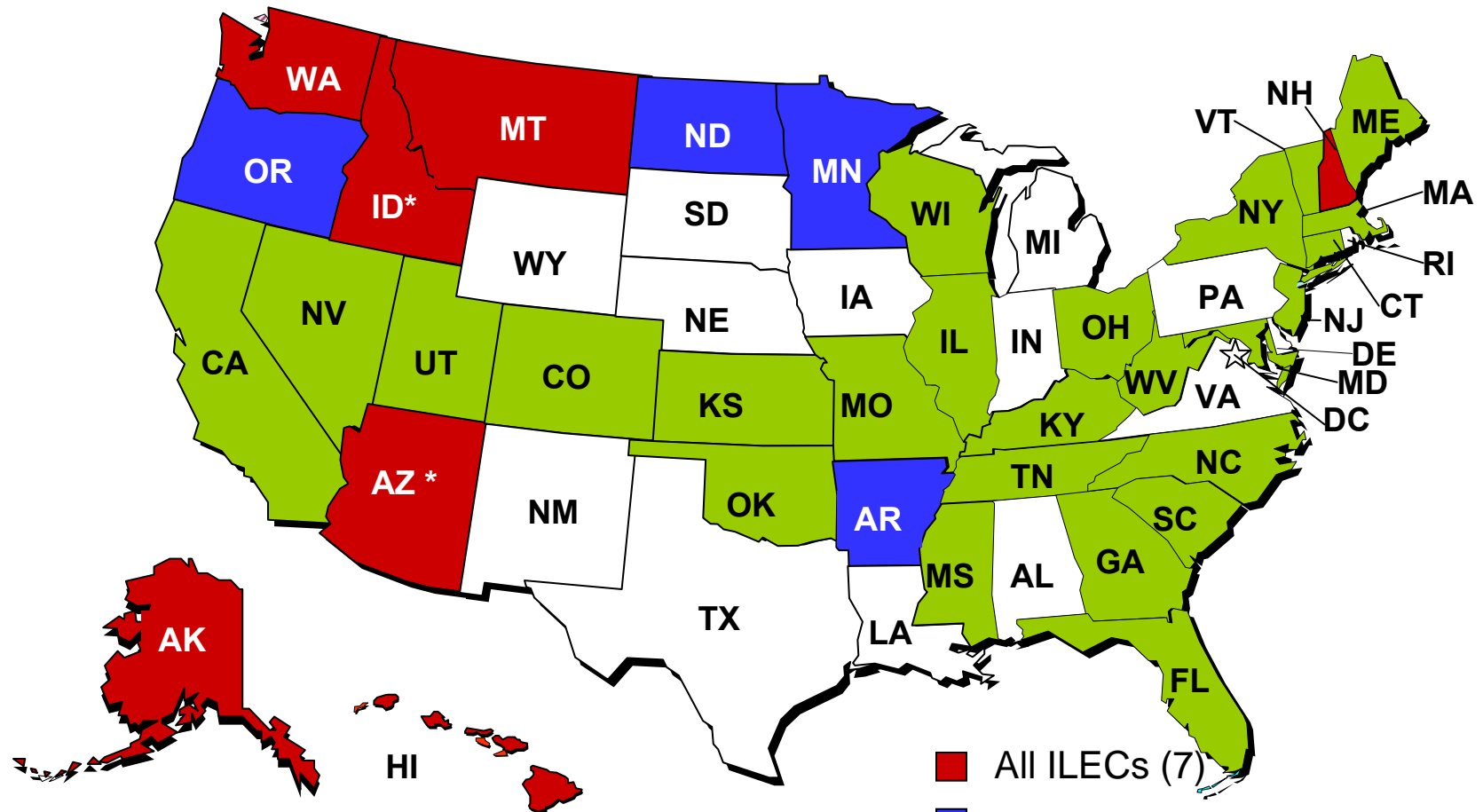
\*= Carriers in PA are under an alternative regulation plan.

Sources: *State Telephone Regulation Report*, July & August 2004, Vol. 22 (No. 15-17) & State Regulatory Commissions

**Regime adopted**

- Price caps (PC) (all ILECs) (8)
- ROR (all ILECs) (5)
- Deregulation (all ILECs) (2)
- PC (large ILECs) & ROR (others) (18)
- PC (large ILECs) & Deregulation (others) (3)
- PC (large ILECs) & Mix (others) (4)
- Mix of regimes (11)

**Fig. 2: States with Incumbent Local Exchange Carriers under Rate-of-Return Regulation (as of September 2004)**

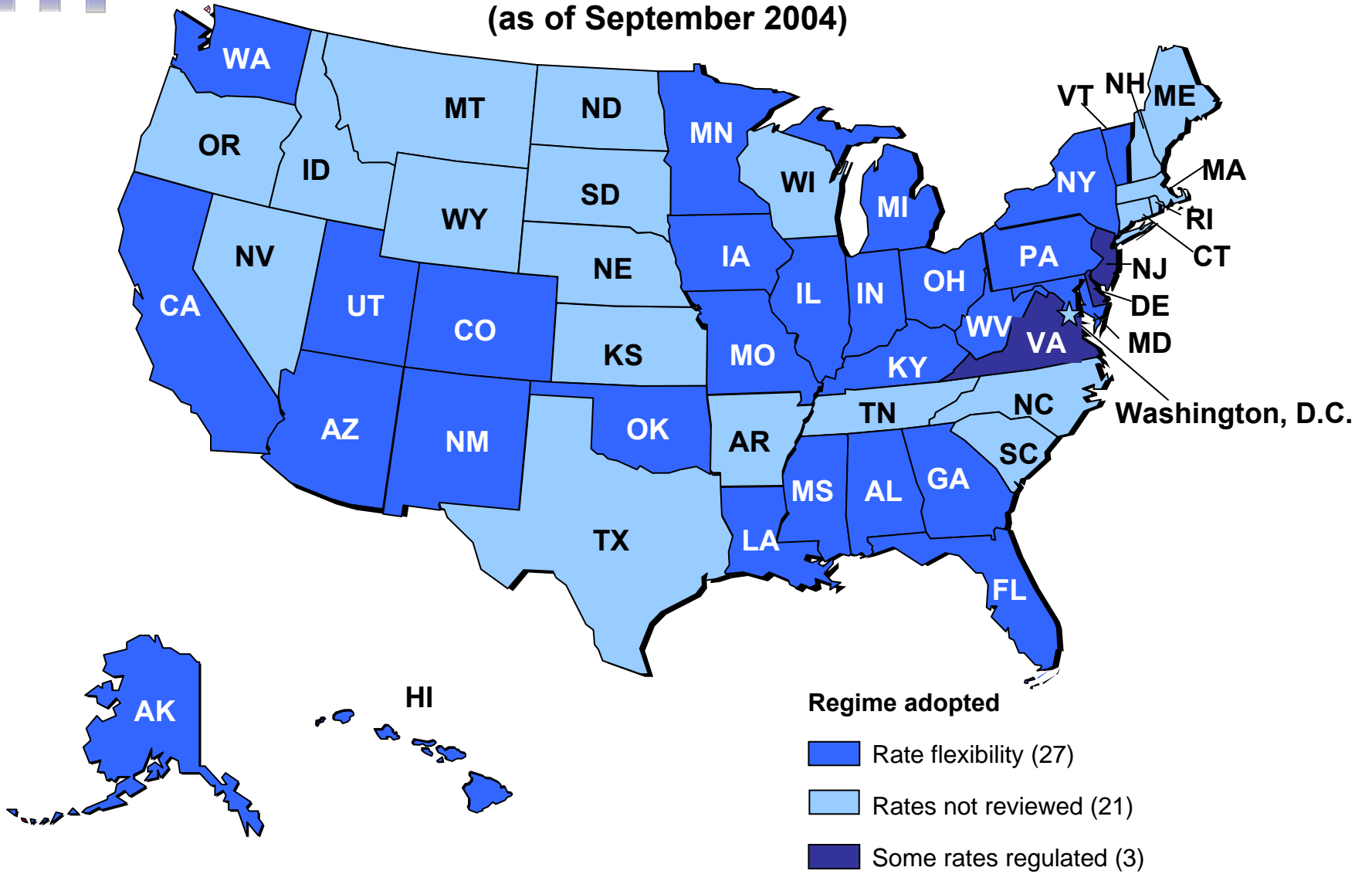


\* In AZ and ID Qwest is under a hybrid ROR regime, which combines ROR with price caps (AZ) and deregulation (ID)

Sources: *State Telephone Regulation Report*, July & August 2004, Vol. 22 (No. 15-17) & State Regulatory Commissions



**Fig. 3: Retail Rate Regulation of Competitive Local Exchange Carriers**  
(as of September 2004)



Sources: *State Telephone Regulation Report*, July & August 2004, Vol. 22 (No. 15-17) & State Regulatory Commissions.

**Table 2. State Retail Rate Regulation of Local Exchange Companies  
(as of September 2004)**

State	Large Incumbents	Other Incumbents	CLECs
AL	<b>All:</b> <i>Price caps (1996)</i> . Nonindexed price caps for basic exchange and access rates. Other services can rise up to 10% per year, in aggregate, with rate design subject to PSC review.		<i>Rates regulated flexibly</i> . CLECs included in PSC's comprehensive regulatory review, with proposal to reduce rate-change notice requirements while prohibiting below-cost pricing except to match a competitor's rate.
AK	<b>Large (More than \$500,000 annual revenue):</b> <i>Streamlined ROR (1992)</i> . Rate boosts up to 6% and any permanent rate cuts decided in as few as 45 days under ROR principles in annual filings. Other changes require full rate case. In markets designated competitive (Anchorage, Fairbanks and Juneau), incumbents can cut rates without prior approval but cannot raise them back to previous level without justification. They can also set limited-duration promotional rates to match competition.	<b>Small (under \$500,000 annual revenues):</b> <i>Streamlined ROR (1992)</i> , but can opt out of state rate and earning regulation upon approval of their ratepayers. Four companies have done so. <b>Smallest rural incumbents (under \$50,000 annual revenue):</b> <i>Deregulated (1992)</i> .	<i>Rates regulated flexibly</i> .
AZ	<b>Qwest:</b> <i>ROR with price caps (earnings-based regulation pegged to ROR on "fair value" of rate base)</i> . Price cap system has local rates <u>frozen</u> and other noncompetitive services under <u>nonindexed caps that allow for price movement under cap</u> . Competitive services <u>flexibly priced</u> , but subject to revenue cap for entire basket of competitive services.	<i>ROR</i> (earnings-based regulation pegged to ROR on "fair value" of rate base). No price flexibility.	<i>Rates regulated flexibly</i> . Major rate changes may be subject to hearings. State constitution mandates relationship between CLEC rates and "fair value" of their rate base. "Fair value" issues solved in case-by-case basis.
AR	<b>SBC, Alltel:</b> <i>Price caps (1997)</i> . <u>Indexed price caps</u> for basic exchange and switched access (75% of GDP-PI). Rates for all other services <u>deregulated</u> . <b>Century Tel:</b> <i>ROR</i> in access lines bought from Verizon in 2000.	<i>Price caps (1997)</i> that permits basic exchange services to rise annually by lesser of 15% or \$2 per line monthly. All other service rates <u>deregulated</u> .	<i>Rates not reviewed</i> . CLECs must contribute to state universal service fund regardless whether they are eligible to receive subsidies from fund or not.

**Table 2. State Retail Rate Regulation of Local Exchange Companies  
(as of September 2004)**

State	Large Incumbents	Other Incumbents	CLECs
CA	SBC, Verizon (1989), Surewest Telecom, Citizens/Frontier (1996): <u>Price caps</u> . <u>Rate freeze</u> for noncompetitive services, except for cost-justified changes. Competitive services flexibly priced.	<u>ROR</u>	<u>Rates regulated flexibly</u> .
CO	Qwest: <u>Price caps (2004 plan extended)</u> . <u>Nonindexed price caps</u> for basic services. Other services, <u>flexibly priced</u> .	<u>ROR</u> . Can elect earning-based or price-based alternative regulation systems, but none has chosen to do so.	<u>Rates regulated flexibly</u> . Residential basic exchange rate can't exceed \$14.74 statewide cap set by state law for all providers unless bundled with advanced services.
CT	SBC (Southern New England Telephone): <u>Price caps (1996-2006)</u> . <u>Indexed price caps (GDP-PI)</u> for noncompetitive services. Caps levels don't change unless GDP-PI exceeds 5% per year, when caps can rise by half the amount over 5%. Competitive services <u>flexibly priced</u> . <u>X-Factor= 5%</u> . Verizon: <u>Price caps (1999-2002)</u> . Basic local service under <u>rate freeze</u> . Other noncompetitive services and competitive services <u>flexibly regulated</u> , under same regulation as SBC's.	<u>ROR</u> . No pending proceedings to change status. Verizon in 2003 proposed a change to price caps, but later withdrew application.	<u>Rates not reviewed</u> .
DE	Verizon: <u>Price caps (1994-2006)</u> . <u>Indexed price caps</u> (GNP-PI - 3%) for basic services. Competitive services <u>flexibly priced</u> . Plan extended for three more years. Verizon proposed alternative cap program but settled for extension of current plan until Sept. 2006 because of federal regulatory uncertainties.	No other incumbents	<u>Cost-based rate floor</u> . Rates presumed competitive as long as they stay above floor set at incremental cost. If rate changes are above cost floor they normally get no further review.

**Table 2. State Retail Rate Regulation of Local Exchange Companies  
(as of September 2004)**

State	Large Incumbents	Other Incumbents	CLECs
DC	<b>Verizon:</b> <i>Price caps (2007)</i> . Rate freeze on residential dial tone until 12/31/05. Thereafter, VZ has the option of increasing the dial tone rate by 32¢. Rate would remain in effect for duration of plan. Other basic residential rates may be increased by <u>up to the greater of 10% or the change in the inflation rate each year</u> . Basic business service rates may be increased by <u>10% each year</u> . Discretionary service rates can rise <u>up to 15% annually</u> . Competitive services <u>not rate regulated, but must be priced above incremental cost</u> .	No other incumbents	<i>Rates not reviewed.</i>
FL	<b>BellSouth, Verizon, Sprint:</b> <i>Price caps (1995 statute)</i> . Indexed price caps (GDP-PI - 1%) for basic services. Access charges capped. Nonbasic services can rise up to 6% per year in noncompetitive markets and up to 20% a year in competitive markets. A 2003 state law required major rate rebalancing to shift hundreds of millions of dollars from access charges onto local rates. PSC in Dec. 2003 approved plan to give the 3 companies \$355 million total in local rate increases. Increases were stayed by the FL Supreme Court pending final ruling on legal challenges to law and PSC action.	<i>Price caps (1995)</i> . Can elect price cap regulation under program similar to large telcos. Six other incumbents have chosen price caps; only one small incumbent under <u>ROR</u> .	<i>Rates regulated flexibly.</i> CLEC regulations draw distinction between those providing residential and small business (under 5 lines) basic exchange service and those that don't.
GA	<b>BellSouth:</b> <i>Price caps (1995)</i> . Indexed price caps (GDP-PI) for basic rates. Access charges <u>capped at interstate rate</u> . All other service rates <u>deregulated</u> .	<i>Price caps (1996)</i> . Can elect price cap regulation under program similar to BLS but without investment requirements. Of the 34 small incumbents, 9 remain under <u>ROR</u> ; the other 25 are under <u>price caps</u> .	<i>Rates regulated flexibly.</i>
HI	<b>Verizon Hawaii:</b> <u>ROR</u> . State law requires cost-based and earnings-based regulation until PUC determines effective local competition exits.	No other incumbents	<i>Rates regulated flexibly.</i>

**Table 2. State Retail Rate Regulation of Local Exchange Companies  
(as of September 2004)**

State	Large Incumbents	Other Incumbents	CLECs
ID	<p><b>Qwest South:</b> <u>ROR</u> for price regulated services: Basic local exchange for 5 or fewer lines with or without local competition. Company has option of choosing nonindexed price caps for basic local exchange for 5 or fewer lines, but has not done so. <u>Service deregulation (1989)</u> for all other retail services except basic local exchange provided to accounts with 5 or fewer lines.</p>	<p><u>ROR</u>. Can elect regulatory plan similar to Qwest; none has chosen to do so.</p>	<p><u>Rates not reviewed.</u></p>
IL	<p><b>SBC:</b> <u>Price caps (1995)</u>. Residential rates frozen; other noncompetitive services under <u>indexed price caps (GDP-PI - 3%)</u>. Competitive services <u>flexibly priced</u>.</p>	<p><u>ROR</u></p>	<p><u>Rates regulated flexibly.</u> CLECs in state universal service fund are subject to fund's rate benchmarking rules.</p>
IN	<p><b>SBC:</b> <u>Price caps</u>. Basic res. and bus. serv. under 5 lines under <u>nonindexed price caps</u>. Prices capped at current rate through term of agreement. Price decreases must exceed total TSLRIC of the service plus 10% of shared and common costs. <u>Vertical serv. increases limited to 38 cents per feature yearly</u>. Other services' rates <u>deregulated</u>.</p> <p><b>Verizon:</b> <u>Price caps</u>. Basic local under <u>nonindexed price caps</u>. Prices capped at current rate through term of agreement. Price decreases must exceed total TSLRIC of the service plus 10% of shared and common costs. Other services <u>flexibly priced</u>.</p> <p><b>Sprint:</b> <u>Price caps</u>. Basic res. and small bus. serv. under <u>nonindexed price caps</u>. Rates capped at current levels. Vertical serv. can have <u>cumulative annual increases limited to 8.75% of annual revenues</u> for services in this basket. Tier 2 rates must exceed TSLRIC plus 10%. Rates for other services <u>deregulated</u>. <u>Price floors apply</u>. PBX and key trunks, complete <u>pricing flexibility</u>.</p>	<p><b>Investor-owned incumbents with fewer than 30,000 lines:</b> <u>Pricing flexibility</u>, but earnings still may be reviewed.</p> <p><b>Telephone cooperatives:</b> <u>deregulated</u>.</p>	<p><u>Rates regulated flexibly.</u></p>

**Table 2. State Retail Rate Regulation of Local Exchange Companies  
(as of September 2004)**

State	Large Incumbents	Other Incumbents	CLECs
IA	<b>Qwest, Iowa Telecom Services, Frontier Communications of Iowa:</b> <u>Price caps (1995)</u> . <u>Indexed price caps (GDP-PI)</u> for basic exchange. Other noncompetitive services can rise up to 6% annually. Competitive services are <u>deregulated</u> .	<u>Rates not reviewed</u> . Rates and earnings deregulated since 1983.	<u>Rates regulated flexibly</u> . CLEC local calling areas are supposed to coincide with incumbent's but CLECs can petition for waiver.
KS	<b>SBC, Sprint:</b> <u>Price caps (1998)</u> . <u>Indexed price caps (GDP-PI-X-Factor of 3.15% on basic local for res. &amp; S-L bus; 1.4% on multiline bus, vertical, &amp; other retail)</u> . Starting in 2002, companies can petition for rate deregulation of competitive services in markets where competitors operate. SBC won deregulation of Centrex, Speed Calling, operator services & directory asst. in 2002, but petition to deregulate business rates in competitive markets have been denied so far.	<u>ROR</u>	<u>Rates not reviewed</u> .
KY	<b>BellSouth:</b> <u>Price caps (1995-2009)</u> . <u>Rate freeze</u> for local services. Other retail rates, <u>no caps</u> . Access capped at interstate levels. Competitive services <u>deregulated</u> . <b>Cincinnati Bell:</b> <u>Rate freeze (1999-2004)</u> for basic services; competitive services <u>flexibly priced</u> . <b>Alltel KY:</b> <u>Price cap</u> for basic services; <u>pricing flexibility</u> for other services.	<u>ROR</u> . 17 other incumbents have option to propose price caps or other alternatives to ROR, but only Alltel petitioned for alternative regulation. Its petition was approved by the PSC. <b>Kentucky Alltel:</b> <u>ROR</u> .	<u>Rates regulated flexibly</u> .
LA	<b>BellSouth:</b> <u>Price caps (1996)</u> . <u>Nonindexed price caps</u> for basic residential and single-line business services, except for rate changes intended to consolidate 8 local rate groups into one by 2006. After 2006, BellSouth can raise basic service rates up to 10 percent a year in urban markets with competition. Competitive services <u>deregulated</u> .	<u>Price caps (1997)</u> . <u>Nonindexed price caps</u> for basic and access services. Competitive services <u>flexibly priced</u> .	<u>Rate regulated flexibly</u> .



**Table 2. State Retail Rate Regulation of Local Exchange Companies  
(as of September 2004)**

State	Large Incumbents	Other Incumbents	CLECs
ME	<b>Verizon:</b> <u>Price caps (1995-2006)</u> . Basic residential and business service rates frozen; nonbasic and competitive services <u>flexibly priced</u> , except for operator services and directory assistance, which are capped at May 2002 levels. Verizon's plan allows petition for basic service rate increases due to exogenous cost factors and to petition for deregulation of basic business rates to customers over 10 lines in markets where meaningful competition exists.	<u>ROR</u> . Underwent rate cases in 2003 to bring intrastate access charges down to interstate levels.	<u>Rates not reviewed.</u>
MD	<b>Verizon:</b> <u>Price caps (1996)</u> . Noncompetitive services under <u>indexed caps (GDP-PI - 3-year average of CPI)</u> . Competitive services <u>rate deregulated</u> .	<u>ROR</u>	<u>Rates regulated flexibly.</u>
MA	<b>Verizon:</b> <u>Alternative Regulation (2003)</u> . <u>Rate freeze</u> for basic residential, subject to exogenous cost adjustments, and <u>flexibility</u> for non-basic residential and all business rates, which are subject to market based pricing <u>with price floors</u> .	<u>ROR</u>	<u>Rates not reviewed.</u>
MI	<b>SBC &amp; Verizon:</b> <u>Price caps (1995)</u> . <u>Indexed price caps</u> for noncompetitive services ( <u>Detroit-area CPI - 1% for SBC and VZ</u> ); rate cuts presumed competitive and not reviewed. Competitive services <u>deregulated</u> . State law in 2000 amended cap program to <u>freeze</u> noncompetitive retail rates of Ameritech and Verizon through 2003 except those in customer-specific contracts, and to abolish state subscriber line charges. Telcos challenged law on constitutional grounds in federal court and won stay of freeze and SLC provisions. They withdrew litigation in Feb. 2003 following settlement agreement with state in Dec. 2002 that waived rate freeze and allowed continued billing of state SLC at reduced rate.	<u>Rate freeze</u> for local services; <u>deregulation</u> for intrastate switched access rates. Since 2002, 5 of 9 petitioning companies were allowed to break the freeze and adjust their rates so that they could respond to customer demands for expanded calling areas.	<u>Rate increases regulated flexibly.</u> State law in 2000 gave CLECs option of accepting rate freeze in return for deregulation of their intrastate switched access rates and waiver of law's requirements for expanding local calling areas. No CLEC has exercised this option so far. CLECs must begin service within 2 years of receiving license.

**Table 2. State Retail Rate Regulation of Local Exchange Companies  
(as of September 2004)**

State	Large Incumbents	Other Incumbents	CLECs
MN	<p><b>Qwest:</b> <i>Price caps (1999-2005)</i>. <u>Nonindexed caps</u> for local exchange and access. Other basic and emerging competitive services <u>flexibly priced</u>. Rates for fully competitive services <u>deregulated</u>.</p> <p><b>Sprint, Citizens/Frontier:</b> <i>Price caps (1996)</i>. <u>Nonindexed caps</u> for basic services. Nonbasic and emerging competitive services <u>flexibly priced</u>. Rates <u>deregulated</u> for fully competitive services.</p> <p><b>Citizens Telecom (formerly GTE):</b> <i>ROR</i>. Company has not proposed any alternative regulation option.</p>	<p><i>Pricing flexibility</i>. Other incumbents (all under 50,000 lines) can self-select flexibly pricing system that allows them to price basic services to market unless greater of 500 or 5% of ratepayers seek PUC review of rate change. Nonbasic and emerging competitive services <u>flexibly priced</u>. Rates <u>deregulated</u> for fully competitive services.</p>	<p><i>Rates regulated flexibly</i>.</p>
MS	<p><b>BellSouth:</b> <i>Price caps (1996-2007)</i>. <u>Rate freeze</u> for basic service rates; <u>price cap</u> for access capped <u>at interstate rates</u>; all other services can increase up to 20% per year in small increments throughout the year or a single annual increase.</p>	<p><i>ROR</i></p>	<p><i>Rates regulated flexibly</i>.</p>
MO	<p><b>SBC, CenturyTel, Sprint, Spectra/Century:</b> <i>Price caps (1997)</i>. <u>Indexed price caps (to telecom component of CPI)</u> for basic services. X-factor application has not been requested by any carrier. Nonbasic services can rise up to 8% annually. Companies have option to increase basic rates up to \$1.50 monthly as part of revenue rebalancing to reduce intrastate access charges to level below 150% of interstate rate. Sprint exercised that option to move access partway to goal. Rate <u>deregulation</u> of certain business and residential local services in markets where competitors operate. (See detail in Table 4)</p>	<p><i>ROR</i> for other investor-owned incumbents. Retail rates of telephone cooperatives are <u>deregulated</u>, but their access charges remain regulated.</p>	<p><i>Rates flexibly regulated</i>. Rates presumed competitive except for access charges, which are capped at incumbent's rate.</p>

**Table 2. State Retail Rate Regulation of Local Exchange Companies  
(as of September 2004)**

State	Large Incumbents	Other Incumbents	CLECs
MT	<p><b>All investor-owned incumbents:</b> <i>ROR</i>. Qwest can request pricing flexibility to match local competitors' rates in exchanges where competitors operate, but earnings still count in rate-of-return calculations. Qwest can also request full deregulation of services that are subject to effective local competition. All incumbents have option to petition for alternative forms of regulation but none has done so. Retail rates of rural telephone cooperatives <u>deregulated</u>.</p>		<p><i>Rates not reviewed</i>. CLECs rates are not regulated; the companies must comply with PSC's telecom service rules.</p>
NE	<p><b>All:</b> <i>Rates not reviewed</i>. PSC can roll back excessive residential local rate increases in exchanges without competition upon petition by affected ratepayers. Companies receiving universal service funding may be affected by 12% earnings benchmark set by PSC in 2001, as well as by benchmark rates of \$17.50 residential and \$27.50 business.</p>		<p><i>Rates not reviewed</i>. CLECs in state universal service fund are subject to fund's rate benchmarking rules.</p>
NV	<p><b>Sprint Nevada (1996-2007):</b> <i>Price caps</i>. Basic service under <u>nonindexed caps</u>. Rate cuts allowed but not increases. Nonbasic services can increase up to 5% annually to cumulative total 20% increase. Competitive services <u>flexibly priced</u>. Broadband services and business services provided under customer-specific contracts <u>deregulated</u>.</p> <p><b>SBC: <i>Price caps (1997-2008)</i></b>. Basic services under <u>nonindexed price caps</u>. Access charges <u>capped at interstate rate</u>. Other services can be priced at any point above cost floor. Broadband and business services provided under customer-specific contracts <u>deregulated</u>.</p>	<p><i>ROR</i>.</p>	<p><i>Rates not reviewed</i>.</p>

**Table 2. State Retail Rate Regulation of Local Exchange Companies  
(as of September 2004)**

State	Large Incumbents	Other Incumbents	CLECs
NH	<b>All:</b> <i>ROR</i> . General guidelines for alternative regulation were adopted in 1996 but to date only one incumbent, Kearsarge Telephone, has applied for price-based regulation. Petition was denied in April 2004.		<i>Rates not reviewed</i>
NJ	<b>Verizon:</b> <i>Price caps (2002)</i> . Cap at July 2002 levels for residential rates and rates for business customers with 1-4 lines; rate <i>deregulation</i> for business customers with more than 4 lines. Competitive service rates <i>deregulated</i> .	<i>ROR</i> .	<i>Some rates regulated</i> . CLEC rates presumed competitive except for basic exchange, vertical services and switched access that cannot exceed Verizon's rates without cost justification. Subsequent increases in rates for basic exchange, vertical services & switched access require cost justification. For other services, rates normally not reviewed.
NM	<b>Qwest, Valor Telecom:</b> <i>Price caps (2001-2006)</i> . Nonindexed caps for basic services. For nonbasic services, <b>Qwest</b> capped at average of rates in its 14-state home region, while <b>Valor</b> can raise nonbasic rates up to 5% annually. Competitive service rates <i>deregulated</i> .	<i>Rates not reviewed</i> . Other incumbents with less than 50,000 lines were <i>deregulated</i> . Basic residential rates increases subject to <i>regulatory review</i> if 2.5% of ratepayers affected or if PRC staff protest the increase.	<i>Rates regulated flexibly</i> .
NY	<b>Verizon:</b> <i>Tariff regulation (2004)</i> . Rates for basic services can change <i>by tariff</i> , but need to be cost-justified. Non-basic and competitive services <i>flexibly priced</i> . Earnings could be reviewed if excessive profits are suspected. <b>Frontier Telephone of Rochester:</b> <i>Price caps (1995 - 2004)</i> . Rate freeze for basic residential. Other noncompetitive services under <i>indexed caps</i> . Competitive services <i>flexibly priced</i> .	<i>ROR</i> .	<i>Rates regulated flexibly</i> .

**Table 2. State Retail Rate Regulation of Local Exchange Companies  
(as of September 2004)**

State	Large Incumbents	Other Incumbents	CLECs
NC	<p><b>BellSouth:</b> <i>Price caps (1996-2003)</i>. <u>Indexed price caps (GDP-PI - 2%)</u>; rate element constraint equal to GDP-PI plus 3%; service specific caps for most other services. New proposed plan scheduled for hearings November 2004.</p>	<p><b>Verizon, Sprint</b> (Centel, Carolina Telephone &amp; Telegraph), <b>Alltel, Mebtel, Concord Tel</b> and <b>North State Communications:</b> <i>Price caps</i>. <u>Indexed price caps (GDP-PI - 2%)</u>; rate element constraint equal to GDP-PI plus 3%; service specific caps for most other services. New plan proposed by VZ scheduled for hearings to begin January 31, 2005; new plan proposed by Sprint scheduled for hearings in February 2005. Eight small incumbents remain under <u>ROR</u>.</p>	<p><u>Rates not reviewed.</u></p>
ND	<p><b>Qwest:</b> <i>Price caps (2003)</i>. <u>Nonindexed caps</u> for basic exchange and switched access. Rate decreases allowed but increases only when government action increases service costs. Rates for other services <u>flexibly priced</u>. <b>North Dakota Telephone:</b> <u>ROR</u>.</p>	<p><u>Rates not reviewed.</u> Retail rates of investor-owned incumbents with fewer than 8,000 lines and of all telephone cooperatives regardless of size have been <u>deregulated</u> since 1993. Carrier access services are <u>rate deregulated</u>, unless carrier request intrastate access price regulation, but earnings are not regulated.</p>	<p><u>Rates not reviewed.</u></p>
OH	<p><b>SBC/Sprint/ Cincinnati Bell/ Century Tel/Chillicothe Horizon:</b> <u>Alternative Regulation</u>. <u>Indefinite rate cap</u>, at the existing rates when adopting the plan, for basic local service and basic caller ID service. <u>Price flexibility</u> for other nonbasic and competitive services. Rate for Tier 2 services must recover LRSIC linked to the service plus common cost allocation, based on study or a default of 10% for common costs. Cincinnati Bell &amp; Century Tel opted for generic alternative regulation plan in 2004.</p>	<p><u>ROR</u>. Remaining carriers have choice of opting into PUC's generic alternative regulation plan or propose a company-specific regulation plan.</p>	<p><u>Rates flexibly regulated.</u> CLECs also will have option of switching to price-based regulation framework PUC adopted for incumbents, but none have done so.</p>

**Table 2. State Retail Rate Regulation of Local Exchange Companies  
(as of September 2004)**

State	Large Incumbents	Other Incumbents	CLECs
OK	<b>SBC:</b> <u>Price caps (1999-2005)</u> . All services under nonindexed caps.	<u>Streamlined ROR</u> . Incumbents can raise monthly local rates up to \$2 annually but boosts are subject to investigation and possible rollback if 15% of ratepayers protest. Price flexibility for competitive services, but revenues count in rate-of-return calculations.	<u>Rates flexibly regulated.</u>
OR	<b>Qwest:</b> <u>Price caps (2000)</u> . <u>Rate freeze</u> for residential and small business basic exchange, PBX trunks, and payphone access services, except for cost-justified rate changes. <u>Nonindexed price caps</u> for all other services, with cost floors. Carrier can lower its rates for all services without prior approval. <b>Verizon, Sprint, Century Tel:</b> <u>ROR</u> . Companies can request right to change rates without prior approval in competitive markets and have done so for most of their exchanges. Carriers have the ability to lower rates without prior approval in most of their exchanges under ORS 759.050.	<u>Rates and earnings not reviewed</u> for other incumbents with fewer than 50,000 lines. PUC can review rate changes if the lower of 10% or 500 of affected ratepayers petition for review.	<u>Rates not reviewed.</u>
PA	<b>ALL:</b> <u>Alternative Regulation (2002)</u> . Basic services under <u>caps (VZ)</u> . Competitive services flexibly priced.		<u>Rates flexibly regulated.</u>
RI	<b>Verizon:</b> <u>Price caps (2003-2005)</u> . Basic residential service under <u>nonindexed caps</u> that allowed an increase of \$1 per line in 2003 and another \$1 in 2004. PUC must review any new proposed increases in residential rates. Other retail services can be set at <u>any point above cost floors</u> .	No other incumbents	<u>Rates not reviewed.</u>

**Table 2. State Retail Rate Regulation of Local Exchange Companies  
(as of September 2004)**

State	Large Incumbents	Other Incumbents	CLECs
SC	<p><b>BellSouth:</b> <u>Price caps (1999)</u>. Nonindexed price caps for basic service. Other services flexibly priced. Cumulative effect of all rate changes cannot increase total revenue more than 5% per year.</p> <p><b>Sprint &amp; Verizon:</b> <u>Price caps (1999)</u>. Indexed price caps (to CPI); other services flexibly priced. Cumulative effect of all rate changes for all other services can't increase total revenues more than 5% per year.</p>	ROR. Option to switch to price caps or other alternatives to ROR, but have not done so.	<u>Rates not reviewed</u> . Certified CLECs must seek "presumptively valid" tariffing status to receive minimal regulation.
SD	<b>Qwest:</b> <u>Deregulation (2003)</u> . All retail rates for Qwest were deregulated statewide based on competition.	<u>Rates not reviewed (1987)</u> . State law allows for reregulation if petitioned by most customers. Power has not been used.	<u>Rates not reviewed</u> .
TN	<b>BellSouth, Citizens Telecom, Sprint:</b> <u>Price caps (1996)</u> . Indexed price caps (lesser of one-half GDP-PI or GDP-PI - 2%) for all services.	ROR. Option to switch to price caps or other alternatives to ROR, but have not done so.	<u>Rates not reviewed</u> .
TX	<b>SBC, Verizon, Sprint, Valor Telecom:</b> <u>Price caps (1999-2005)</u> . Residential basic, 911, Lifeline and carrier access under <u>nonindexed caps</u> . All other services <u>flexibly priced</u> , except for ban on below-cost pricing.	<u>Price caps (1999-2005)</u> . Cap system same as SBC and other large incumbents, except there are no infrastructure upgrading goals for those companies.	<u>Rates not reviewed</u> .
UT	<b>Qwest:</b> <u>Price caps (1997)</u> . Basic exchange and other noncompetitive services under <u>indexed caps (GDP-PI - 4.95%)</u> . Competitive services <u>flexibly priced</u> .	<u>Streamlined ROR</u> . Rate changes for all other incumbents with fewer than 30,000 lines, get speedy administrative review through expedite process. But if 10% of ratepayers challenge result, full rate case is held.	<u>Rates flexibly regulated</u> .

**Table 2. State Retail Rate Regulation of Local Exchange Companies  
(as of September 2004)**

State	Large Incumbents	Other Incumbents	CLECs
VT	<b>Verizon:</b> <i>Price caps (2000-2005)</i> . All noncompetitive services under <u>nonindexed caps</u> set at levels prevailing in April 2000, minus \$16.5 million in rate cuts scheduled at intervals over life of plan for local exchange, toll and switched access services to correct ROR overearnings situation.	<u>ROR</u> .	<u>Rates flexibly regulated</u> . CLEC rates presumed competitive except for operator services, which are capped at Verizon rate. PSB considering rule changes to lighten CLEC regulation.
VA	<b>Verizon VA:</b> <i>Price caps (1995)</i> . Basic services under <u>rate freeze</u> through 2003, then under <u>indexed caps (50% of GDP-PI)</u> . Discretionary services <u>indexed to 0.0083 times number of months since last increase</u> , with 25% maximum increase. Competitive services <u>flexibly priced</u> . <b>Verizon South (formerly GTE):</b> <i>Price caps (2000)</i> . Basic services under <u>rate freeze</u> through 2003, then under <u>indexed caps (50% of GDP-PI)</u> . Discretionary services <u>indexed to 0.0083 times number of months since last increase</u> , with 25% maximum increase. Competitive services flexibly priced. <b>Sprint Telcos:</b> <i>Price caps (1995)</i> . Basic services under <u>indexed caps (one-half GDP-PI)</u> . Discretionary services <u>indexed (GDP-PI)</u> . Competitive services <u>flexibly priced</u> .	<u>Rate deregulation</u> . Rates of investor-owned small telcos partly deregulated by statute. Telcos are free to move rates up or down in response to markets, as long as they are advertised and do not result in excessive complaints to the Commission. Telephone cooperatives are deregulated.	<u>Some rates regulated</u> . Rates are capped at incumbent's rate unless regulatory waiver is obtained.
WA	<b>All:</b> <u>ROR</u> . Companies can petition for rate deregulation of competitive services, but revenues continue to be accounted for on regulated side and in rate-of-return calculations. Rate deregulation granted to large incumbents' toll, directory assistance and business services to large customers in markets where competitors operate. In 2003 Qwest received statewide deregulation for all analog business telecom services in all markets.		<u>Rates flexibly regulated</u> .



**Table 2. State Retail Rate Regulation of Local Exchange Companies  
(as of September 2004)**

State	Large Incumbents	Other Incumbents	CLECs
WV	<p><b>Verizon:</b> <i>Flexible regulation</i>. Basic rates frozen; access charges capped; competitive services rates deregulated.</p> <p><b>Frontier Communications:</b> <i>Flexible regulation</i>. Basic rates frozen; access charges capped; company can request rate deregulation for competitive services.</p>	ROR.	<i>Rates flexibly regulated.</i>
WI	<p><b>SBC:</b> <i>Price caps (1994)</i>. Indexed price caps for noncompetitive services (GDP-PI - 3%); the 3% X-factor applies to companies with more than 500,000 access lines. Competitive services flexibly priced. <i>Deregulation</i> for small business (1-3 lines) approved in 2004 after a competitive showing.</p> <p><b>Verizon:</b> <i>Price caps (1995)</i>. Indexed price caps for noncompetitive services (GDP-PI - 2%); the 2% X-Factor applies to companies with less than 500,000 access lines. Competitive services flexibly priced.</p>	<p><i>Flexible regulation</i>. 26 under some form of <i>price-based regulation</i>; 55 under <i>streamlined ROR</i> with some degree of price flexibility but no earnings reviews unless they seek rates above statewide averages; 2 under <i>traditional ROR</i>; 12 telephone cooperatives are <i>not rate regulated</i>.</p>	<i>Rates not reviewed.</i>
WY	<p><b>All Incumbents:</b> <i>Cost-based pricing flexibility (2003)</i>. Retail service rates to be set above TSLRIC cost floor.</p>		<p><i>Rates not reviewed.</i></p> <p>Rate change of fully facilities-based CLECs could be subject to regulatory staff review, but such carriers are not currently operating in the state.</p>

Sources: *State Telephone Regulation Report*, July-August, 2004, Vol. 22 (15, 16 & 17) & State Regulatory Commissions.

**Table 3. Changes in State Retail Rate Regulation of Incumbent Local Exchange Companies  
(April 2003 to September 2004)**

STATE	COMPANY	CHANGES
AL	All local carriers	PSC opened a comprehensive global review of regulation (Case 28950) of all local exchange providers to determine whether changes in industry structure, technology and policy since 1996 required changes in the regulatory system. Pending proposal would establish one price-capping system for incumbent telcos that face competition and a less lenient system for incumbents with competition exemptions. The first workshop was on August 24. CLECs are included in the comprehensive regulatory review, with proposal to reduce rate-change notice requirements while prohibiting below-cost pricing except to match a competitor's rate.
AZ	Qwest	Plan reviewed in 2004. In May 2004 Qwest proposed amendment to price cap system allowing it full price flexibility for all retail services within designated competitive zones such as major cities so company could meet rivals' prices and promotional offers. Qwest also requested statewide flexibility to meet rivals' limited-duration promotional offers. Staff recommendation is due at end of October.
AR	Century Tel	In Feb.2003 carrier filed rate case seeking \$35 million increase, only a 12% increase was approved in January 2004, for \$3.1 million.
	CLECs	Rates, which used to be flexibly regulated, are not reviewed anymore. CLECs just required to get certified, contribute to universal service fund and file tariffs. CLEC rates are presumed competitive.
CA	SBC, Verizon	In 2003, PSC concluded no major structural changes were needed. After PUC review, Verizon and SBC were found to have understated profits from 1997 to 1999. Verizon refunded customers \$12 million in 2003, but SBC's corrected profits for those years did not reach sharing threshold. PUC is reviewing SBC's service quality and accounting practices under cap plan.
CO	Qwest	The company's current plan was extended until its deregulatory application (Docket 04M-411T) is complete. Qwest proposed new regulatory plan that would cap residential basic exchange at \$14.74 and deregulate rates for all other retail services, Qwest withdrew original July proposal because of customer notification technicality. Plans to file same proposal in October 2004.
DE	Verizon	Verizon's Sept. 2002 long distance entry triggered 2003 review of plan. Verizon proposed alternative cap program but settled for extension of current plan until Sept. 2006 because of federal regulatory uncertainties. Plan extended for three more years until 2006, but company needs to notify PSC in Sept. 2005 whether it wants to extend or replace the plan.
DC	Verizon	Plan was to have expired in April 2004; extended to 2007. Residential dial tone rates are frozen until 12/31/05. Thereafter, VZ has the option of increasing the dial tone rate by 32¢. That rate would remain in effect for the duration of the plan. Other basic residential rates may be increased by up to the greater of 10% or the change in the inflation rate each year. Basic business service rates may be increased by 10% each year. Discretionary services may be increased by up to 15% annually. Competitive services not rate regulated, but rates must be above incremental cost.
FL	BellSouth, Verizon, Sprint	A 2003 state law required major rate rebalancing to shift hundreds of millions of dollars from access charges onto local rates. PSC in Dec. 2003 approved plan to give the 3 companies \$355 million total in local rate increases. Increases were stayed by the FL Supreme Court pending final ruling on legal challenges to law and PSC action.

**Table 3. Changes in State Retail Rate Regulation of Incumbent Local Exchange Companies  
(April 2003 to September 2004)**

STATE	COMPANY	CHANGES
HI	Verizon	Wireline operation will be sold to NY-based Carlyle Group, pending state regulatory approval; FCC has already granted Verizon's application on this matter. Intent is to complete sale by end 2004. Buyers said they have no immediate plans to change rates.
ID	Qwest	Qwest petitioned unsuccessfully in 2003 for full rate deregulation in its 7 largest Idaho exchanges. Its request in 2004 for statewide basic exchange deregulation through legislature was also unsuccessful.
IL	SBC	Plan was to have expired in 2002; extended indefinitely.
IN	SBC	Plan ended in 2003; new plan ends in 2007. New plan set basic residential and business services to customers below 5 lines under nonindexed caps. Increases in vertical services limited to 38 cents per feature yearly, all other retail services rates deregulated. Company must meet service quality, customer education and investment requirements.
	Verizon	Plan ended in 2003; new plan ends in 2007. New plan sets basic residential rates under nonindexed caps. All other retail services rates flexibly priced. Infrastructure requirements to be met by 2008. Must eliminate rural zone charges by end of 2004. Must offer DSL as stand-alone product before 2006.
	Sprint	Plan ended in 2003; new plan ends in 2007. Nonindexed caps for basic residential and small business services. Cumulative annual increases for vertical services limited to 8.75% of annual revenues for services in this basket; services must be priced at least 10% above cost. Rates for other retail services deregulated. Plan includes investment and service quality requirements. Falling short of quality standards risks loss of pricing flexibility.
IA	Qwest	In May 2004, the Iowa Utilities Board (IUB) opened an investigation (Docket No. INU-04-1) to evaluate the state of competition in certain geographic markets in Iowa. This proceeding is pending. The X-Factor (2.6%) included in the plan for Qwest, Frontier Communications and Iowa Telecom Services was eliminated by legislation in July 2004.
	Iowa Telecom Services	In April 2004, ITS entered into a settlement agreement with the IUB and the Consumer Advocate. This settlement agreement included a Network Improvement Plan (NIP) as part of a capital investment commitment. Pursuant to the settlement, ITS agreed not to submit a price plan modification before it has invested approximately \$39 million in its NIP.
KS	SBC	Companies can petition for rate deregulation of competitive services in markets where competition exists. SBC's petitions have been denied so far. SBC will complete DSL deployment to exchanges with more than 1,000 lines in 2004, & near ubiquitous DSL service in 8 cities.
KY	BellSouth	BS cap plan triennial review went on without major changes. PSC ordered BellSouth to eliminate rural zone charges by 2006.
	Alltel Kentucky	PSC approved Alltel's proposal for alternative regulation. Alltel's price cap plan caps basic services and provides pricing flexibility for other services.
LA	BellSouth	Price cap plan was reviewed in 2003 and extended indefinitely, with future reviews at PSC discretion. New plan uses nonindexed caps for basic residential and single-line business services, except for rate changes intended to consolidate 8 local rate groups into one by 2006. After 2006, BellSouth can raise basic service rates up to 10 percent a year in urban markets with competition. Rates for competitive services were deregulated. Service quality, universal service and access service issues will be considered in separate dockets.

**Table 3. Changes in State Retail Rate Regulation of Incumbent Local Exchange Companies  
(April 2003 to September 2004)**

STATE	COMPANY	CHANGES
MD	Verizon	PSC has open docket to consider price cap indexing adjustments for 2002, 2003. Verizon has also proposed either deregulating retail rates or greatly expanding list of competitive services. Timing of final decision uncertain.
MA	Verizon	New alternative regulation plan approved in June 2003. Rate freeze for basic residential, subject to exogenous cost adjustments; non-basic residential and all business rates are subject to market based pricing with price floors. Annual penalty for noncompliance with service quality standards requirements set at a maximum of 1% of intrastate retail revenues.
ME	Verizon	Operator and directory assistance services capped at May 2002 levels. Completed local rate increases and toll rate cuts stipulated under plan. Plan was vacated by state courts in early 2003 and reinstated in September 2003 by PUC after concluding it was impossible to meet court's demand for valid comparison of plan's rates against hypothetical rates under rate of return. Second appeal to Law court in 2004. The court has not ruled as of Oct. 1, 2004.
	Other incumbents	Underwent rate cases in 2003 to bring intrastate access charges down to interstate levels.
MI	SBC, Verizon and other incumbents	Regulation of SBC and Verizon may be affected by Dec. 2005 Michigan Telecom sunset and legislature's response. Since 2002 five of nine petitioning small incumbent companies were allowed to break the freeze and adjust their rates so that they could respond to customer demands for expanded calling areas.
MN	Qwest	Price cap plan extended two years until 2005 by a 2004 state law. Qwest and the state are negotiating a new regulatory plan to become effective in 2005. The 2004 law deregulated business rates in 3 major metropolitan areas.
	Citizens/Frontier	Citizens/Frontier is negotiating price cap amendments that could expand pricing flexibility.
MO	SBC/Sprint	In December 2003 Sprint obtained rate deregulation of basic services in 3 competitive exchanges. In July 2004, SBC filed a petition for statewide rate deregulation of all retail services. Procedural schedule will be set soon.
	Other incumbents	Alltel lost bid for caps in 2004 because competitors were not providing comparable services. BPS Telephone has pending a petition for switching to caps.
	CLECs	Changed from having rates not being reviewed to rates being flexibly regulated. Rates presumed competitive except for access charges, which are capped at incumbent's rate.
MS	BellSouth	In June 2004, PSC completed midcourse review of program, and changed standards for appointment and repair timeliness. As part of the review, the 20% increase a year in nonbasic services was allowed to be made up of smaller increases throughout the year rather than a single one annually.
MT	Qwest	PSC initiated a docket requiring Qwest to file information on its rate of return. In July 2003 PSC stated company reports indicated substantial overearnings. Carrier appealed to state courts, claiming PSC exceeded statutory authority by initiating rate case imposing burden of proof onto Qwest. Record in appeal complete; decision awaited.

**Table 3. Changes in State Retail Rate Regulation of Incumbent Local Exchange Companies  
(April 2003 to September 2004)**

STATE	COMPANY	CHANGES
NH	Kearsarge Telephone	Traditionally under ROR, applied for an indexed price cap plan in 2001; petition was denied in April 2004.
NJ	Verizon	Changed from 3 to 4 lines the maximum number of lines required from business customers to get rates capped at July 2002 levels. Rates for business customers with more than 4 lines deregulated.
NM	Qwest	Qwest was given one extra year to fulfill its investment requirements. In July 2004 the PRC opened docket to determine whether Qwest is on schedule to meet network investment commitment. In Sept. 2004, the PRC decided to allow Qwest to make a case before a PRC hearing officer to include the company's wireless network investment as part of the \$788 million investment agreement included in the regulatory plan.
	Valor	A 2004 state law requires Valor's cap program to include some form of indexing for adjusting caps, starting in 2006.
NY	Verizon	Changed from revenue cap plan with pricing flexibility to tariff regulation, after plan expired in March 2004. Changes in basic service rates done by tariff, only if cost-justified. Non-basic and competitive services flexibly priced. Earnings could be reviewed if suspicion of excessive profits.
	Frontier Telephone of Rochester	Frontier's plan will expire at the end of 2004, but no docket on successor plan has been opened yet.
NC	BellSouth	Price cap plan extended one year until 2004, while new plan is defined. In February 2004 company proposed a new cap system (Case P-55, sub 1013) that would reduce the number of service categories from five to two (basic and full pricing flexibility) and reclassify most services to the full pricing flexibility category. Prices for basic services could be increased by a maximum of 7% in each Plan year with the exception of rates for basic residence service, which would be frozen for the first two years. Basic residential services would be under nonindexed caps and deregulate rates for all other retail services. Hearing scheduled to begin November 29, 2004.
	Verizon	One small incumbent changed from ROR to price caps regulation under a plan similar to BellSouth's. In June 2004 Verizon proposed a simplified cap that would limit rate increases for basic residential and single-line business services to a 7% a year in noncompetitive exchanges and deregulate all other retail service rates. Hearings are scheduled to begin January 31, 2005.
	Sprint (i.e. Carolina Telephone & Telegraph and Central Telephone Co.)	In August 2004, Sprint filed a proposal for Price Plan Review (Docket Nos. P-7, Sub 825 and P-10, Sub 479) to make the following substantive changes to the existing plan: a. reduce the number of service categories to two (basic and full pricing flexibility); b. limit the aggregate increase for the price of services in the Basics Category (i.e., Basic residential and single-line business local exchange services) to the rate of inflation; c. service bundles and service packages would move to the Full Pricing Flexibility Category. d. other updates consistent with changes to the applicable North Carolina statutes. Hearings are scheduled to begin February 8, 2005

**Table 3. Changes in State Retail Rate Regulation of Incumbent Local Exchange Companies  
(April 2003 to September 2004)**

STATE	COMPANY	CHANGES
OH	CBT, Century Tel	CBT and Century opted to change from rate freeze and ROR, respectively, to the generic alternative regulation plan in 2004. CBT asked the PUC for waiver of plan's Lifeline service so it can keep 2 different Lifeline options from previous company-specific regulation program. Petition pending; decision expected soon.
OK	SBC	Plan extended one more year to 2005, including deadline for network investment requirement. No proceeding yet on successor to current plan.
	Other incumbents	Streamlined ROR system originally applied only to incumbents with fewer than 75,000 lines was extended to all incumbents but SBC by a 2004 law. Based in this system, monthly basic exchange rates can rise by up to \$2 annually but boosts are subject to investigation and possible roll back if 15% of customers protest. Price flexibility for competitive services, but revenues count in rate-of-return calculations.
PA	Verizon	Verizon in 2003 sought rate deregulation of all retail business services but was denied. It also completed its infrastructure investment requirement. Chapter 30 statute expired in 2003, but price cap plans implemented under it didn't terminate with law's sunset.
RI	Verizon	Verizon completed allowed increases in basic residential rates of \$1 per line in 2003 and another \$1 in 2004. PUC must review any further proposed increase. Plan up for review in 2005.
SC	BellSouth	Plan was extended indefinitely. Legislature in 2004 enacted rate deregulation for all retail service bundles from price-regulated incumbents. Government has until year-end to act on measure.
	Sprint and Verizon	Legislature in 2004 enacted rate deregulation for all retail service bundles from price-regulated incumbents. Government has until year-end to act on measure.
SD	Qwest	Qwest's price cap plan (1996) was eliminated after the carrier won statewide retail rate deregulation from PUC in October 2003 based on competition.
	Other Incumbents	All retail rates deregulated. State law allows reregulation if majority of company's ratepayers petition for it, but that power hasn't been used to date.
UT	Qwest	Since 2003, Qwest increased by 20% the number of local residential lines in more populated areas in which it has won rate deregulation due to the existence of competition.
VT	Verizon	In April 2004, PSB opened proceeding (Case 6959) to evaluate Verizon's price cap plan success and consider successor. Verizon proposed new plan that would allow up to 10% annual increase in basic residential services and deregulate retail rates for everything else. Hearings planned for Dec. 2004; ruling by mid-March. New plan would take effect April 22, 2005.
	CLECs	PSB considering rule changes to lighten CLEC regulation.

**Table 3. Changes in State Retail Rate Regulation of Incumbent Local Exchange Companies  
(April 2003 to September 2004)**

STATE	COMPANY	CHANGES
VA	Verizon VA & Verizon South	Verizon has proposed new price cap plan (Case PUC-2004-00092) for implementation in October that would cap basic services at the highest rate prevailing today and allow rate changes of 10% per year until all prices for retail services are brought to statewide caps. Rate changes would then be indexed to GDP-PI. New plan would eliminate provision prohibiting increases if company fails to meet service quality standards. Initial comments due in September.
WA	Qwest	Moratorium on Qwest's rate cases, stemming from merger agreement that created Qwest, expired in 2003. In 2003 Qwest received statewide deregulation for all analog business telecom services in all markets.
	Verizon	Verizon has an ongoing rate case procedure requesting \$240 million increase; the decision is expected in early 2005.
WV	Verizon	Verizon has proposed adding several business digital data services (digital data services, primary rate ISDN service, frame relay and asynchronous transfer mode services, transparent LAN services and speed dialing) to deregulated list. Settlement pending.
	Frontier Communications	PSC extended the company's program in 2003 until end of 2004. PSC staff and Frontier plan to meet in August to discuss extension or replacement. Frontier is business name for Citizens Telecom.
WI	SBC	Plan extended indefinitely. Program continued without major change after 1999, 2002 and 2004 reviews. Future reviews at PSC discretion. No plans to conduct one. The PSCW removed small business (1-3 lines) from price regulation in 2004 after a competitive showing. This increased SBC's rate flexibility for these services.
	Verizon	Plan extended indefinitely. Program continued without major change after 1999, 2002 and 2004 reviews. Future reviews at PSC discretion. No plans to conduct one.
WY	Qwest & Other incumbents	In 2003 moved from price cap plan (1996) to a cost-based pricing flexibility regime. Only requirement is for retail service rates to be set above TSLRIC cost floor.

Sources: *State Telephone Regulation Report*, July-August, 2004, Vol. 22 (15, 16 & 17) & State Regulatory Commissions.

**Table 4. Detail of State Retail Rate Regulation Plans of Incumbent Local Telecommunications Providers  
(as of September 2004)**

State	ILEC	Regime	Expiration date	Rate regulation by type of service			Earnings regulation	Infrastructure requirements	Rate/Service Notice	Other plan requirements	Comments
				Basic	Other noncompetitive	Competitive					
AL	All	Price caps (1996)	None	Nonindexed caps (basic exchange & access rates)	Can rise up to 10% per year, in aggregate, with rate design subject to PSC review.			<p><u>BS: Decreases and promotional offerings:</u> Effective no less than 15 days from filing. Tariffs to expand list of CSA authorized services effective 30 days after filing. Filings for decreases, promotional offerings or expansion of CSA approved list may be suspended to a 60-day effective date. <u>Price increases &amp; new serv.:</u> Effective on 30 days notice. Period can be extended to 60 days from filing date by Comm'n action.</p>	In proposed review, residential and business rates for BS and other ILECs subject to competition would be capped at present levels the first 2 years; in year 4 and every 2 years thereafter, rates for these services could change up to 5% until reaching statewide cap of \$18 for res and \$40 for bus. In BS' case only, rate changes allowed in years 3 and 4 to consolidate current 6 rate groups into one, with a cap of \$16.30 for res and \$36.23 for bus rates. In year 4 and thereafter, its caps would be the same as the other incumbents. Vertical services rates could rise 5% a year, but increase would be capped at the prevailing highest rate within the BellSouth home states region. Rate freeze for Lifeline, local directory assistance, 911 and other N11 services, unless telco can cost-justify change. For other serv., yearly increase of 15% in fully competitive markets, up to 10% in semicomps, and 5% elsewhere. Increases allowed only in exchanges meeting serv. qual. req. Below-cost rates not allowed, except when matching a competitor's rate.	PSC opened comprehensive global review of regulation (Case 28950) of all local exchange providers to determine whether changes in industry structure, technology and policy since 1996 required changes in the regulatory system. Pending proposal would establish one price-capping system for incumbent telcos that face competition and a less lenient system for incumbents with competition exemptions. Rural ILECs exempted from competition obligations, would cap retail services at existing rates for first 3 years. Thereafter, basic local rate increase of 1% a year, up to statewide cap of \$18 for residential and \$40 for business. Other rates could increase up to 2% a year. Freeze rates for Lifeline, local directory, 911 and N11 services, unless cost-justified. No increases unless meeting service quality.	
AK	Large incumbents (more than \$500,000 annual revenue)	Streamlined rate of return (1992)					Earnings still count in rate-of-return calculations		Rate boosts up to 6% and any permanent rate cuts decided in as few as 45 days under ROR principles in annual filings. Rate adjustments filings made annually. Other changes require full rate case. In markets designated competitive (Anchorage, Fairbanks and Juneau), incumbents can cut rates without prior state approval but must justify any increase back to previous level. They can also set limited-duration promotional rates to match competition.		
	Small incumbents (less than \$500,000 annual revenue)	Streamlined rate of return (1992)					Earnings still count in rate-of-return calculations		Rate boosts up to 6% and any permanent rate cuts decided in as few as 45 days under ROR principles. Rate adjustments filings made annually. In markets where competitors operate, incumbents can cut rates without prior state approval but can't raise them back to previous level. They can also set limited-duration promotional rates to match competition.	Small incumbents can opt out of state rate and earnings regulation upon approval of ratepayers. Four small incumbents have done so. Rates and earnings of smallest rural incumbents (under \$50,000 annual revenues) were deregulated in 1992.	



**Table 4. Detail of State Retail Rate Regulation Plans of Incumbent Local Telecommunications Providers  
(as of September 2004)**

State	ILEC	Regime	Expiration date	Rate regulation by type of service			Earnings regulation	Infrastructure requirements	Rate/Service Notice	Other plan requirements	Comments
				Basic	Other noncompetitive	Competitive					
AZ	Qwest	ROR with price caps (2001)	Review in 2004	Rate freeze. X-Factor value=4.2%	Nonindexed caps that allow for price movement under cap	Price flexibility, but subject to revenue cap for entire basket of competitive services.	Carrier under earnings-based regulation pegged to ROR on "fair value" of rate base. Earnings from all services count in ROR calculations. Revenues from all services count in ROR calculations.		Change: 30 days notice to Comm'n & cust. Notice to affected cust. within 60 days of effective date of any changes in tariffs (A.A.C. R14-2-504). The Comm'n has between 120 - 360 days (depending on the class of the utility) to review a proposed rate increase before becoming effective (A.A.C. R14-2-103). Staff report and/or testimony are due between 60 - 180 days (depending on the class of the utility).		In March 2001 rate case decision that granted Qwest \$23.9 million net revenue increase, regulators established price capping system to give Qwest pricing flexibility. Major deregulation of telecom rates or services requires voter approval of constitutional amendment. In May 2004 Qwest proposed amendment to price cap system allowing it full price flexibility for all retail services within designated competitive zones such as major cities so company could meet rivals' prices and promotional offers. Qwest also requested statewide flexibility to meet rivals' limited-duration promotional offers. Staff recommendation is due in October.
	Other incumbents	ROR			Fully tariffed ROR		Carrier under earnings-based regulation pegged to ROR on "fair value" of rate base.				Incumbents do not have pricing flexibility. Major deregulation of telecom rates or services requires voter approval of constitutional amendment.
AR	SBC, Alltel	Price caps (1997)	None	Caps indexed to 75% of GDP-PI (basic exchange and switched access)	Deregulation		Not regulated			Companies can request rate deregulation of those services in exchanges with effective local competition but no requests have been filed.	
	Century Tel	ROR									Applies to 203,000 access lines Century bought from Verizon in 2000. Century Tel operates these lines in a separate business unit. It has option to switch to price caps, but have not done so. In Feb.2003 carrier filed rate case seeking \$35 million increase, only a 12% increase was approved in January 2004, for \$3.1 million.
	Other incumbents	Price caps (1997)	None	Rates for basic exchange allowed to rise annually by lesser of 15% or \$2 per line monthly	Deregulation		Not regulated				Century Tel's original 45,000-line Arkansas operation is under that cap system.

**Table 4. Detail of State Retail Rate Regulation Plans of Incumbent Local Telecommunications Providers  
(as of September 2004)**

State	ILEC	Regime	Expiration date	Rate regulation by type of service			Earnings regulation	Infrastructure requirements	Rate/Service Notice	Other plan requirements	Comments
				Basic	Other noncompetitive	Competitive					
CA	SBC, Verizon, Surewest Telecom, Citizens Telecom/Frontier	Price caps (SBC/VZ: 1989; SureWest/Citizens: 1996)	None	Rate freeze, except for cost-justified changes. Commission adopted a productivity factor of 5.0% for SBC and 4.6% for Verizon in 1995-96.		Price flexibility	SBC and VZ earnings not regulated since 1999 when profit sharing was suspended. SureWest must share earnings over 11.5% and Citizens over 11.25%		SBC: Category I (Basic serv.); Rates fixed and only cost justified changes are allowed. Category II (discr. and part. competitive serv.); changes within approved price ceilings and floors; into effect automatically 5 days after filing for price decreases; 30 days for increases, unless suspended by the CPUC. Category III (fully comp.); Changes below the price ceiling go into effect on one day's notice, and are not subject to protests.		Plan's original inflation indexing suspended by PUC in 1995 and profit sharing in 1999 for SBC and Verizon. Surewest (formerly Roseville Telephone) and Citizens/Frontier joined system in 1995. PUC opened a comprehensive multiphase review of the regulatory program for SBC and VZ in 2002. In 2003, PSC concluded no major structural changes were needed. After PUC review, Verizon and SBC were found to have understated profits from 1997 to 1999. Verizon refunded customers \$12 million in 2003, but SBC's corrected profits for those years did not reach sharing threshold. PUC is reviewing SBC's service quality and accounting practices under cap plan.
	Other incumbents	ROR		Fully tariffed ROR							In 1997 PUC established schedule to ensure rates of each small incumbent were reviewed at least every 3 to 5 years.
CO	Qwest	Price caps (1999-2004)	Qwest extended until deregulatory application is complete	Nonindexed caps	Price flexibility		Not regulated		14 days notice for rate changes between price floor and ceiling, either increases or decreases, for emerging competitive services, unless suspended by the commission.	Company liable for up to \$15 million in annual penalties for failure to meet plan's service quality goals.	Although an X-Factor is included in Colorado's state law, it has not been enacted or analyzed in the state's PUC regulation. The company's current plan was extended until its deregulatory application (Docket 04M-411T) is complete. Qwest proposed new regulatory plan that would cap residential basic exchange at \$14.74 and deregulate rates for all other retail services; Qwest withdrew original July proposal because of customer notification technicality. Plans to file same proposal in October 2004. Qwest paid \$11.2 million penalty for 2000, \$4.1 million for 2001, \$2.2 million for 2002 and \$2.27 million in 2003.
	Other incumbents	ROR		Fully tariffed ROR							Option to petition for earnings-based or price based alternative regulation systems but none have done so.

**Table 4. Detail of State Retail Rate Regulation Plans of Incumbent Local Telecommunications Providers  
(as of September 2004)**

State	ILEC	Regime	Expiration date	Rate regulation by type of service			Earnings regulation	Infrastructure requirements	Rate/Service Notice	Other plan requirements	Comments
				Basic	Other noncompetitive	Competitive					
CT	SBC (SNET)	Price caps (1996-2006)	2006 review	Caps indexed to GDP-PI. X-Factor= 5%. Caps levels don't change unless GDP-PI exceeds 5% per year, when caps can rise by half the amount over 5%.		Price flexibility	Not regulated		Competitive services: 5 days advanced written notice, and 21-days for emerging, competitive and noncompetitive services. Rate changes within flexible ranges require five-days advanced written notice and promotional offerings may be offered on as little as three-days advanced written notice. The Dept. may investigate a tariff and suspend it during investigation.	Penalties assessed for failure to meet service quality targets.	No pending proceedings. Last review occurred in 2001, without any changes. Next full review due in 2006.
	Verizon	Price caps (1999-2002)	2002 review	Local rate freeze	Price flexibility		Not regulated		Same as SBC		Verizon's rates for other noncompetitive and competitive services are subject to the same level of regulation as SBC and continue to be reviewed.
	Other incumbents	ROR			Fully tariffed ROR				Same as SBC		
DE	Verizon	Price caps (1994-2006)	PSC needs notice in September 2005, whether VZ wants plan extended or replaced	Caps indexed to GNP/PI minus 3%		Price flexibility	Not regulated		Notice to Commission for review. <u>Basic service</u> : 60 days; <u>discretionary services</u> : 20 days; <u>competitive services</u> : 3 days		Verizon's Sept. 2002 long distance entry triggered 2003 review of plan. Verizon proposed alternative cap program but settled for extension of current plan until Sept. 2006 because of federal regulatory uncertainties.
DC	Verizon	Price caps (2007)	2007	Rate freeze: Residential dial tone until 12/31/05. Thereafter, VZ has the option of increasing the dial tone rate by 32¢. That rate would remain in effect for the duration of the plan. Other basic residential rates may be increased by up to the greater of 10% or the change in the inflation rate each year. Basic business service rates may be increased by 10% each year.	Discretionary services may be increased by up to 15% annually.	Not rate regulated, except that they must be priced above incremental cost.	Not regulated		<u>All Basic and Discr.</u> : 30 days for comment; 15 days for reply comment. <u>Comp. services</u> : 14 days. <u>Serv. Reclassification</u> : After NOPR, 30 days for comments and 10 days for reply comments. PSC issues order within 60 days after publ. <u>Serv. withdrawals</u> : <u>Discr. and comp. serv.</u> on 30 days notice to Comm'n; <u>basic serv.</u> needs Comm'n approval; application deemed approved 60 days after publ.		

**Table 4. Detail of State Retail Rate Regulation Plans of Incumbent Local Telecommunications Providers  
(as of September 2004)**

State	ILEC	Regime	Expiration date	Rate regulation by type of service			Earnings regulation	Infrastructure requirements	Rate/Service Notice	Other plan requirements	Comments
				Basic	Other noncompetitive	Competitive					
FL	BellSouth, Verizon, Sprint	Price caps (1995 statute)	None	Caps indexed to GDP PI minus 1%. Access charges capped.	Nonbasic services can rise up to 6% per year in noncompetitive markets.	Nonbasic services can rise up to 20% a year in competitive markets	Not regulated		Basic service: 30 days; nonbasic service: 15 days. Commission's actions are not limited by the notice period.		The plan began its implementation on January 1, 1996. A 2003 state law required major rate rebalancing to shift hundreds of millions of dollars from access charges onto local rates. PSC in Dec. 2003 approved plan to give the 3 companies \$355 million total in local rate increases. Increases were stayed by the FL Supreme Court pending final ruling on legal challenges to law and PSC action.
	Other incumbents	Price caps (1995)									Other incumbents can elect price cap regulation under program similar to that for large providers. Six other incumbents have chosen price caps. Only one small incumbent remains under ROR.
GA	BellSouth	Price caps (1995)	None	Caps indexed to GDP PI. Access charges capped at interstate rate.	Deregulated		Not regulated	\$2 billion infrastructure investment requirement completed in 2000. No further requirements have been linked to price caps.	Tariff filings will be presumed valid and become effective 30 days after filing, unless suspended, revised or denied by Commission.		
	Other incumbents	Price caps (1996)						No infrastructure requirements			Other incumbents can elect price cap regulation under program similar to BellSouth. As of August, 2004, 75% of the state's 34 other incumbents have elected price caps. The rest remain under fully tariffed ROR.
HI	Verizon-Hawaii	ROR		Traditional rate-of-return regulation			State law requires cost-based and earnings-based regulation until PUC determines effective local competition exists.		Partially competitive and noncompetitive services: 30 days before effective date. Fully competitive services: Effective upon filing.		Some of Verizon's rates have been adjusted to reflect cost shifts, but no full rate case has occurred since 1997. Wireline operation will be sold to NY-based Carlyle Group, pending state regulatory approval; FCC has already granted VZ's application on this matter. Intent is to complete sale by end 2004. Buyers said they have no immediate plans to change rates.
ID	Qwest South	ROR on price-regulated services; Deregulation (1989) for all other services		ROR: Basic local exchange for 5 or fewer lines with or without local competition. Company has option of choosing nonindexed price caps for basic local exchange for 5 or fewer lines, but has not done so.	Rates deregulated for all retail services except basic local exchange provided to accounts with 5 or fewer lines.		Earnings still count in ROR calculations on price-regulated services		Regulated products: 30 days notice for commission and 10 days for customers. Deregulated products: 10 days notice for commission and customers.	Qwest has option to put basic exchange under nonindexed price cap in exchanges where competition operates and can petition for full basic exchange deregulation in exchanges where fully effective competition exists. Qwest petitioned unsuccessfully in 2003 for full rate deregulation in its 7 largest Idaho exchanges. Its request in 2004 for statewide basic exchange deregulation through legislature was also unsuccessful.	Service deregulation doesn't apply to Qwest's 35,000-line Lewiston service area in northern Idaho, which is under full ROR.
	Other incumbents	ROR		Fully tariffed rate-of-return							Option to switch to regulatory plan similar to Qwest's, but none had chosen to do so.

**Table 4. Detail of State Retail Rate Regulation Plans of Incumbent Local Telecommunications Providers  
(as of September 2004)**

State	ILEC	Regime	Expiration date	Rate regulation by type of service			Earnings regulation	Infrastructure requirements	Rate/Service Notice	Other plan requirements	Comments
				Basic	Other noncompetitive	Competitive					
IL	SBC	Price caps (1995)	None	Rate freeze (residential rates). Telecom reform law passed in July 2001 changed retail rate structure for residential and single-lined business customers to require that 3 grades of flat-rate local service be offered at regulated rates.	Caps indexed to GDP-PI minus 4.3%.	Price flexibility	Not regulated		Company must meet service quality goals. Telecom reform law passed in July 2001 changed retail rate structure for then Ameritech's residential and single-line business services to require that 3 grades of flat-rate local service be offered at regulated rates. Law also imposed additional service quality requirements and penalties.		
	Other incumbents	ROR		Fully tariffed					users subject to alternative reg.); Price changes require 1 day notice.	Telecom reform law passed in July 2001 changed retail rate structure for Verizon's residential and single-lined business customers, requiring 3 grades of flat-rate local service. No pending proceedings to change ROR status.	
IN	SBC	Price caps (2004-2007)	November 2007	Nonindexed caps for Tier 1 basic residential and business services to customers below 5 lines. Prices capped at current rates through the term of the agreement. Prices may be decreased at any time provided the lower price exceeds the total TSLRIC of the service plus 10% of shared and common costs.	Increases for vertical services limited to 38¢ per feature yearly; all other features are deregulated		Company must make DSL available to 77% of customers by July 2008, with at least 30% of new deployment in rural areas.	Tier 1: A decrease could be effective next day after notice to Comm'n. Tier 2: 45 days advanced notice for Tier increases or changes in Ts and Cs for tier 1 or 2. Within 3 days of notice, SBC and comm'n will post details of increase on their websites. If no objections received, change is "deemed approved." Tier 3: Changes effective no earlier than on the day after the company provides written notice to the comm'n.	Company has to fulfill service quality requirements or pay penalties up to \$30 million annually for poor service. SBC is required to spend \$850,000 on telecom consumer education.	The SBC Catalog, an informational document, similar in appearance to the tariff, contains the pricing information for the tier 3 services.	

**Table 4. Detail of State Retail Rate Regulation Plans of Incumbent Local Telecommunications Providers  
(as of September 2004)**

State	ILEC	Regime	Expiration date	Rate regulation by type of service			Earnings regulation	Infrastructure requirements	Rate/Service Notice	Other plan requirements	Comments
				Basic	Other noncompetitive	Competitive					
IN (cont.)	Verizon	Price caps (2004-2007)	November 2007	Nonindexed caps for Tier 1 basic residential and business services to customers below 5 lines. Prices capped at current rates through the term of the agreement. Prices may be decreased at any time provided the lower price exceeds the total TSLRIC of the service plus 10% of shared and common costs.	Price flexibility (Tier 2 includes basic custom calling and caller ID feature)		Not regulated	Company must make DSL available to 75% of customers before 2008, with 45% of new deployment in rural areas.  Tier 1: A decrease could be effective next day after notice to Comm'n. Tier 2: 45 days advanced notice for Tier increases or changes in Ts and Cs for tier 1 or 2. Within 3 days of notice, VZ and comm'n will post details of increase on their websites. If no objections received, change is "deemed approved". Tier 3: Effective no earlier than the day after the company's written notice to comm'n.	Must eliminate rural zone charges to customers living far from central offices and waive certain nonrecurring installation charges for low-income customers by end of 2004. Must offer DSL as stand-alone product before 2006.	VZ Catalog pages contain pricing information for the tier 3 services.	
	Sprint	Price caps (2004-2007)	November 2007	Nonindexed caps for all basic residential and small business services. Rates capped at current rate levels.	Cumulative annual increases for vertical services limited to 8.75% of annual revenues for services in this basket; services must be priced at least 10% above TSLRIC.		Tier 3 services are permitted rate changes but price floors do apply. PBX and key trunks have complete pricing flexibility.  Sprint must make DSL available to 70% of customers before 2009.	Tier 2: Changes effective 10 days after tariff filing, as long as they exceed TSLRIC plus 10%. 24 hours notice of the price change to affected customers; Tier 3: Changes permitted within one days notice.	Plan sets service quality requirements; falling short of standards risks loss of pricing flexibility.	Tier 2 includes vertical services which can be added to Basic local lines and that are optional. Tier 3 includes competitive services, bundles, feature packages, and new products.	
	Other incumbents	Flexible regulation					Investor-owned incumbents with fewer than 30,000 lines have price flexibility but their earnings still may be reviewed.		Tariffs must be filed and rates are deemed approved the next day. Other ILECs fall under rate filing requirements for a "rate case".		Telephone cooperatives are deregulated.

**Table 4. Detail of State Retail Rate Regulation Plans of Incumbent Local Telecommunications Providers  
(as of September 2004)**

State	ILEC	Regime	Expiration date	Rate regulation by type of service			Earnings regulation	Infrastructure requirements	Rate/Service Notice	Other plan requirements	Comments
				Basic	Other noncompetitive	Competitive					
IA	Qwest, Frontier Communications of Iowa, Iowa Telecom Services (see comment section)	Price caps (1995)	None	Basic exchange under caps indexed to GDP-PI	Rates can rise up to 6% annually	Services found to be competitive are removed from state regulation	Not regulated	Iowa Telecommunications Services' settlement agreement (April 2004) includes a Network Improvement Plan (NIP) as part of a capital investment commitment.	Notice required for increases 30 days prior to implementation.	New law allows local rate increases up to \$2 monthly, but resulting revenue must be used for broadband development. None have done so.	The X-Factor (2.6%) included in the plan for Qwest, Frontier Communications and Iowa Telecom Services was eliminated by legislation in July 2004. Qwest in 2002 sought full deregulation in certain exchanges on ground those markets were competitive, but petition was denied. In May 2004, the Iowa Utilities Board (IUB) opened investigation (Docket IJU-04-1) to evaluate state of competition in certain markets in Iowa. Proceeding is pending. In April 2004 Iowa Telecommunications Services (ITS) entered into a settlement agreement with the IUB and the Consumer Advocate. This settlement agreement included a Network Improvement Plan (NIP) as part of a capital investment commitment. Pursuant to the settlement, ITS agreed not to submit a price plan modification before it has invested approximately \$39 million in its NIP.
	Other incumbents	Deregulation (1983)									
KS	SBC, Sprint	Price caps (1998)	None. Formula reviewed every 5 years	All services under caps indexed to GDP-PI minus X-Factor of 3.15% on Basic Local for Res. & S-L Bus; 1.4% on Multiline Bus, vertical, & other retail		Price deregulation of Centrex, Speed Calling, operator services & directory asst. (SBC, 2002).	Not regulated	SBC will complete DSL deployment to exchanges with more than 1,000 lines in 2004, & near ubiquitous DSL service in 8 cities.	For Comm'n review 21 days for <u>new services</u> ; 7 days for <u>existing ones</u> , and 30 days for <u>rules and regulations</u> . 30 suspension period applies.		Companies can petition for rate deregulation of competitive services in markets where competition exists. SBC's petitions have been denied so far. Sprint hasn't sought rate deregulation.
	Other incumbents	ROR		Fully tariffed ROR			ROR		For Comm'n review 30 days for all tariff filings.		No pending proceedings to change regulatory situation.

**Table 4. Detail of State Retail Rate Regulation Plans of Incumbent Local Telecommunications Providers  
(as of September 2004)**

State	ILEC	Regime	Expiration date	Rate regulation by type of service			Earnings regulation	Infrastructure requirements	Rate/Service Notice	Other plan requirements	Comments
				Basic	Other noncompetitive	Competitive					
KY	BellSouth	Price caps (1995-2009)	None, but periodical reviews. Next review 2009	Rate freeze for local services. Other retail rates, no caps. Access capped at interstate levels.		Deregulation	Not regulated				No X-Factor included in the price cap formula. BS cap plan triennial review went on without major changes. PSC ordered BellSouth to eliminate rural zone charges by 2006. Wholesale rates set by the Commission.
	Cincinnati Bell	Rate freeze (1999-2004)		Rate freeze		Price flexibility	No earnings review				No X-Factor included in the price cap formula. In 2001, PSC made the Kentucky program identical to Ohio's regulation of Cincinnati Bell, with any future changes by Ohio automatically implemented for the Kentucky operation. The Ohio company switched from company-specific plan to PUC's generic price cap plan for incumbents, but hasn't said whether it wants KY to adopt it too.
	Alltel Kentucky	Price caps (2003)		Caps	Pricing flexibility		No earnings review				Alltel Kentucky was under rate of return until 1998, when it went under a price cap plan pursuant to KRS 278.516. No X-Factor included in the price cap formula.
	Other incumbents	ROR									Seventeen other companies have option to propose price caps or other alternatives to ROR regulation but only Alltel has done so.
	Kentucky Alltel	ROR									Verizon was bought by Kentucky Alltel in Aug. 2002 and was under rate of return at the time. Kentucky Alltel continues under rate-of-return after acquiring Verizon's KY assets. Kentucky Alltel and Alltel Kentucky are two separate companies.
LA	BellSouth	Price caps (1996)	Plan extended indefinitely in 2003. Future reviews at PSC discretion.	Nonindexed caps for basic residential and single-line business services, except for rate changes intended to consolidate 8 local rate groups into one by 2006. After 2006, BellSouth can raise basic service rates up to 10 percent a year in urban markets with competition.		Deregulated	Not regulated	In 2000 plan extended to April of 2004 on condition that BellSouth invest \$1 billion in its local network by making DSL available throughout its service area by 2004.	Changes: May be effective on 10 days notice. Affected party may intervene, but intervention will not delay effective date if tariff is accepted by Staff.	When conducting the plan review, the PSC split service quality, universal service and access service into separate dockets.	The plan was to have expired in April 2004, but the PSC extended it indefinitely in December 2003.
	Other incumbents	Price caps (1997)	None	Nonindexed caps for basic and access services.		Price flexibility	Not regulated			Conditions for price cap regulation vary by carrier.	State's eleven other incumbents have come under price caps at different times since 1997.



**Table 4. Detail of State Retail Rate Regulation Plans of Incumbent Local Telecommunications Providers  
(as of September 2004)**

State	ILEC	Regime	Expiration date	Rate regulation by type of service			Earnings regulation	Infrastructure requirements	Rate/Service Notice	Other plan requirements	Comments
				Basic	Other noncompetitive	Competitive					
ME	Verizon	Price caps (1995-2006)	2006	Rate freeze for basic residential and business services. Verizon in 2003 completed series of local rate increases and toll rate cuts stipulated under plan. Productivity offset=4.5%	Price flexibility, except for operator services and directory assistance, which are capped at May 2002 levels.			No notice required for ETCs	Plan allows Verizon to petition for basic service rate increases due to exogenous cost factors and to petition for deregulation of basic business rates to customers over 10 lines in markets with meaningful competition. VZ must maintain service quality on pain of \$12.5 million in annual penalties.	Plan vacated by state courts in early 2003. In September 2003 the PUC reinstated without change Verizon's price cap plan, approved in June 2001, on public interest grounds after concluding it was impossible to meet court's demand for valid comparison of plan's rates against hypothetical rates under rate of return. Second appeal to Law court in 2004. The court has not ruled as of Oct. 1, 2004. The plan runs through May 2006. Regulatory status quo maintained during remand period.	
	Other incumbents	ROR		Fully tariffed						Underwent rate cases in 2003 to bring intrastate access charges down to interstate levels.	
MD	Verizon	Price caps (1996)	None	Caps indexed to GDP-PI minus 3-year average of CPI	Deregulation	Not regulated		30 days notice, but can request waiver for compet. & discr. serv. according to Price Cap Plan (16 days' notice).		PSC has open docket to consider price cap indexing adjustments for 2002, 2003. Verizon has also proposed either deregulating retail rates or greatly expanding list of competitive services. Timing of final decision uncertain.	
	Other incumbents	ROR		Fully tariffed ROR				Rate changes: 30 days notice to Comm'n. Public notice req. No later than 30 days after filing, Comm'n must either approve, reject, or suspend prop. tariff and set rates for hearing. Notwithstanding this req., Comm'n has waived the 30 days notice req. and will consider tariff revisions within 14 days after filing for all carriers but VZ.		No pending proceedings to change status	
MA	Verizon	Alternative regulation plan (2003)	None	Rate freeze for basic residential rates, subject to exogenous cost adjustments	Non-basic residential and all business rates subject to market based pricing with price floors to deter anticompetitive pricing.	Not regulated		Dept. has 30 days to review a tariff filing, but carriers may request expedited review. Carriers must provide customers with 30 days advance notice of price increases.	Plan requires Verizon to meet quality of service standards on pain of maximum annual penalty equaling 1% of intrastate retail revenues.	New alternative plan was approved June 2003.	
	Other incumbents	ROR								Four small ILECs	

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MI	SBC	Price caps (1995)	None	Caps indexed to Detroit-area CPI minus 1%. Rate cuts presumed competitive and not reviewed.		Deregulation	Not regulated	<p>Basic local exchange service: 90 days notice for increases; decreases effective the same day as filed. All other services: Unregulated. New services: 1 day notice. The Commission can suspend a tariff any time during the notice period.</p>		<p>State law in 2000 amended cap program to freeze all retail rates of Ameritech and Verizon through 2003 except those in customer-specific contracts, and to abolish state subscriber line charges. Telcos challenged law on constitutional grounds in federal court and won stay of freeze and SLC provisions. They withdrew litigation in Feb. 2003 following settlement agreement with state in Dec. 2002 that waived rate freeze and allowed continued billing of state SLC at reduced rate. Regulation of SBC may be affected by Dec. 2005 Michigan Telecom sunset and legislature's response.</p>		
	Verizon	Price caps (1995)	None	Caps indexed to Detroit-area CPI minus 1%. Rate cuts presumed competitive and not reviewed.		Deregulation	Not regulated				<p>In return for switching to rate freeze from indexed price caps, other incumbents obtained deregulation of their intrastate switched access rates and waiver of law's requirements for expanding local calling areas.</p>	<p>Incumbents other than SBC and VZ had option of switching from indexed price caps to local rate freeze. All elected to switch. Since 2002, 5 companies were allowed to break freeze (9 petitioned) and adjust their rates so they could respond to customer demand for expanded calling areas. Regulation of other incumbents may be affected by Dec. 2005 Michigan Telecom sunset and legislature's response.</p>
	Other incumbents	Rate freeze (2000)		Local rate freeze		switched access charges deregulated						

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MN	Qwest	Price caps (1999-2005)	December 2003	Nonindexed caps (local exchange and access), price flexibility (other basic services)	Price flexibility (emerging competitive services)	Deregulated (fully comp. serv.). 2004 law deregulated business rates in 3 major metropolitan areas.	Not regulated		Rate decrease or change resulting in a decrease: Effective without notice to its customers or the commission. New service rate increase, change in terms, conditions, rules, and regulations: Effective upon notice to its customers.	Company must meet minimum service quality standards.	Plan was to have expired in 2003, but 2004 state law extended it until 2005. Qwest and the state are negotiating a new regulatory plan to become effective in 2005. The 2004 law deregulated business rates in 3 major metropolitan areas.	
	Sprint, Citizens/Frontier	Price caps (1996)	None	Nonindexed caps	Price flexibility (nonbasic and emerging competitive services)	Deregulated (fully competitive services).	Not regulated	Carriers must meet infrastructure investment req.	Alternative Regulation Plan: Flexibly priced serv.: Increases effective 20 days after filing and approved if no objection is filed or raised w/in this period; decreases effective immediately upon filing and notice to cust. New serv.: Price regulated; Pursuant to plan; non-price reg and flexibly priced: 1 day notice to Comm'n.		Citizens/Frontier is negotiating price cap amendments that could expand pricing flexibility.	
	Citizens Telecom (formerly GTE)	ROR		Fully tariffed ROR								Citizens' properties purchased from GTE in 1999. PUC's purchase approval order barred company from seeking alt. reg. for 3 years. Provision expired Aug. 2002. CZN has not proposed any alt. reg. option.
	Other incumbents (under 50,000 lines)	Price flexibility	None	Basic serv. priced to market unless greater of 500 or 5% of ratepayers seek PUC review of rate change.	Price flexibility (nonbasic and emerging competitive services)	Deregulated (fully competitive)	Not regulated					Other incumbents, all with fewer than 50,000 lines, can self-elect flexible pricing system. Sixty-five of 83 (78%) eligible small incumbents have opted for flexible pricing program.
MS	BellSouth	Price caps (1996-2007)	2007	Rate freeze. Access capped at interstate rates.	Service rates can increase up to 20% per year; the increase can be made up of smaller increases throughout the year rather than a single one annually.		Not regulated	In 2001 company completed network upgrades in its most complaint-prone exchanges. New and existing services: 30 days notice for changes other than reduction in rate, which is 1 day notice. Filings are presumptively valid and effective at end of notice period. Comm'n may suspend, but rates go into effect after 30 days.	In June 2004, PSC completed midcourse review of program, and changed standards for appointment and repair timeliness. PSC requires for 77% of trouble reports to be repaired within 36 hours, rather than 60% of troubles fixed the same day. On-time appointment keeping was raised from 80% to 90%.		Plan comes up for midcourse review at end of this year to see whether any changes are needed.	
	Other incumbents	ROR		Fully tariffed								No pending proceedings to change status

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MO	SBC, Sprint, Century Tel, Spectra/Century	Price caps (1997)	None	Indexed caps to telecom component of CPI. The application of an X-factor for ILECs under price cap regulation is allowed under Missouri statute but no company has requested it before the MoPSC. Consequently, an appropriate value for the X-Factor has not been determined yet.	Nonbasic services can rise up to 8% annually.	In 2001, SBC won local rate deregulation of certain large business services in St. Louis and Kansas City and of residential rates in 2 suburban St. Louis exchanges, plus interexchange services statewide. In December 2003 Sprint obtained rate deregulation of basic services in 3 competitive exchanges.	Not regulated		Price cap ILECs may file tariffs with 30 or 45 days effective date for changes in the various rates. No customer notice required. Commission may suspend proposed rate.		Companies have option to increase basic rates up to \$1.50 monthly as part of revenue rebalancing to reduce intrastate access charges to level below 150% of interstate rate. Sprint exercised that option in 2002 to move access partway to goal. Companies are allowed to petition for rate deregulation of competitive services in markets where competitors operate. In December 2003 Sprint obtained rate deregulation of basic services in 3 competitive exchanges. In July 2004, SBC filed a petition for statewide rate deregulation of all retail services. Procedural schedule will be set soon.
	Other incumbents	ROR			Fully tariffed ROR						Telcos have option to petition for switch to price cap system used by large incumbents if they face local competition. Altel lost bid for caps in 2004 because competitors were not providing comparable services. BPS Telephone has pending a petition for switching to caps. Retail rates of telephone cooperatives are deregulated but their access charges remain regulated.
MT	Qwest	ROR		Qwest can request pricing flexibility to match local competitors' rates in exchanges where competitors operate, but earnings still count in rate-of-return calculations. Qwest also can request full deregulation of services that are subject to effective local competition.			Earnings still count in ROR calculations		<u>Change in price list rate for new service:</u> Filing at least 7 days prior to proposed eff. date. Proposed new list becomes automatically eff. for serv. rendered 7 days after filing; no comm'n action or approval needed. Formal explicit comm'n approval required to alter minimum rate or terms, conditions and description contained in price list.		PSC initiated a docket requiring Qwest to file information on its rate of return. In July 2003 PSC stated company reports indicated substantial overearnings. Carrier appealed to state courts, claiming PSC exceeded statutory authority by initiating rate case imposing burden of proof onto Qwest. Record in appeal complete; decision awaited.
	Rural telephone coop	Not subject to PSC regulation									All incumbents have option to petition for alternative forms of regulation but none have done so.
	Investor-owned incumbents	ROR				Rate-of-return regulation					All incumbents have option to petition for alternative forms of regulation but none have done so.
NE	All incumbents	Deregulation		Retail telecom service rates not regulated since 1986, except that PSC can roll back excessive residential local rate increases in exchanges without competition upon petition by affected ratepayers. Percentage of ratepayers that trigger review varies from 2-5%, depending on telco size.			Not regulated. PSC in 2000 set benchmark earnings at 12%.		<u>Basic local service:</u> Rate increase require 90 day notice. <u>Other services:</u> Increases require 10 day notice. Notice of increase to customers is required.		PSC in 2000 set state universal service benchmark rates of \$17.50 residential and \$27.50 business, and benchmark earnings of 12%. Incumbents remain free to change rates at will, upon 10 days notice, but those setting rates below benchmarks or posting earnings above 12% would see reduced support from state universal service fund.

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NV	Sprint	Price caps (1996-2007)	June 2007	Nonindexed caps. Rate cuts allowed, but not increases	Nonbasic services can increase up to 5% annually up to a cumulative total 20% increase.	Price flexibility. Broadband and business services provided under customer-specific contracts deregulated.	Not regulated			PUC in May 2002 approved \$43.5 million revenue increase that raised local rates about 15%, and renewed cap plan for another 5 years. Bill passed in 2003 grants carrier more flexibility to make special deals with business customers.	
	SBC	Price caps (1997-2008)	Mid-2008	Nonindexed caps for basic services. Access charges capped at interstate rate.	Other services can be priced at any point above cost floor. Broadband and business services provided under customer-specific contracts deregulated in 2003.		Not regulated	Basic local exchange service: 30 days notice for decreases. Other noncompetitive services: 20 days notice for changes. Competitive services: Unregulated. New services: 10 days notice. Comm'n can suspend changes from 90 days up to 180 days for basic local and other essential services, but it will not suspend price changes within pre-approved price bands.		Current program prescribed for Nevada Bell by 1999 state law replaced the PUC-authorized cap plan dating to 1997. PUC in mid-2002 extended current cap program for another 5 years without any changes in basic service rates. Bill passed in 2003 grants carrier more flexibility to make special deals with business customers.	
	Other incumbents	ROR			Fully tariffed ROR						No current proceedings to change situation.
NH	All	ROR						Tariff changes: Effective after 30 days' notice to the comm'n and the provision of such notice to the public. Public notice shall be given 14 days prior to hearing or pre-hearing before comm'n or, if no hearing is ordered, prior to effective date.		General guidelines for alternative regulation were adopted in 1996 but to date only one incumbent, Kearsarge Telephone, applied for price-based regulation. Its petition for an indexed price cap plan, filed in 2001 was denied April 2004.	

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NJ	Verizon	Price caps (2002)	None	Cap at July 2002 levels for residential and business rates for customers with 1-4 lines; Deregulation for business rates for customers with more than 4 lines.			Deregulated	Not regulated	Requirement that Verizon invest \$55 million for advanced services to public schools and libraries.	Basic local: Capped; price changes require Comm'n approval with a decision in 30 days. Rates for 2-4 Bus lines can be increased without approval if within pre-approved price band. <u>Comp. serv.</u> : Increases; 5 days notice; decreases 1 day notice. <u>New serv.</u> : 30 days notice. Can re-classify with 14 days notice to regulator and 30 days notice to interested parties, prior to that filing; approval required. Comm'n can suspend anytime during the notice period.	Plan includes service quality commitments and provide public schools and libraries with discounted monthly rates for high-speed Internet access until 2014.	
	Other incumbents	ROR		Fully-tariffed ROR								No current proceedings to change situation.
NM	Qwest, Valor Telecom	Price caps (2001-2006)	Review scheduled for 2005	Nonindexed caps. <b>Qwest</b> : During term of AFOR, 1FB is capped and 1FR may be raised after the first and second year of the plan if Qwest meets certain investment obligations. <b>Valor</b> : During AFOR, business, residential and access rates are capped.	<b>Qwest</b> - Nonbasic services capped at average rates in Qwest's 14-state home region. <b>Valor</b> - can raise nonbasic rates up to 5% annually. Tariffed serv. (excl. bus, res., and access): Capped until Jan. 2005. After that, Valor may raise the rates if it has met all QOS benchmarks and no rate may be increased more than 10%	Deregulated	Not regulated	Qwest- Investment of \$788 million in network by 2006.	<b>Qwest</b> : <u>Serv. subject to effective comp. &amp; new serv.</u> : Not subject to 20% cap; 10 day notice. <u>Other serv. (excl. switched access, 1FR, 1FB, &amp; serv. mentioned above)</u> : Can be raised up to a total of 20% over the 5 years of AFOR with 10 day notice. Notice to customer required before any new rate takes effect. <b>Valor</b> : All rate increases are subject to 10 day notice. Notice to customers is required.	<b>Qwest</b> and <b>Valor's</b> plans include service quality requirements.	<b>Qwest</b> - Rate increases subject to protest by any interested person if new price does not cover cost or it is above average price charged in Qwest's other 13 states. Qwest was entitled to 10% boost in Sept. 2003 if it was on schedule with investment requirements. In July 2004 the PRC opened docket to determine whether Qwest is on schedule to meet network investment commitment. In Sept. 2004, the PRC decided to allow Qwest to make a case before a PRC hearing officer to include the company's wireless network investment as part of the \$788 million investment agreement included in the regulatory plan. <b>Valor</b> - A 2004 state law requires Valor's cap program to include some form of indexing for adjusting caps, starting in 2006.	
	Other incumbents (fewer than 50,000 lines)	Deregulated		Basic residential rate increases subject to regulatory review if increases affect 2.5% of ratepayers or if PRC staff protests.								Deregulation occurred in 1999 by state law. Decision on rate increases required within 60 days of hearing. Companies must give 60 days' notice of basic residential rate increases.

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NY	Verizon	Tariff regulation (2004)	Until VZ or PSC initiates proceeding for new regulatory program	Rates can be changed by tariff, but only if Verizon can cost-justify.	Price flexibility		Earnings could be reviewed by PSC if excessive profits are suspected		Reg. basic serv. & switched access: 30 days' notice. Other rates: 10 business days' notice to Comm'n and to the public in each affected county.		Previous plan expired in March 2004, when Verizon defaulted to basic form of tariff regulation.
	Frontier Telephone of Rochester	Price caps (1995-2004)		Rate freeze for residential rates.	Indexed caps	Price flexibility	Not regulated				Plan runs through end of 2004 but no docket on successor program has been opened yet.
	Other incumbents	ROR			Fully tariffed ROR						No current proceedings to change status.
NC	BellSouth	Price caps (1996-2004)	2004	Caps indexed to GDP-PI minus 2%. Rate element constraint equal to GDP-PI plus 3%. X-Factor for Basic Service =2%	Service-specific caps for most other services grouped in baskets. Productivity offset factor for interconnection services and non-basic Category 1 = 3%		Not regulated		<u>Basic local exchange service and toll switched access services:</u> Changes in terms and conditions or rate increases shall be presumed valid and shall become		In Feb. 2004 BLS proposed new cap system (Case P-55, sub 1013) that would reduce the number of service categories from five to two (basic and full pricing flexibility) and reclassify most serv. to the full pricing category. Prices for basic serv. could be increased by a maximum of 7% in each plan year with exception of rates for basic residential serv., which would be frozen for the first 2 years. Rate element constraints would be eliminated, and price changes would no longer be tied to rate of inflation or offset by a productivity factor. Basic residential serv. would be under nonindexed caps and would deregulate rates for all other retail serv. Hearing scheduled to begin November 29, 2004.
	Verizon	Price caps (1996)	2004	Caps indexed to GDP-PI minus 2%. Rate element constraint equal to GDP-PI plus 3%. X-Factor for Basic Service =2%	Service-specific caps for most other services grouped in baskets. Productivity offset factor for interconnection services and non-basic Category 1 = 2%		Not regulated	effective, unless otherwise suspended by the Comm'n for a term not to exceed 45 days, 14 days after filing. Any tariff reducing rates for these serv. shall be presumed valid and shall become effective, unless otherwise suspended by the Comm'n for a term not to exceed 45 days, 14 days after filing.	Verizon is under a multi-basket cap system similar to BellSouth's.	In June 2004, Verizon filed a proposal for a simplified cap system (Case P-19, sub 277). It proposed limiting rate increases for basic residential and single-line business serv. to 7% a year in exchanges where competition is weak or nonexistent, while deregulating those rates in exchanges with effective competition. Rates for all other retail services would be deregulated throughout its territory. Hearings scheduled to begin January 31, 2005.	
	Sprint (i.e., Carolina Telephone & Telegraph and Central Telephone Company)	Price caps (1996)	2004	Caps indexed to GDP-PI minus 2%. Rate element constraint equal to GDP-PI plus 3%. X-Factor for basic service=2%	Service-specific caps for most other services grouped in baskets. Productivity offset for interconnection and non-basic Category 1=2%		Not regulated	valid and shall become effective, unless otherwise suspended by the Comm'n for a term not to exceed 45 days, 7 days after filing. <u>New services:</u> Same conditions would be applicable to the filing and/or changes in their tariffs.		In August 2004, Sprint filed a proposal for Price Plan Review (Docket Nos. P-7, Sub 825 and P-10, Sub 479) to make the following changes to the existing plan: a. Reduce number of service categories to two (basic and full pricing flexibility); b. Limit the aggregate increase for price of services in the Basics Category (i.e., Basic residential and single-line business local exchange) to rate of inflation; c. Service bundles and packages would move to the Full Pricing Flexibility Category. d. Other updates consistent with changes to the applicable North Carolina statutes. Hearings scheduled February 8, 2005.	
	Other incumbents	Price caps (1997-1999)	None	Caps indexed to GDP-PI minus 2%. Rate element constraint equal to GDP-PI plus 3%. X-Factor for basic service=2%	Service-specific caps for most other services grouped in baskets. Productivity offset for interconnection and non-basic Category 1=2%		Not regulated				Four mid-sized incumbents have elected price cap regulation under program similar to BellSouth, including Altel, Mebtel, Concord Tel and North State Communications.
		ROR (1996)	None		Fully tariffed ROR						

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ND	Qwest	Price caps (1993)	None	Nonindexed caps (basic exchange and switched access). Rate decreases allowed, but no increases except when government action increases service costs.	Price flexibility		Not regulated				Qwest new cap system became effective August 1, 2003.
	North Dakota Telephone	ROR		Fully tariffed ROR							No current proceedings to change status.
	Other incumbents	Deregulation		Retail rates of investor-owned incumbents with fewer than 8,000 lines and of all telephone cooperatives regardless of size have been deregulated since 1993. Carrier access services rate deregulated unless carrier requests intrastate access price regulation, but earnings aren't regulated. Some carriers have elected access charges regulation.			Not regulated				
OH	SBC, Sprint, Century Tel, Chillicothe Horizon	Alternative Regulation	None	Indefinite rate cap, at the existing rates when adopting the plan, for basic local service and basic caller ID service.	Price flexibility. Rate for Tier 2 services must recover LRSIC linked to the service plus common cost allocation, based on study or a default of 10% for common costs.		Not regulated	Broadband buildout: Provide advanced telecom services to all high density central offices and Class 5 county seat central offices in its traditional service territories no later than 12 months from the effective date of alt. plan. Buildout commitment includes deployment of broadband advanced telecom services upon customer demand at increasing distances from the high density and county seat central offices within 12 and 24 months from the effective date of plan.	Price increases and changes in terms and conditions of an existing service: If comm'n review period is 30 days or less, notice to cust. must be sent at least 15 days prior to filing. If review period is greater than 30 days, notice filing must be at the same time as application filing at comm'n. Tier 2 new serv. and rate changes: Subject to zero-day notice req.	Companies must offer enhanced Lifeline plan.	Century Tel opted for the generic plan in 2004. Request by Altel to opt into off-the-shell alternative regulatory plan is pending before the Commission.
	Cincinnati Bell	Alternative regulation (2004)	None	Indefinite rate cap, at the existing rates when adopting the plan, for basic local service and basic caller ID service.	Price flexibility. Rate for Tier 2 services must recover LRSIC linked to the service plus common cost allocation, based on study or a default of 10% for common costs.		Not regulated			As part of the generic price cap plan, CBT must meet company-specific goals for expanded availability of advanced services and Lifeline. CBT asked the PUC for waiver of plan's Lifeline service so it can keep 2 different Lifeline options from previous company-specific regulation program. Petition pending; decision expected soon.	CBT opted for the generic plan in 2004.
	Other incumbents	ROR	N/A	Traditional or streamlined ROR			N/A	N/A			



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OK	SBC	Price caps (1999-2005)		All services under nonindexed caps.			Not regulated	SBC must invest \$200 million in network by 2005, including retirement of all analog switches and deployment of digital subscriber line technology in specific geographic areas.	Rate decrease (excl. basic local, switched access or toll serv.): 30 days after filing, unless Comm'n orders suspension. Increases		No proceeding yet on successor to current plan.
	Other incumbents	Streamlined ROR		Monthly basic rates can rise by up to \$2 annually but boosts are subject to investigation and possible roll back if 15% of customers protest.		Price flexibility, but revenues count in rate-of-return calculations.			noncomp. rates (same excl.): 60 days after filing, unless Comm'n orders suspension. <u>New services deemed competitive and revisions to components of competitive serv.</u> : Effective after filing 3 copies of revised tariff with Pub. Utility Div. Director.		System originally applied only to incumbents with fewer than 75,000 lines, but a 2004 law applied it to all incumbents but SBC.
OR	Qwest	Price caps (2000)	None	Rate freeze (residential and small business basic exchange, PBX trunks, and payphone access services), except for cost-justified rate changes.	All other services under non-indexed caps with cost floors.		Not regulated		Basic serv.: 30 days adv. notice, suspension for investigation. <u>Non basic serv.</u> : Electing utility must notify PUC when changing price of price-capped serv., introducing new regulated serv. or new package. Notice to be filed within 30 days following eff. date of change or introduction. Carrier can lower its rates for all serv. without prior approval. <u>Price list and comp. zone serv. filing</u> : May be made effective upon filing.		Qwest's price cap plan comes under the statute ORS 759.400 through ORS 759.410.
	Verizon, Sprint, Century Tel	ROR		Fully tariffed ROR. Companies can request right to change rates without prior approval in competitive markets and have done so for most of their exchanges			Earnings still count in ROR calculations.		Carriers have the ability to lower rates without prior approval in most of their exchanges under ORS 759.050		Under ORS 759.400 et seq, which is an opt-in plan available to the larger companies, telecommunications carriers are allowed to request price cap regulation. Alternatives to rate of return regulation also available under ORS 759.195 and ORS 759.255
	Other incumbents (under 50,000 lines)	Deregulation		PUC can review rate changes if the lower of 10% or 500 of affected ratepayers petition for review.			Not regulated				Rates and earnings deregulation for other incumbents done under state law in 1983. Under ORS 759.400 et seq, which is an opt-in plan available to the larger companies, telecommunications carriers are allowed to request price cap regulation.

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PA	All incumbents	Alternative Regulation (2002)	None	Capped rates for basic services (VZ). Verizon has an approved Productivity Growth Factor of 2.93% Most of the small ILECs have a productivity offset number closer to 2%		Price flexibility	Not regulated	Verizon Pa. And Verizon North must completed in December 2003 a total of \$2.7 billion in infrastructure investment requirements imposed by the PUC's 1999 global competition order and Bell Atlantic-GTE merger decisions.	Non-competitive serv.: Unless Comm'n takes action, <u>rate decreases</u> effective on 10 day's notice; <u>increases &amp; new services</u> on 30 days' notice and <u>ministerial administrative changes</u> on 1-day's notice. Tariff filings for rate changes must also be filed with statutory public advocates. <u>Competitive:</u> Must file appropriate information tariffs, price lists & ministerial administrative tariff changes. Filings effective on 1-day's notice.	All telcos were required to restructure their access charges so fixed costs would be recovered through flat rates. All telcos also are required to make broadband service universally available throughout their service areas by 2015. Each telco has its own schedule for achieving goal.	All incumbent telcos moved under price cap regulation in 2002 under state law known as Chapter 30, although some had been under individual cap plans earlier. While there are some differences in plan details for individual telcos, all these plans are similar in general outline. Although Chapter 30 statute expired at end of 2003, price cap plans implemented under it didn't terminate with law's end. Verizon in 2003 sought rate deregulation of all retail business services but was denied.
RI	Verizon	Price caps (2003-2005)	2005	Residential rates under nonindexed caps that permit increase of \$1 per line in 2003 and another \$1 in 2004, which Verizon has made. PUC must review any other proposed increases in residential rates.	Can be set at any point above cost floors.		Not regulated	<u>New services, rules or minor changes to tariff schedules:</u> 30 days notice to Comm'n and public, or on proposed effective date, whichever is later, unless suspended by Comm'n.	Verizon must donate up to \$2 million annually to support Internet access for K-12 schools and public libraries in 2003 and 2004, and meet service quality requirements.	Plan up for review 2005. No formal review docket opened yet.	
SC	BellSouth	Price caps (1999)	None	Nonindexed caps	Other services flexibly priced, except that the cumulative effect of all rate changes for all other services can't increase total revenue more than 5% per year.		Not regulated	<u>Changes to terms and cond.:</u> Effective upon 14 days notice. <u>Increases &amp; new serv.:</u> Tariff, presumed valid, becomes effective at date specified in tariff, but in no event earlier than 14 days notice. <u>Decreases:</u> Tariff, presumed valid, becomes effective upon 7 days' notice.		Legislature in 2004 enacted rate deregulation for all retail service bundles from price-regulated incumbents. Government has until year-end to act on measure.	
	Sprint, Verizon	Price caps (1999)	None	Caps indexed to CPI	Other services flexibly priced, except that the cumulative effect of all rate changes for all other services can't increase total revenue more than 5% per year.		Not regulated			Sprint went under caps in 1999 and Verizon in 2000. Legislature in 2004 enacted rate deregulation for all retail service bundles from price-regulated incumbents. Government has until year-end to act on measure.	
	Other incumbents	ROR			Fully tariffed ROR					Carriers can petition for switch to price caps or other alternative forms of regulation.	

**Table 4. Detail of State Retail Rate Regulation Plans of Incumbent Local Telecommunications Providers  
(as of September 2004)**

State	ILEC	Regime	Expiration date	Rate regulation by type of service			Earnings regulation	Infrastructure requirements	Rate/Service Notice	Other plan requirements	Comments
				Basic	Other noncompetitive	Competitive					
SD	Qwest	Deregulation (2003)	None	Rates for all retail services deregulated			Not regulated		Changes in rates or rules: Notice to Comm'n and public at least 30 days prior to proposed effective date. Tariff becomes effective on stated date, unless suspended.		Qwest's price cap plan (1996) was eliminated after the carrier won statewide retail rate deregulation from PUC in October 2003 based on competition.
	Other incumbents	Deregulation (1987)		All retail service rates deregulated			Not regulated				State law allows reregulation if majority of company's ratepayers petition for it, but that power hasn't been used to date.
TN	BellSouth, Sprint, Citizens Telecom	Price caps (1996)	None	Caps indexed to lesser of one-half GDP-PI or GDP-PI minus 2%			Not regulated		BS: Tariffs effective within 21 days notice, unless suspended.		Cap system prescribed by state law and changes would require act of legislature.
	Other incumbents	ROR		Fully tariffed ROR							State law allows them to petition for alternative regulation, but to date none have chosen to do so.
TX	All incumbents	Price caps (1999-2005)	Sunset in 2005	Nonindexed caps (residential basic, 911, Lifeline and carrier access)	All other services deregulated, except for ban on below-cost pricing.		Not regulated	Cap statute, which sunsets in 2005, spells out infrastructure upgrading goals for SBC, Verizon, Sprint and Valor Telecom over life of program. Other incumbents have no specific infrastructure upgrading goals.	SBC: Non-basic services: Changes effective on 10 days' notice, unless suspended by PUC.		
UT	Qwest	Price caps (1997)	None	Indexed caps to GDP-PI minus 4.95%	Price flexibility		Not regulated		Price capped serv.: Changes to be filed with Comm'n at least 30 days prior to proposed eff. date. Price cap adjustments, indices & other filings; Price cap compliance filed April 15 each year; Comm'n shall approve, suspend or reject this filing within 45 days. Pricing flexibility: At least 5 days' prior to offering service, filing of price list, terms & cond. of comp. contract. Adjustments at any time through 'below-cap' compliance filing.		System allows Qwest to petition for full rate deregulation in markets where competitors operate. Qwest has won local rate deregulation in state's major cities, covering 85% of total business lines and 50% of residential lines.
	Other incumbents (fewer than 30,000 lines)	Streamlined ROR (1997)									Rate changes for other incumbents get speedy administrative review through expedited process. But if 10% of ratepayers challenge result, full rate case is held. Other incumbents have option to petition for price cap regulation but none have done so.

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VT	Verizon	Price caps (2000-2005)		Nonindexed caps for all services. Caps set at levels prevailing in April 2000, minus \$16.5 million in rate cuts scheduled at intervals over life of plan for local exchange, toll and switched access services to correct ROR over earnings situation.			Not regulated, but state regulators made clear their expectation that plan would produce benefits to ratepayers over time. Ratepayer benefits will play important role in evaluating successor program.	No specific infrastructure upgrade requirements.	<u>Change in schedules, joint rates or rules and regulations:</u> 45 days' notice to the Board and Dept. of Public Serv. Schedules should be published for the public within 15 days after filing with Comm'n. <u>Rate decreases:</u> Upon 5 days' notice to Board, Dept. of Public Service and affected parties.	Verizon agreed to provide 56 high schools in its service area with free T-1 service for distance learning applications through April 2005. Verizon also must meet plan's retail service quality standards on pain of penalties up to \$10.5 million annually.	Regulators in April opened proceeding (Case 6959) to evaluate plan's success and consider successor. Verizon proposed new plan that would allow up to 10% annual increases in basic residential services and deregulate retail rates for everything else. Hearings planned for Dec. 2004; ruling by mid-March. New plan would take effect April 22, 2005.
	Other incumbents	ROR		Fully tariffed ROR							State law allows them to opt into price cap system or propose other alternative forms of regulation, but to date none have chosen to do so.
VA	Verizon VA	Price caps (1995)	None	Rate freeze through 2003, then under caps indexed to 50% of GDP-PI.	Discretionary services indexed to 0.0083 times number of months since last increase, with 25% maximum increase.	Price flexibility	Not regulated	Carrier's \$1.546 billion network investment requirements are linked to Bell Atlantic-GTE merger approval, not price caps.	<u>Verizon: New serv. and reclassification:</u> 30 days' notice to Comm'n. <u>Basic local serv.:</u> Decreases: any time by filing revised tariff with Comm'n;	No rate increases allowed for any service if company fails to meet service quality standards. New plan would eliminate provision prohibiting increases if company fails to meet service quality standards.	Verizon has proposed new price cap plan (Case PUC-2004-00092) for implementation in October that would cap basic services at the highest rate prevailing today and allow rate changes of 10% per year until all prices for retail services are brought to statewide caps. Rate changes would then be indexed to GDP-PI. Initial comments due in September.
	Verizon South	Price caps (2000)	None	Rate freeze through 2003, then under caps indexed to 50% of GDP-PI.	Discretionary services indexed to 0.0083 times number of months since last increase, with 25% maximum increase.	Price flexibility	Not regulated	Carrier's \$281 million network investment requirements linked to Bell Atlantic-GTE merger approval, not price caps.	increases: at least 30 days public notice prior to change. <u>Discr. &amp; bundled serv.:</u> Decreases: any time by filing revised tariff; increases: at least 30 days' notice to Comm'n and customers. <u>Revenue-neutral changes:</u> 30 days public notice prior to effect. Comm'n may suspend enforcement of proposed rates.	No rate increases allowed for any service if company fails to meet service quality standards. New plan would eliminate provision prohibiting increases if company fails to meet service quality standards.	Verizon South is the former GTE, maintained as separate Verizon affiliate. Has proposed new regulation plan identical to that proposed for Verizon Va.
	Sprint Telcos	Price caps (1995)	None	Caps indexed to one-half GDP-PI.	Discretionary services indexed to GDP-PI.	Price flexibility	Not regulated				Carrier hasn't filed for any changes in response to 2004 law that bans below-cost service pricing.
	Other incumbents	Deregulation (2000)		Rates of investor-owned small telcos are partly deregulated by statute. Telecom cooperatives are rate deregulated.							Telcos are free to move rates up or down in response to markets, as long as increases are advertised and excessive complaints are not received by the SCC.

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				Basic	Other noncompetitive	Competitive					
WA	All incumbents	ROR				Companies can petition for rate deregulation of competitive services, but revenues continue to be accounted for on regulated side and in rate-of-return calculations. Rate deregulation granted to large incumbents' toll, directory assistance and business services to large customers in markets where competitors operate. In 2003 Qwest received statewide deregulation for all analog business telecom services in all markets.					Verizon has an ongoing rate case procedure requesting \$240 million increase; the decision is expected in early 2005. Moratorium on Qwest's rate cases, stemming from merger agreement that created Qwest, expired in 2003. State law allows incumbents to petition for alternative regulation but no petitions currently are pending. Qwest operated under earnings-based incentive plan until 1994, when it reverted to rate-of-return regulation.
WV	Verizon	Flexible regulation (1994-2005)		Rate freeze, access charges capped.		Deregulated	Earnings regulation suspended, but not eliminated	Program was extended in 2001 for 4 years on condition that Verizon invest \$375 million in network by 2005.	Change or withdrawal of rate schedules or regulations: At least 30 days' notice to Comm'n and the public.	Program extension requires Verizon to cut access charges \$18.5 million to reduce them to interstate levels by 2005 and contribute \$15 million toward cost of state E-911 mapping project for rural areas that's meant to give all rural locations an addressing scheme compatible with E-911 location databases.	No rate case during program. Verizon has proposed adding several business digital data services (digital data services, primary rate ISDN service, frame relay and asynchronous transfer mode services, transparent LAN services and speed dialing) to deregulated list. Settlement pending.
	Frontier Comm.	Flexible regulation (1994-2004)		Rate freeze, access charges capped.		Company can request rate deregulation		Company must meet infrastructure investment requirements.		Company must meet service quality goals.	No rate case during program. PSC extended the program in 2003 until end of 2004. PSC staff and Frontier plan to meet in August to discuss extension or replacement. Frontier is business name for Citizens Telecom.
	Other incumbents	ROR			Fully tariffed ROR						No pending proceeding to change current status.

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				Basic	Other noncompetitive	Competitive						
WI	SBC	Price caps (1994)	None	Caps indexed to GDP-PI minus 3%. The 3% X-factor applies to companies with more than 500,000 access lines.		Price flexibility. The PSCW removed small business (1-3 lines) from price regulation in 2004 after a competitive showing. This increased SBC's rate flexibility for these services.	Not regulated			Basic local: Increase: 45 days notice; decrease: 1 day notice. Other serv: Increases effective 1 day after filing; decreases effective at time specified in tariff as filed. New service: Effective on date specified in tariff, unless comm'n suspends it within 10 days of filing. Notice to customers on increases shall be given before billing at increased rate. Level of PSC review varies depending on the type of reg. and whether the change is in rate structure or a rate increase or decrease.	Program continued without major change after 1999, 2002 and 2004 reviews. Future reviews at PSC discretion. No plans to conduct one. Business service for more than 3 lines were never subject to price regulation.	
	Verizon	Price caps (1995)	None	Caps indexed to GDP-PI minus 2%. The 2% X-Factor applies to companies with less than 500,000 access lines.		Price flexibility	Not regulated				Program continued without major change after 1999, 2002 and 2004 reviews. Future reviews at PSC discretion. No plans to conduct one.	
	Other incumbents	Flexible regulation			Of state's 82 other incumbents: 26 are under some form of price-based regulation; 42 are under streamlined rate-of-return with some degree of pricing flexibility but no earning reviews unless they seek rates above statewide averages. Two others are under traditional fully tariffed ROR. State's 12 telephone cooperatives aren't rate regulated.							
WY	All incumbents	Cost-based pricing flexibility (2003)	None	Price flexibility, but rates must stay above TSLRIC cost floor.			Not regulated				Basic res & bus. local exchange and switched access: 30 days. Non-essential (competitive services): 1 day.	Eight of the other incumbents have opted for cap program. Other 4 remain under rate-of-return regulation but 2 of those have petitions pending for switch to caps.

Sources: *State Telephone Regulation Report*, July-August, 2004, Vol. 22 (15, 16 & 17) & State Regulatory Commissions.

**Table 5. Detail of State Retail Rate Regulation of Competitive Local Exchange Carriers  
(as of September 2004)**

State	Type of Regulation	Rates Presumed Competitive	State Certification Requirement	Tariff Filing	Rate Change Notice	Review of Rate Changes	Other Requirements
AL	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	Yes (no term provided)	All changes receive regulatory staff review but normally aren't questioned.	CLECs included in PSC's comprehensive global regulation review, with proposal to reduce rate-change notice requirements while prohibiting below-cost pricing except to match a competitor's rate.
AK	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	30 days	All changes receive regulatory staff review but normally aren't questioned.	
AZ	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	30 days	All changes receive regulatory staff review and major changes may be subject to hearings; minor changes generally aren't questioned.	A 2001 state Supreme Court ruling gave state regulators full discretion to decide how to determine fair value of assets and how to apply concept in setting CLEC rates. Fair value issues are decided case by case as CLECs file tariffs for new services and rate changes.
AR	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes	30 days	Changes are not normally reviewed.	All CLECs are required to contribute to state universal service fund regardless whether they are eligible to receive subsidies from fund.
CA	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	30 days for major rate increases (over 5%), 5 for reductions and 40 days for new services	All changes receive regulatory staff review but normally aren't questioned.	
CO	Rates flexibly regulated	Yes (except that residential basic exchange can't exceed \$14.74 statewide cap set by state law for all providers).	Yes (technical, financial and managerial competence; affidavit presumed truthful)	CLECs at start of service have option to file tariffs or price lists.	14 days for rate changes, either increases or decreases	All tariff or price list changes receive regulatory staff review but normally aren't questioned	Financial assistance bond may be required. Payment of Colorado High Cost Support Mechanism (CHCSM) required.
CT	Rates not reviewed	Yes	Yes (technical, financial and managerial competence).	Yes	Advanced filing notice to the Department for rate and service changes are the same for CLECs and ILECs. A tariff filing for a competitive service may be effective on 5 days advanced written notice.	All changes receive regulatory staff review but normally aren't questioned.	

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DE	Cost-based rate floor	Yes (so long as they exceed floor set at incremental cost).	Yes (technical, financial and managerial competence). Must post \$10,000 performance bond.	Yes (either tariffs or price lists)	3 days	Rate changes above cost floor normally get no further review.	
DC	Rates not reviewed	Yes	Yes (technical, financial and managerial competence).	Yes	Yes (no term provided)	Changes are not normally reviewed.	
FL	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence).	Yes	1 day	Rate changes for CLECs that provide residential/small business basic service receive PSC staff review but normally aren't questioned. Rates for other CLECs are not regulated.	
GA	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence).	Yes	30 days for increases and new services and 7 days for decreases.	All changes receive regulatory staff review.	
HI	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	30 days for partially competitive and noncompetitive services; rate changes for fully competitive services effective upon filing	All changes receive regulatory staff review but normally aren't questioned.	
ID	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes (price lists)	10 days	Changes are not normally reviewed.	
IL	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	One day	Initial tariffs for new entrants or new services receive regulatory staff review. Tariff changes take effect without regulatory review.	CLECs in state universal service fund are subject to fund's rate benchmarking rules.



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(as of September 2004)**

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IN	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes and required to keep them updated	Rates are effective upon receipt. Notice to affected consumers is not required.	All tariff filings are reviewed by Telecom Division staff to ensure their consistency with statutes, procedures and orders.	CLECs must provide the Commission with a link to the CLEC website where the tariff can be found by consumers
IA	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	30 days customer notice for rate increases; rate decreases do not require customer notice.	All changes receive regulatory staff review but normally aren't questioned.	CLEC local calling areas are supposed to coincide with incumbent's, but CLECs can petition for waiver.
KS	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes	1 day for rate changes; 7 days for rules and regulations.	Changes to rules and regulations for service receive regulatory staff review for consistency with Billing Standards and Commission Rules. Rate changes are accepted for filing.	If a CLEC wants to take deposits it must have: 1) 3 years of positive financials, or 2) provide a surety bond of \$25,000.
KY	Rates flexibly regulated	Yes	CLECs must register with PSC	Yes	30 days (rates and service changes)	All changes receive regulatory staff review but normally aren't questioned.	
LA	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	10-30 days, depending on nature	All changes receive regulatory staff review but normally aren't questioned.	
ME	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes	25 days for increase; no notice required for decrease	Changes are not normally reviewed. Confirm notice as appropriate.	
MD	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	30 days	All changes receive regulatory staff review but normally aren't questioned.	
MA	Rates not reviewed	Yes	CLECs must register with Dept. of Telecom & Energy	Yes	30 days	Changes are not normally reviewed.	

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(as of September 2004)**

State	Type of Regulation	Rates Presumed Competitive	State Certification Requirement	Tariff Filing	Rate Change Notice	Review of Rate Changes	Other Requirements
MI	Rate increases flexibly regulated	Yes (initial rates)	Yes (state license; need to show technical, financial and managerial competence, statements presumed truthful)	Yes (no term provided)	Rate reductions and limited-duration promotional rates take immediate effect.	All rate increases receive regulatory staff review but normally aren't questioned so long as rate remains below incumbent's. Rate reductions and limited-duration promotional rates not reviewed.	State law in 2000 gave CLECs option of accepting rate freeze in return for deregulation of intrastate access charges and waiver of legal requirements to expand local calling areas, but no CLEC exercised that option.
MN	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	Yes, notice period depending on type of change.	All changes receive regulatory staff review but normally aren't questioned.	
MS	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	30 days	All changes receive regulatory staff review but normally aren't questioned.	
MO	Rates flexibly regulated	Yes (except for access charges, which are capped at incumbent's rate).	Yes (technical, financial and managerial competence)	Yes	10 days for increases and 7 days for reductions.	All changes receive regulatory staff review but normally aren't questioned.	
MT	Rates not reviewed	No determination of market competitiveness is made.	CLECs must register online with PSC. No certification is required.	Not required	n/a	n/a	CLECs rates are not regulated. CLECs must comply with PSC's telecommunications service rules.
NE	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes	Basic local service rate increase: 90 day notice. Rate increases for other services: 10 day notice.	New services and changes to terms other than price receive regulatory staff review but normally aren't questioned. Rate changes aren't reviewed.	CLECs in state universal service fund are subject to fund's rate benchmarking rules.

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(as of September 2004)**

State	Type of Regulation	Rates Presumed Competitive	State Certification Requirement	Tariff Filing	Rate Change Notice	Review of Rate Changes	Other Requirements
NV	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Must file lists with terms and conditions of service but not rates. CLEC rates deregulated and don't have to be filed.	Not required. Changes to rates take effect immediately.	Changes to terms normally aren't reviewed.	
NH	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes (price schedules)	14 days	Changes are not normally reviewed.	CLECs may adopt a model tariff or file a rate sheet which would be considered reasonable unless there is a customer complaint.
NJ	Some rates regulated	Yes (except for basic exchange, vertical services and switched access that cannot exceed Verizon's rates without cost justification).	Yes (technical, financial and managerial competence)	Yes	One day for reductions, 5 days for increases.	First tariffs presumed competitive. Subsequent increases in rates for basic exchange, vertical services & switched access require cost justification. For other services, rate changes normally not reviewed.	
NM	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	30 days	All changes receive regulatory staff review but normally aren't questioned.	
NY	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	30 days	All changes receive regulatory staff review but normally aren't questioned.	
NC	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Not required	N/A	Changes normally aren't reviewed.	

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(as of September 2004)**

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ND	Rates not reviewed	Yes	Yes (Facilities-based CLECs--technical, financial and managerial competence); local resellers register with PSC and attest to their competence to serve; affidavits presumed truthful.	Yes	Not required. Changes to rates take effect immediately.	Changes normally aren't reviewed.	
OH	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes (with minimum and maximum prices for each service).	Rate changes within rate band take immediate effect; changes outside rate band or changes to band limits require 30 days' notice.	Rate changes within rate band are not reviewed; changes outside rate band or changes to band limits receive regulatory staff review.	CLECs also have option of switching to generic price cap regulation system adopted for incumbents, but none have done so.
OK	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	20 days	All changes receive regulatory staff review but normally aren't questioned.	
OR	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Tariffs or price lists not required.	Not required. Changes to rates take effect immediately.	Changes to rates and services aren't reviewed.	
PA	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	1 day for rates priced at or below ILEC rates, and 30 days when priced above ILEC rates.	All changes receive regulatory staff review but normally aren't questioned. When rates are higher than the ILEC, the Commission may request cost support and justification.	Tariff filings for rate changes must also be filed with statutory public advocates. CLEC tariffs are required to contain residential rates and services, including Lifeline and Link-up, irrespective of whether the CLEC intends to serve residential consumers. CLECs are also required to mirror the ILEC local calling area as a starting point.
RI	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes	30 days	Changes normally aren't reviewed.	

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SC	Rates not reviewed	Yes (for CLECs that choose "presumptively valid" tariffing status)	Yes (technical, financial and managerial competence). Certified CLECs must seek "presumptively valid" tariffing status to receive minimal regulation.	Yes	CLECs that don't seek presumptively-valid status must give 30 days' notice of tariff changes; those that have valid status required 14 days' notice for increases or new services, and 5 days' notice for reductions.	For CLECs that don't seek presumptively-valid status, all changes undergo formal regulatory review; for those CLECs under status regulatory review of changes isn't required.	All CLECs have chosen presumptively-valid status.
SD	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes	Yes (rates and services; no term provided)	Changes normally aren't reviewed.	
TN	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes	30 days for rate increases, while reductions take immediate effect.	Rate changes are reviewed for compliance with TRA rules.	Notice period is pursuant to TRA 1220-4-8-.07(2)
TX	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes	Not required. Changes to rates take effect immediately.	Changes normally aren't reviewed.	
UT	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes (price lists)	5 days	All changes receive regulatory staff review but normally aren't questioned.	
VT	Rates flexibly regulated	Yes (except for operator services that are capped at Verizon's rate).	Yes (technical, financial and managerial competence)	Yes	45 days for increases, 5 days for reductions.	All rate changes receive regulatory staff review but normally aren't questioned.	PSB considering rule changes to lighten CLEC regulation.
VA	Some rates regulated	Rates capped at incumbent's rate unless regulatory waiver obtained.	Yes	Yes	30 days for rate increases; decreases take effect next day	Rate decreases normally aren't reviewed; rate increases require notice to customers and Corporation Commission.	

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WA	Rates flexibly regulated	Yes	CLECs must register with state and attest to their competence to serve; affidavits presumed truthful.	Yes (price lists)	10 days, except for promotional introductory services, or promotional rate reductions for existing services, which take effect the later of the date filed or the effective date.	All changes receive regulatory staff review but normally aren't questioned.	Notice period is pursuant to WAC 480-80-05
WV	Rates flexibly regulated	Yes	Yes (technical, financial and managerial competence)	Yes	14 days	All changes receive regulatory staff review but normally aren't questioned.	
WI	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Showings, tariffs and price lists not required.	30 days	Changes normally aren't reviewed.	
WY	Rates not reviewed	Yes	Yes (technical, financial and managerial competence)	Yes	1 day	Changes are not normally reviewed. Rate changes of fully facilities-based CLECs could be subject to regulatory staff review, but such carriers currently aren't operating in Wyoming.	

Sources: *State Telephone Regulation Report*, July-August, 2004, Vol. 22 (15, 16 & 17) & State Regulatory Commissions.