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Briefing Paper

State Retail Rate Regulation of Local Exchange Providers as of September 2005

The National Regulatory Research Institute

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EXECUTIVE SUMMARY

The year 2005 saw significant changes in the retail rate regulation of local exchange carriers (LECs) in the United States. Between October 2004 and September 2005, the period covered in this briefing paper, fourteen states adopted new state laws affecting the regulatory regimes of their local carriers; thirteen states reviewed or adopted new rate plans for one or more of their incumbents and 22 states deregulated services, particularly those provided in competitive urban areas or designated as competitive.

As in previous years, the majority of states (40) use some form of price cap regime to regulate their incumbent local exchange carriers (ILECs), with seven states using it for all their ILECs. Only five states still use rate of return (ROR) to regulate all their incumbents; increasingly states apply a mix of regimes to regulate their carriers, combining price cap regulation with ROR, rate flexibility or deregulation, especially for their smaller incumbents. Meanwhile, larger incumbents have obtained greater flexibility and rate deregulation for an increased number of services. Many states have already deregulated bundled and competitive services. Complete deregulation has so far been implemented in only three states, all within the Qwest region, but it can be expected that the trend to deregulate the rates for basic services will continue. As for the competitive local exchange carriers (CLECs), they are flexibly regulated in 27 states and their rates are not reviewed in 21 more. The remaining three states (Delaware, New Jersey, and Virginia) regulate some of the CLECs rates.

This report includes several tables that provide different levels of detail about the regulatory regimes of local exchange carriers in the United States, both incumbent and competitive. For a fast summary, refer to Table 6 at the end of the report or to the different figures, illustrating the status of rate regulation in the different states. Table 2 and Figure 4 show the changes in regulation that occurred during the period covered in this report.

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06-05

INTRODUCTION

This briefing paper shows the status of retail rate regulation of local exchange carriers in the United States as of September 2005. The information included was obtained from the Supplemental White Papers on Retail Rate Regulation of Local Exchange Providers, published each year by *State Telephone Regulation Report*, and from staff members of 19 states, who reviewed the information and provided revisions.

Following the trend of previous years, incumbent local exchange carriers (ILECs) continue transitioning from rate-of-return regulation (ROR) to alternative forms of regulation, including price caps, flexible regulation and particularly towards deregulation of competitive and non-basic services. Among the different regulatory regimes, price cap regulation is the most commonly adopted by the states to regulate the rates of their ILECs, particularly of the larger ones, as illustrated in Table 6 and Figure 1.

Price Cap Regulation

The summary information provided in Table 6 indicates that a total of 40 states use some form of price cap regulation. Of them, only seven states (Alabama, Delaware, District of Columbia, Louisiana, Pennsylvania, Rhode Island, and Texas) apply it to all their ILECs, including the Regional Bell Operating Companies (RBOCs) and other smaller incumbent operators. The most common trend among these 40 states is to regulate the rates of the large incumbents under a price cap plan while maintaining smaller incumbents under ROR regulation (19 states).[1]

In many states, smaller incumbents were given the option to transition from traditional ROR regulation to price caps or some other form of alternative regulation. As a result, in some states smaller operators are under a mix of regimes, while the large incumbents remain under price cap regulation.

Although many smaller operators decided to remain under ROR, some have opted for different forms of alternative regulation, ranging from streamlined ROR with some pricing flexibility (Wisconsin) to pricing flexibility (Indiana), and from a mix of rate freeze and deregulation (Michigan) to price cap regimes or price-based regulation (North Carolina, Ohio, South Carolina, and Wisconsin).

Other states have granted rate deregulation to their smaller incumbents and cooperatives, while keeping larger incumbents under price cap regulation. Iowa, New Mexico, and Virginia, for instance, have deregulated rates for all their smaller incumbents; meanwhile Indiana, and Wyoming have done so for all their cooperatives. North Dakota and Oregon have deregulated the retail rates of smaller incumbents, but still regulate those of Qwest (price caps) and other larger incumbents (ROR).[2] Other states (Arkansas, Minnesota, New York, and West Virginia) also apply different regulatory regimes to their incumbent local exchange carriers, combining price caps with ROR, price flexibility and deregulation. As of September 2005 eight states were using a combination of regimes to regulate their ILECs, as shown in Table 6.

Traditional Regulation

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

[1] Idaho is not included within this group because it regulates Qwest, its largest ILEC, under a hybrid regime that combines price caps and deregulation. Other incumbents are under ROR.

[2] North Dakota deregulated the retail rates of investor-owned companies with less than 8,000 lines and of all its cooperatives.

illustrated in Figure 2. The number of states that use ROR for all their ILECs has decreased over time; as of September 2005, only Alaska, Hawaii, Montana, New Hampshire, and Washington did so. Arizona is a special case within this group, as it regulates Qwest under a hybrid plan that combines ROR with price caps, while keeping the other incumbents under traditional ROR.

Deregulation

Finally, complete retail rate deregulation has so far make inroads only within the Qwest region. While the Great Plains states of Nebraska and South Dakota have deregulated all their retail services, Wyoming has adopted a cost-based pricing flexibility regime for all its ILECs. The deregulatory trend, however, has gained force since our 2004 report.[3] As shown in Figure 4, from October 2004 to September 2005, 22 states approved rate deregulation for one or more retail services provided by their local exchange carriers since October 2004. As of the end of our reporting period, California was reviewing the price cap plans of its four incumbents (SBC, Verizon, Surewest Telecom, and Citizens Telecom/ Frontier) aiming to eliminate retail rate regulation except for basic exchange services. Kansas has allowed SBC to petition for deregulation of competitive services in competitive markets, while New Hampshire and Texas have given all of their ILECs the option to deregulate services where competition is deemed to exist.

Recent Developments: ILEC Regulation

Table 2 presents the major changes in retail rate regulation of local exchange carriers that occurred between October 2004 and September 2005. During these months 14 states, shown in Figure 4, passed new laws that modified the rate regulation of either their RBOCs (Idaho, Iowa, North Dakota, and Utah), the largest incumbents (New Mexico, South Carolina, and Tennessee), other incumbents (Vermont) or all the incumbents in the state (Alabama, Michigan, Missouri, New Hampshire, Pennsylvania, and Texas). In six of these states the new laws allowed for further deregulation of services. In Missouri for example, the 2005 law deregulated the rates of bundled and stand-alone services in exchanges with two or more competitors. Similarly, South Carolina deregulated service bundles of price-regulated ILECs and Tennessee did so for bundled services and customer-specific service contracts offered by BellSouth, Sprint, and Citizens Telecom. Iowa and Utah deregulated all the retail rates of Qwest, with the exception of basic residential services, while Texas, as mentioned above, gave its ILECs the option to deregulate retail rates based on population size and the existence of competition.[4]

It must be underscored that the definition of competition is not uniform among states. Texas, for instance, defined it as the presence of two landline operators and one wireless provider in the same area as the incumbent; Alaska, on the other hand, deems competitive any market where local service is provided by an ILEC and another facilities-based wireline carrier. Iowa allows Qwest full rate deregulation in any market where competitive alternatives exist (as of March 2006, 40 communities had been deregulated), while Missouri does so for smaller incumbents with two or more local competitors operating in an exchange. New Hampshire even considers the presence of IP-based service providers as part of the proof of competition that incumbents, other than Verizon, can provide to opt for regulation similar to that of the CLECs. One of the most interesting changes in this regard occurred in Pennsylvania, where a December 2004 state law allowed ILECs to self-certify that a service is competitive.

[3] See http://www.nrri.ohio-state.edu/dspace/bitstream/2068/261/1/04-13.pdf)

[4] As of February 2006, the 2005 Texan law was being challenged and the Public Utility Commission had refused to reconsider its decision to deregulate retail rates in mid-size markets.

Increasingly, urban centers are being considered competitive. In Michigan, for instance, the Commission approved in August 2005 the rate deregulation of retail services offered by all telecom providers in the state's 30 largest cities, effective in October 2005.[5] Texas' state law gives ILECs the option to deregulate retail rates in cities over 100,000 inhabitants, effective January 2006, and Arkansas has authorized SBC to deregulate basic exchange rates in its competitive urban markets.

Deregulation has also take place as a result of changes in alternative forms of regulation (AFOR) plans. Thirteen states, shown in Figure 4, reviewed or adopted new plans for their ILECs during the 2004-2005 period in response to the approaching expiration date of the existing plans. For the most part, the new plans introduced changes that permitted rate increases for basic local service, as well as for some vertical and non-basic services, either by lifting freeze rate regimes, indexing caps, or moving services out of non-indexed caps. Retail service bundles, many business and competitive services, on the other hand, tended to be deregulated.

North Carolina is a case in point. The new price cap plans approved for BellSouth, Verizon and Sprint in 2005 allowed basic services to rise from 10 (BellSouth, Verizon) to 12 percent (Sprint) subject to a basic basket revenue cap specific to each company. Vertical and non-basic services are allowed to rise up to 20 percent, subject to a basket revenue cap, and competitive services were rate deregulated. Similarly, in 2004 Indiana adopted new plans for SBC, Verizon, and Sprint that will deregulate all service bundles considered competitive and retail services, with the exception of basic residential, small business and vertical services, following the end of the plan in 2007.

[5] The order has been appealed to state courts.

Nine of the fifteen states that approved rate changes during this period (Florida, Illinois, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Nebraska, New Mexico, North Carolina, North Dakota, Oklahoma, Vermont, Virginia, and West Virginia) authorized modifications in regulation that may result in rate increases for their ILECs' local services. Other six states reviewed existing plans during this period, but decided to extend them unchanged (Connecticut, Delaware, and Minnesota) or with changes that allowed rate increases in local service (District of Columbia), non-basic (Arizona) or vertical services (West Virginia). The shift towards rate deregulation of basic services in the near future is to be expected. Idaho's new state law already includes provisions to deregulate the rates for basic exchange services for Qwest after the current caps expire, either in 2008 or 2010 if the current plan is extended by the PUC.

Other changes worth mentioning during the October 2004 – September 2005 period include the sale of Verizon Hawaii to the Carlyle group in May 2005 that resulted in the reorganization of the company, which was renamed Hawaiian Telcom, as well as two pending cases for Qwest in Montana and New Mexico, the first for overearnings and the second for unfulfilled investment commitments.

Recent Developments: CLEC Regulation

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 6 and Figure 3. State regulatory commissions have granted CLECs rate flexibility based on the general assumption that their retail rates are competitive.[6] In some states this assumption is limited by either imposing exceptions for specific services (Colorado, Missouri, New Jersey, and Vermont), setting specific floors (Delaware),

[6] Montana has gone a step beyond by not making any determination of market competitiveness.

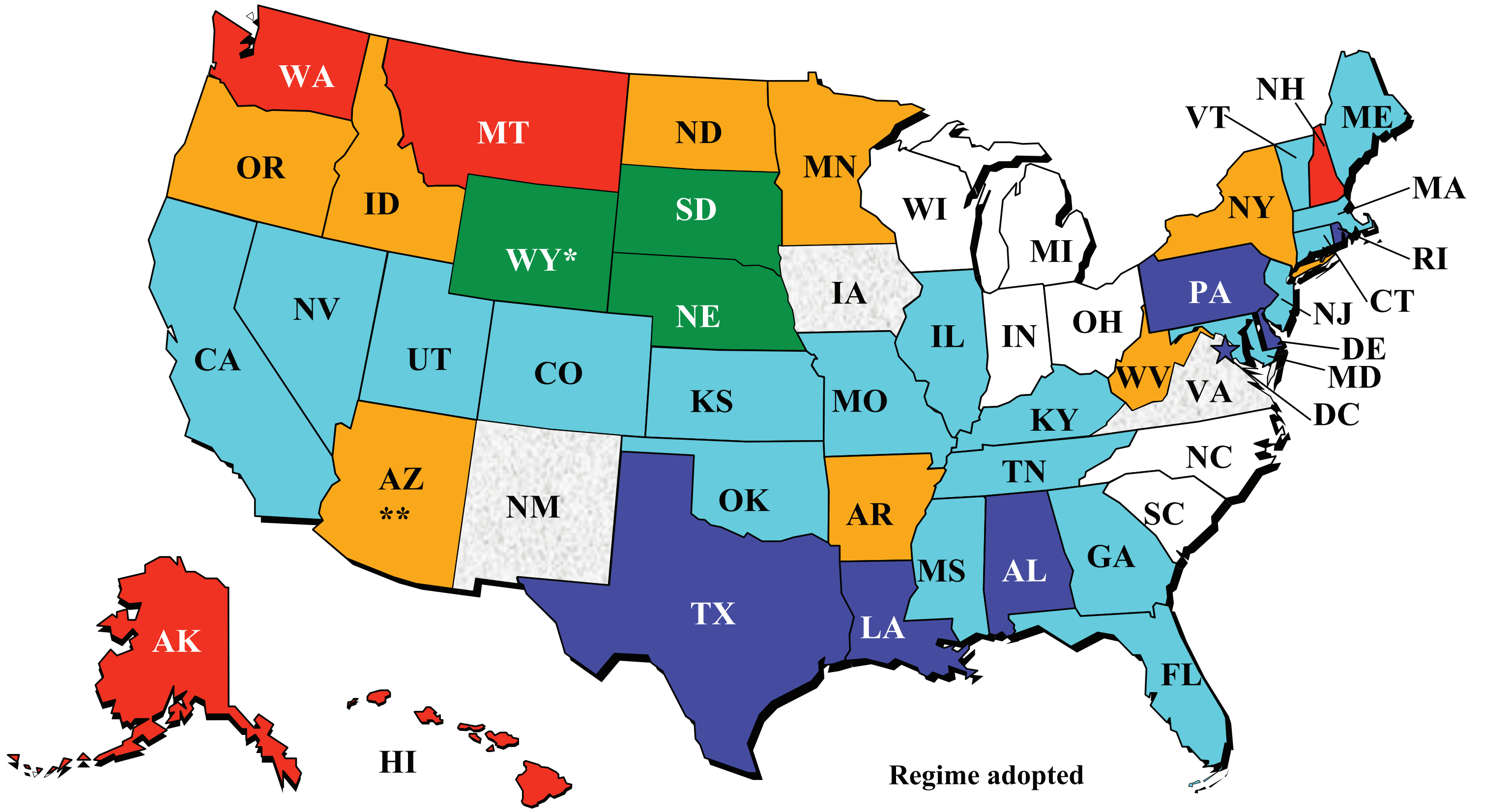
limiting the assumption to initial rates (Michigan) or requiring CLECs to set rates at or below those of the incumbent (Pennsylvania and Virginia).

State certification of CLECs is required in 45 states and the District of Columbia. As part of this requirement, CLECs must demonstrate their technical, financial and managerial competence before beginning operations. 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 4 provides greater detail on the state commission requirements on CLECs regarding certification, rate filings, rate changes, reviews and notifications.

Summary

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 states. This flexibility is expressed either by deregulating certain services, such as bundled and competitive services, certain carriers based on their size, such as telephone cooperatives and other smaller incumbents, or even certain urban centers, based on their population size. Some larger incumbents are also making inroads in achieving full retail rate deregulation in competitive zones and in a few states. As for CLECs, rate flexibility is the prevailing trend. It is expected that the deregulatory trend will continue in the coming years and expand to basic services.

The tables included in this report provide different levels of detail. Table 1 provides basic information on the specific type of plan applied to large incumbents, other incumbents and CLECs. Table 2 summarizes major changes in rate regulation that occurred from October of 2004 to September 2005. Figure 4 illustrates some of these changes, indicating those states that passed new state laws, new regulatory plans or that deregulated services during this period. Tables 3 and 4 provide detailed information on the regulation plans of ILECs and CLECs, respectively, including earnings regulation, notice periods, as well as requirements on infrastructure investment and quality of service. Table 5 lists the states using regulatory regimes different from price caps. Figure 2 indicates the states with ILECs under rate of return regulation. Finally Table 6 summarizes the previous information by classifying states by the type of rate regulation regime applied to their ILECs and CLECs. Figures 1 and 3 illustrate this information.



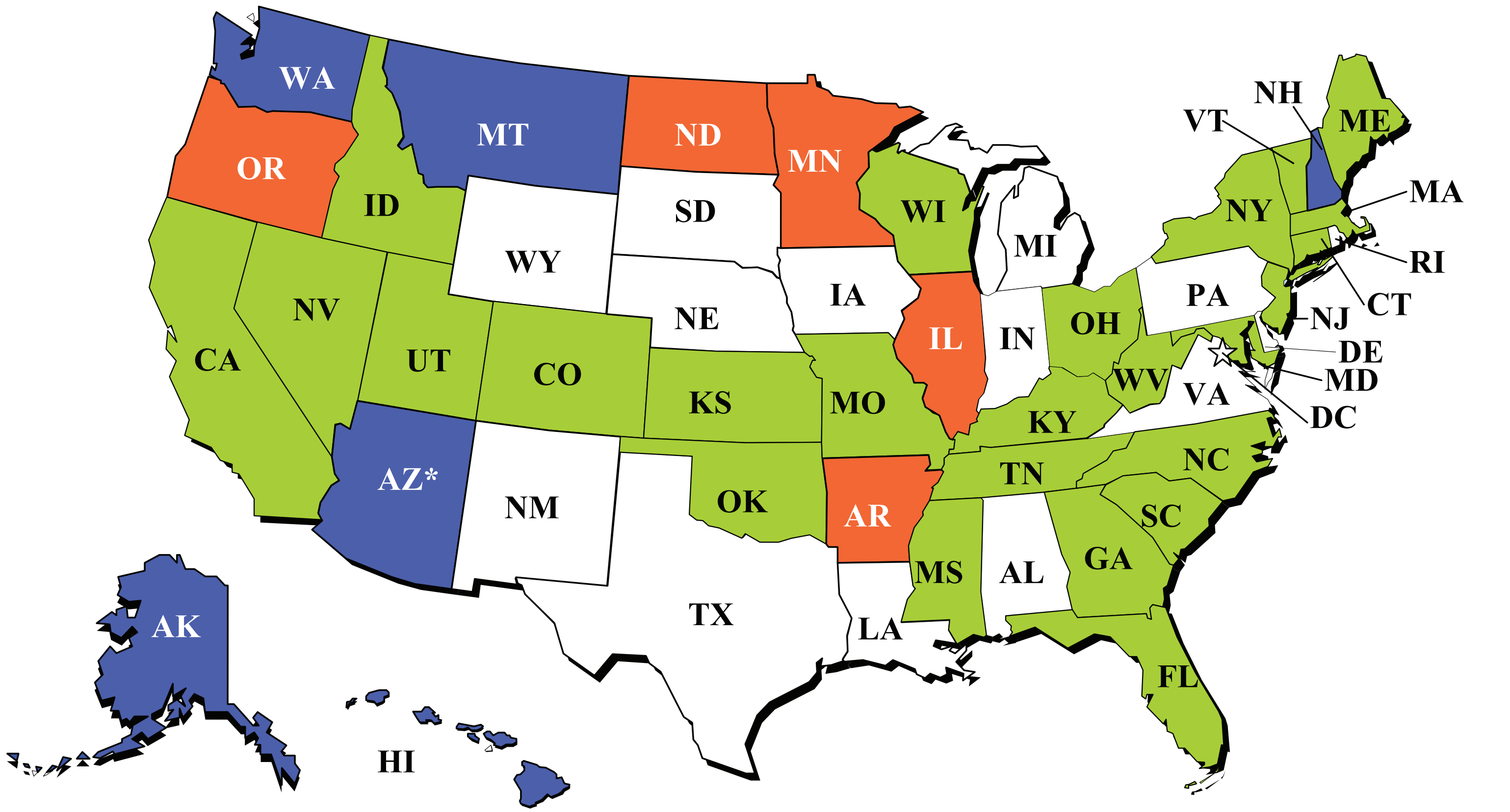
Price caps (all ILECs) (7)
ROR (all ILECs) (5)
Deregulation (all ILECs) (3)
PC (large ILECs) and ROR (others)(19)
PC (large ILECs) and Deregulation (others) (3)
PC (large ILECs) and Mix (others) (6)
Mix of regimes (8)

* WY uses a cost-based pricing flexibility regime

** In AZ, Qwest is under a hybrid ROR regime, which combines ROR with price caps

Sources: *State Telephone Regulation Report*, August - September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

Fig. 1. Retail rate regulation of incumbent local exchange carriers (as of September 2005).



* In AZ, Qwest is under a hybrid ROR regime, which combines ROR with price caps

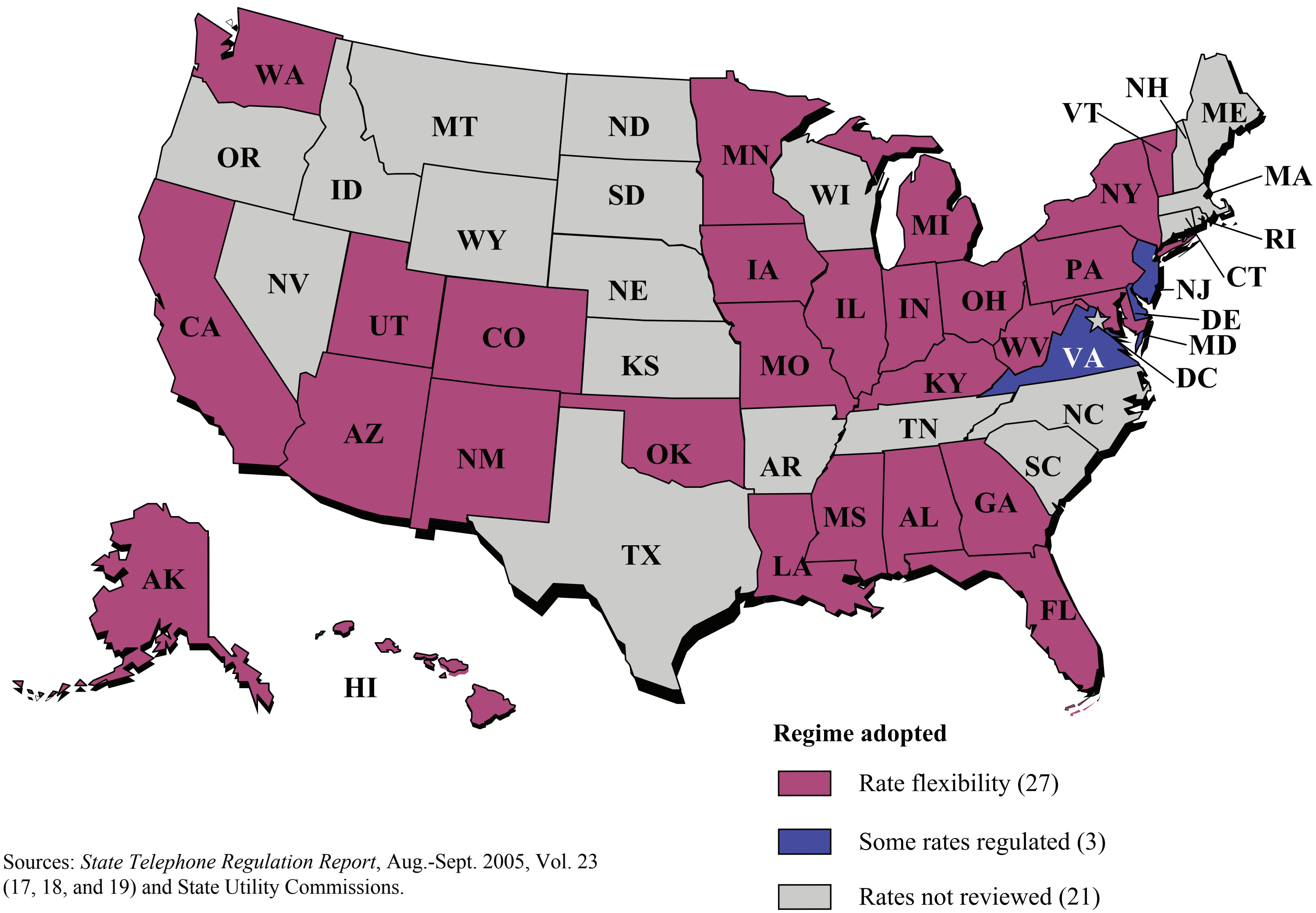
Sources: *State Telephone Regulation Report*, August - September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

All ILECs (6)

Some large ILECs only (5)
(CTL-AR, CTL-OR, CZN-MN, FON-OR, ND Tel, VZ-IL and VZ-OR)

Other ILECs only (25)

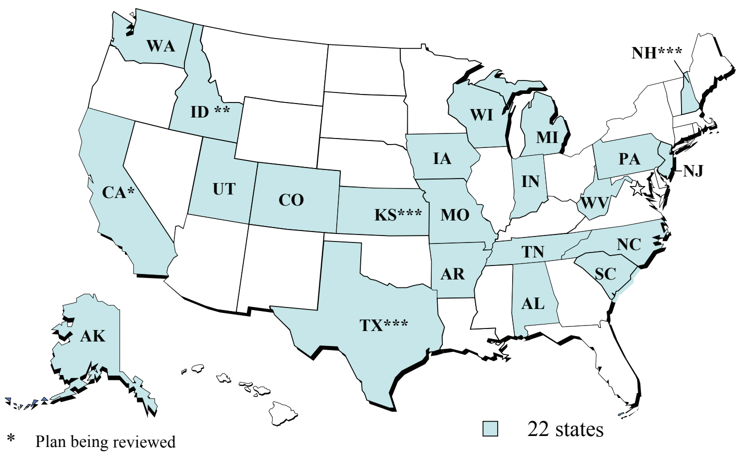
Fig. 2. States with incumbent local exchange carriers under rate-of-return regulation (as of September 2005).



Sources: *State Telephone Regulation Report*, Aug.-Sept. 2005, Vol. 23 (17, 18, and 19) and State Utility Commissions.

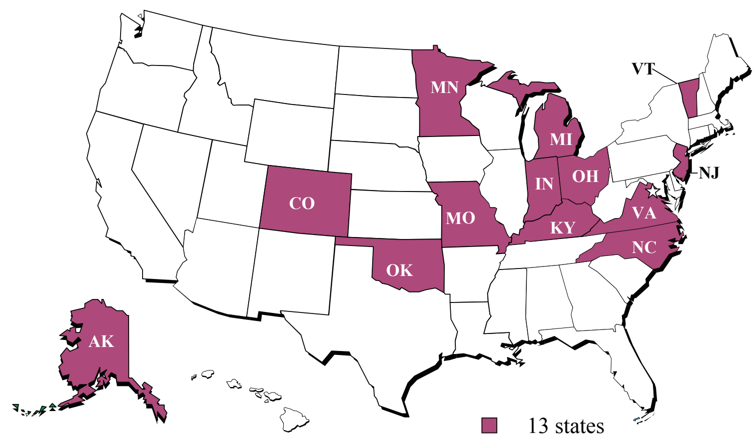
Fig. 3. Retail rate regulation of competitive local exchange carriers (as of September 2005).

Retail Rate Deregulation of Service(s) Provided by One or More LECs



* Plan being reviewed
** After current caps expire
*** Option if competition exists or based on population size

Adoption of New Retail Rate Regulation Plans for One or More LECs



Adoption of New State Laws Affecting Retail Rate Regulation

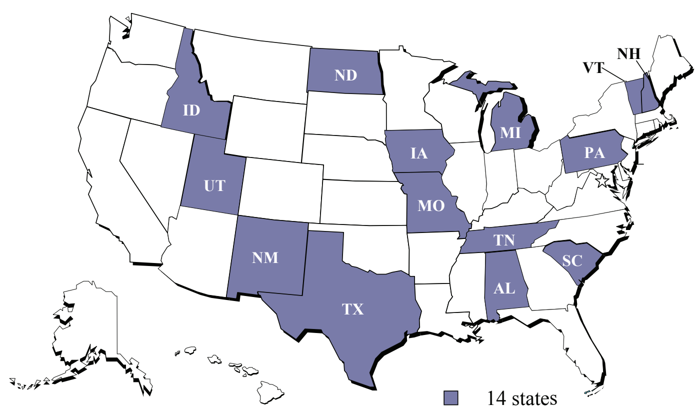


Fig. 4. Major changes in state retail rate regulation of Local Exchange Companies (October 2004 – September 2005).

TABLE 1
STATE RETAIL RATE REGULATION OF LOCAL EXCHANGE COMPANIES
(AS OF SEPTEMBER 2005)

State	Large Incumbents	Other Incumbents	CLECs
AL	**All:** *Price caps (1996)*. Nonindexed price caps for basic exchange and access rates. Other services can rise up to 10 percent per year, in aggregate, with rate design subject to PSC review.		*Rates regulated flexibly.* State certificate requirement. Need to demonstrate technical, financial and managerial competence. Must file tariffs and give notice of rate changes. Tariff changes get regulatory staff review but normally aren't questioned.
AK	**Large (More than $500,000 annual revenue):** *Streamlined ROR (1992)*. Rate boosts up to 6 percent 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 or where a facilities-based wireline local service provider competes with incumbent), incumbents can cut rates on 30 days' notice without prior state approval but any increase back to previous level may be subject to sate review. They can also set limited-duration promotional rates to match competition without prior state approval.	**Small (under $500,000 annual revenues)**: *Streamlined ROR (1992)*, but can opt out of state rate and earning regulation upon approval of their ratepayers. Four companies have done so. **Smallest rural incumbents (under $50,000 annual revenue)**: *Deregulated (1992)*.	*Rates regulated flexibly*.
AZ	**Qwest:** *ROR with price caps* (earnings-based regulation pegged to ROR on "fair value" of rate base). Price cap system has local rates frozen and other noncompetitive services can rise up to 25 percent per year. Competitive services flexibly priced, but subject to revenue cap for entire basket of competitive services.	*ROR* (earnings-based regulation pegged to ROR on "fair value" of rate base). No price flexibility.	*Rates regulated flexibly*. 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	**SBC, Alltel:** *Price caps (1997)*. Indexed price caps for basic exchange and switched access (75 percent of GDP-PI). Rates for all other services deregulated. **Century Tel:** *ROR* in access lines bought from Verizon in 2000.	*Price caps (1997)* that permits basic exchange services to rise annually by lesser of 15 percent or $2 per line monthly. All other service rates deregulated.	*Rates not reviewed.* CLECs must contribute to state universal service fund regardless whether they are eligible to receive subsidies from fund or not.
CA	**SBC, Verizon, Surewest Telecom, Citizens/Frontier**: *Price caps (1990)*. Rate freeze for noncompetitive services, except for cost-justified changes. Competitive services flexibly priced.	*ROR*	*Rates regulated flexibly*.
CO	**Qwest:** *Price caps (2005)*. Nonindexed price caps for basic exchange on first residential line and first 5 business lines. Statewide deregulation of interexchange service rates; rates for business services to customers over 5 lines and optional or discretionary services deregulated in state's 5 largest cities and in any other market where sufficient competition can be demonstrated.	*ROR*. Can elect earning-based or price-based alternative regulation systems, but none has chosen to do so.	*Rates regulated flexibly*. Residential basic exchange rate can't exceed $14.74 statewide cap set by state law for all providers.
CT	**SBC (Southern New England Telephone):** *Price caps (1996-2006)*. Indexed price caps (GDP-PI) for noncompetitive services. Caps levels don't change unless GDP-PI exceeds 5 percent per year, when caps can rise by half the amount over 5 percent. Competitive services flexibly priced. X-Factor = 5 percent. **Verizon:** *Price caps (1999-2007)*. Basic, noncompetitive services and competitive services flexibly regulated, under same regulation as SBC's.	*ROR*. No pending proceedings to change status. Verizon in 2003 proposed a change to price caps, but later withdrew application.	*Rates not reviewed*.
DE	**Verizon:** *Price caps (1994-2011)*. Indexed price caps (GNP-PI - 3 percent productivity-gain offset) for basic services. Competitive services flexibly priced. In June 2005, PSC concluded review of plan by extending it unchanged until September 2011.	No other incumbents	*Cost-based rate floor*. 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.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 1
STATE RETAIL RATE REGULATION OF LOCAL EXCHANGE COMPANIES
(AS OF SEPTEMBER 2005) - *Continued*

State	Large Incumbents	Other Incumbents	CLECs
DC	**Verizon:** *Price caps (2006)*. Rate freeze on residential dial tone until Dec. 31, 2005. 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 and business rates may be increased by up to 10 percent each year, but percentage revenue can't exceed annual inflation rate. Discretionary service rates can rise up to 15 percent annually. Competitive services not rate regulated, but must be priced above incremental cost.	No other incumbents	*Rates not reviewed*.
FL	**BellSouth, Verizon, Sprint:** *Price caps (1995 statute)*. Indexed price caps (GDP-PI - 1 percent) for basic services. Rates for nonbasic services categories can be increased up to 6 percent per year in noncompetitive markets and up to 20 percent a year in competitive markets. A 2003 state law permitted major rate rebalancing to shift hundreds of millions of dollars from access charges onto local rates and allowed basic services to be regulated like others after two years (three years for Sprint). PSC (Dec. 2003) approved plan to give the three companies $355 million in local rate increases. Increases were stayed by the FL Supreme Court and finally upheld in June 2005. The three carriers filed tariffs in Sept. 2005 for increases in basic services and decreases in intrastate access charges effective Nov. 2005.	*Price caps (1995)*. Can elect price cap regulation under program similar to large telcos. Six other incumbents have chosen price caps; only one small incumbent under *ROR*.	*Rates regulated flexibly*.
GA	**BellSouth:** *Price caps (1995)*. Indexed price caps (GDP-PI) for basic rates. Access charges capped at interstate rate. All other service rates deregulated.	*Price caps (1996)*. Can elect price cap regulation under program similar to BLS but without investment requirements. Of the 34 small incumbents, nine remain under *ROR*; the other 25 are under price caps.	*Rates regulated flexibly*. Rates regulated flexibly. State certificate requirement. Need to demonstrate technical, financial and managerial competence. Must file tariffs. Tariff changes get regulatory staff review.
HI	**Hawaiian Telcom (formerly Verizon):** *ROR*. State law requires cost-based and earnings-based regulation until PUC determines effective local competition exists.	No other incumbents	*Rates regulated flexibly*.
ID	**Qwest:** *Nonindexed price caps* in basic local exchange under five lines. Annual rate increases limited to 10 percent. Service deregulation (1989) for all other retail services except basic local exchange provided to accounts with fewer than five lines.	*ROR*. Can elect regulatory plan similar to Qwest; none has chosen to do so.	*Rates not reviewed*.
IL	**SBC:** *Price caps (1995)*. Residential rates and other noncompetitive services under caps indexed to GDP-PI minus 3 percent. Competitive services flexibly priced.	*ROR*	*Rates regulated flexibly*. CLECs in state universal service fund are subject to fund's rate benchmarking rules.
IN	**SBC:** *Price caps*. Basic residential and business services under five lines under nonindexed price caps. Vertical services to increase up to 38 cents per feature yearly. All other retail services and service bundles are considered competitive and have been deregulated. Price floor must exceed total TSLRIC of the service plus 10 percent of shared and common costs. **Verizon:** *Price caps*. Basic local services under nonindexed price caps. Company can impose single 25¢ increase for vertical services in 2006. All other retail services and service bundles are considered competitive and have been rate deregulated. Price floor must exceed total TSLRIC of the service plus 10 percent of shared and common costs. **Sprint**: *Price caps*. Basic res. and small bus. serv. under nonindexed caps. Vertical serv. can have cumulative annual increases limited to 8.75 percent of annual revenues for serv. in this basket. Rates for all other retail serv. and bundles deregulated. Price floors of TSLRIC plus 10 percent apply.	**Investor-owned incumbents with fewer than 30,000 lines**: *Pricing flexibility*, but earnings still may be reviewed. **Telephone cooperatives**: *deregulated*.	*Rates regulated flexibly*.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 1
STATE RETAIL RATE REGULATION OF LOCAL EXCHANGE COMPANIES
(AS OF SEPTEMBER 2005) - *Continued*

State	Large Incumbents	Other Incumbents	CLECs
IA	**Qwest, Iowa Telecom Services, Frontier Communications of Iowa**: *Price caps (1995)*. Nonindexed price caps for single-line basic exchange under caps. Rates can rise by $1 per year residential or $2 per year business up to a statewide cap of $19 monthly for residential service and $38 for business service. Other retail service rates are deregulated. Full rate deregulation allowed in any market where competitive alternatives exist.	*Rates not reviewed*. Rates and earnings deregulated since 1983. Companies must keep current tariffs on file and give notice of changes. Changes to other terms and conditions of service receive regulatory staff review and may be questioned.	*Rates regulated flexibly*. CLEC local calling areas are supposed to coincide with incumbent's but CLECs can petition for waiver.
KS	**SBC, Sprint:** *Price caps (1998).* Indexed price caps (GDP-PI-X-Factor of 3.15 percent on basic local for res. and S-L bus; 1.5 percent on multiline bus, vertical, and other retail). 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 and directory asst. in 2002. In June 2005 SBC was granted rate deregulation for selected services in Kansas City, Wichita and Topeka. The 2006 Legislature has sent SB 350 to conference committee. If passed it would expand deregulation, especially in metropolitan areas.	*ROR*	*Rates not reviewed*.
KY	**BellSouth:** *Price caps (1995-2009)*. Basic rates under caps. Access capped at interstate levels. Competitive services deregulated. **Cincinnati Bell:** *Price caps (2004)*. Rate freeze for basic services; rates frozen for some vertical services and specialty business services through 2006, then can increase up to cap set at double initial rate. Competitive services flexibly priced. **Alltel KY**: *Price cap* for basic services; pricing flexibility for other services.	*ROR. 17 other incumbents have option to propose price caps or other alternatives to ROR, but only Alltel is under alternative regulation.* **Kentucky Alltel**: ROR.	*Rates regulated flexibly*.
LA	**BellSouth**: *Price caps (1996)*. Nonindexed price caps for basic residential and single-line business basic services, except for rate changes intended to consolidate eight local rate groups into one by 2006. After 2006, BellSouth may raise basic service rates up to 10 percent a year in urban markets with competition. Competitive services deregulated.	*Price caps (1997)*. Nonindexed price caps for basic and access services. Competitive services flexibly priced.	*Rate regulated flexibly*.
ME	**Verizon**: *Price caps (1995-2006)*. Basic residential and business service rates frozen; nonbasic and competitive services flexibly priced, 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.	*ROR*. Petitions for price-based regulation from Pine Tree Telephone and Saco River Telephone, both Country Road Communications affiliates. First phase of PUC docket will address whether to consider alternative regulation; the second, specific plans.	*Rates not reviewed*.
MD	**Verizon**: *Price caps (1996. Revised 2005)*. Basic services capped at current levels until Nov. 23, 2007, then permitted to escalate at the rate of inflation as measured by GDP-PI. Competitive services rate deregulated.	*ROR*	*Rates regulated flexibly*.
MA	**Verizon**: *Price caps (2003)*. Basic residential local service and analog private lines under nonindexed caps. All other retail services under pricing flexibility. Rates can move anywhere above wholesale floor.	*ROR*	*Rates not reviewed*.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 1
STATE RETAIL RATE REGULATION OF LOCAL EXCHANGE COMPANIES
(AS OF SEPTEMBER 2005) - *Continued*

State	Large Incumbents	Other Incumbents	CLECs
MI	**SBC & Verizon**: *Price caps (1995)*. Indexed price caps for noncompetitive services (Detroit-area CPI - 1 percent for SBC and VZ); rate cuts presumed competitive and not reviewed. Competitive services deregulated. State law in 2000 amended cap program to freeze noncompetitive retail rates of SBC 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.	*Rate freeze for local services; deregulation for intrastate switched access rates*. Since 2002, 22 companies have been allowed to break the freeze and adjust their rates so that they could respond to customer demands for expanded calling areas.	*Rates regulated flexibly*. 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.
MI	In August 2005 PSC approved rate deregulation for retail services of all telecom providers in state's 30 largest cities, effective late October 2005, after customers receive notice. The Order has been appealed to state courts. In November 2005, Governor Granholm signed into law PA 235, which amends the 1991 "Michigan Telecommunications Act" (PA 179). The amended Act, effective Nov. 22, 2005, has new provisions for services that are rate regulated and how they are rate regulated. Changes to be reported in next update.		
MN	**Qwest:** *Price caps (1999-2005)*. Nonindexed caps for local exchange and access. Other basic and emerging competitive services flexibly priced. Rates for fully competitive services deregulated. **Sprint, Frontier Comm's of MN:** *Price caps (1996)*. Nonindexed caps for basic services. Nonbasic and emerging competitive services flexibly priced. Rates deregulated for fully competitive services. **Citizens Telecom (formerly GTE)**: *ROR*. Company has not proposed any alternative regulation option.	*Pricing flexibility*. 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 percent of ratepayers seek PUC review of rate change. Nonbasic and emerging competitive services flexibly priced. Rates deregulated for fully competitive services.	*Rates regulated flexibly*.
MS	**BellSouth**: *Price caps (1996-2007)*. Rate freeze for basic service rates; access capped at interstate rates; all other services can increase up to 20 percent per year in small increments throughout the year or a single annual increase.	*ROR*	*Rates regulated flexibly*.
MO	**SBC, CenturyTel, Sprint, Spectra/Century**: *Price caps (1997)*. Indexed price caps (to telecom component of CPI) for basic services. X-factor application has not been requested by any carrier. Nonbasic services can rise up to 5 percent annually. Rate deregulation of certain business and residential local services in markets where competitors operate. Deregulation of rates for bundled services and for stand-alone services in any exchange where two or more local competitors operate. (See detail in Table 3)	*ROR* for other investor-owned incumbents. A 2005 state law allows them to seek rate deregulation in any exchange where two or more local competitors operate. BPS Telephone 2004 petition for switching to caps under the old law was denied. Only Alltel Communications has requested price cap status under the new law and its request was granted (effective Oct. 14, 2005).	*Rates flexibly regulated*. Rates presumed competitive except for access charges, which are capped at incumbent's rate.
MT	**All investor-owned incumbents**: *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 can also request full deregulation of services that are subject to effective local competition.		*Rates not reviewed*. CLECs rates are not regulated; the companies must comply with PSC's telecom service rules.
NE	**All**: *Rates not reviewed*. PSC can roll back excessive residential local rate increases in exchanges without competition upon petition by affected ratepayers. Basic exchange rate increases exceeding 10 percent get automatic review, unless telco has under 5 percent of state total access lines, in which case review threshold is 30 percent. Companies receiving universal service funding may be affected by 12 percent earnings benchmark set by PSC in 2001, as well as by benchmark rates of $17.50 residential and $27.50 business.		*Rates not reviewed*. Rate changes aren't reviewed, except if a basic exchange increase exceeds 30 percent. CLECs in state universal service fund are subject to fund's rate benchmarking rules.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 1
STATE RETAIL RATE REGULATION OF LOCAL EXCHANGE COMPANIES
(AS OF SEPTEMBER 2005) - *Continued*

State	Large Incumbents	Other Incumbents	CLECs
NV	**Sprint Nevada:** *Price caps (1996-2007)*. Basic service under nonindexed caps. Rate cuts allowed but not increases. Nonbasic services can increase up to 5 percent annually to cumulative total 20 percent increase. Competitive services flexibly priced. Broadband services and business services provided under customer-specific contracts deregulated. **SBC**: *Price caps (1997-2008)*. Basic services under nonindexed price caps. 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.	*ROR*.	*Rates not reviewed*.
NH	**All**: *ROR*. General guidelines for alternative regulation were adopted in 1996. Only Kearsarge Telephone has ap plied for price-based regulation. Petition was denied in April 2004. State law effective July 1, 2005 gave incumbents other than Verizon option of same regulation as CLECs if they prove to PUC most customers have access to competitive wireline, wireless or IP-based service providers.		*Rates not reviewed*.
NJ	**Verizon**: *Price caps (2005)*. Statewide basic residential and business caps restructured in 2005, fixed at \$8.95 (residential) and \$15.00 (business). Business rates for customers with two or more lines deregulated. Other competitive service rates deregulated.	*ROR*.	*Some rates regulated*. 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 and switched access require cost justification. For other services, rates normally not reviewed.
NM	**Qwest, Valor Telecom:** *Price caps (2001-2006)*. Nonindexed caps for basic services. For nonbasic services, **Qwest** capped at average of rates in its 14-state home region, while **Valor** can raise nonbasic rates up to 5 percent annually. Competitive service rates deregulated. Starting in 2006, Valor's cap program must include some form of indexing for adjusting caps.	*Rates not reviewed*. Other incumbents with less than 50,000 lines were deregulated. Basic residential rates increases subject to regulatory review if 2.5 percent of ratepayers affected or if PRC staff protest the increase.	*Rates regulated flexibly*.
NY	**Verizon:** *Tariff regulation (2004)*. Rates for basic services can change by tariff, but need to be cost-justified. Non-basic and competitive services flexibly priced. Earnings could be reviewed if excessive profits are suspected. **Frontier Telephone of Rochester:** *ROR*. Price cap plan expired at the end of 2004, when Frontier defaulted to fully tariffed ROR.	*ROR*.	*Rates regulated flexibly*.
NC	**BellSouth**: *Price caps (2005)*. Indexed price caps. Basic service charges can rise up to 10 percent, subject to revenue cap for basic basket equal to 1.5 times annual GDP-PI. Vertical and nonbasic services can rise up to 20 percent, subject to basket revenue cap equal to 2.5 times annual GDP-PI. Competitive services' rates deregulated. Effective Dec. 2005, all BellSouth business services will be classed as competitive -- except basic exchange and installation, classed competitive in Dec. 2006.	**Verizon:** *Price caps (2005)*. Basic serv. rates can rise up to 10 percent subject to basic basket revenue cap of 1.5 times annual GDP-PI. Vertical, nonbasic and competitive serv.' rates under same terms as BS. **Sprint (Centel, Carolina Telephone and Telegraph)**: *Price caps (2005)*. Basic serv. rates can rise up to 12 percent subject to basic-basket revenue cap equal to annual GDP-PI. Vertical, nonbasic and competitive serv.' rates under same terms as BS. **Alltel, Mebtel, Concord Tel, and North State Comm's:** *Price caps*. Indexed price caps (GDP-PI - 2 percent); rate element constraint equal to GDP-PI plus 3 percent; service specific caps for most other serv. **Eight small incumbents** under ROR. Randolph Telephone requested price-based reg in 2005 (eff. Jan. 1, 2006).	*Rates not reviewed*.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 1
STATE RETAIL RATE REGULATION OF LOCAL EXCHANGE COMPANIES
(AS OF SEPTEMBER 2005) - *Continued*

State	Large Incumbents	Other Incumbents	CLECs
ND	**Qwest:** *Price caps (2003)*. Nonindexed caps for basic exchange and switched access. Rate decreases allowed but increases only when government action increases service costs. Rates for other services flexibly priced. Business basic exchange and additional residential lines were removed from nonindexed caps (August 2005). **North Dakota Telephone**: *ROR*.	*Rates not reviewed*. 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 are rate deregulated, unless carrier request intrastate access price regulation, but earnings are not regulated.	*Rates not reviewed*.
OH	**SBC/Sprint/ Cincinnati Bell/ Alltel/ Century Tel/Chillicothe Horizon/Western Reserve**: *Price caps (2002)*. Plan freezes basic local rates indefinitely. Rates for certain vertical services and specialty business services frozen two years from effective date of each individual telco's plan and then can increase up to double initial rate. All other retail rates flexibly priced. Alltel and Western Reserve opted for generic alternative regulation plan in 2004.	*ROR (traditional or streamlined)*. 36 remaining incumbent carriers have choice of opting into PUC's generic alternative regulation plan or propose a company-specific regulation plan.	*Rates flexibly regulated*. CLECs also will have option of switching to price-based regulation framework PUC adopted for incumbents, but none have done so.
OK	**SBC**: *Price caps (1999-2005)*. Pricing flexibility for Basket 3. Switched access, E-911 and payphone access under pricing flexibility equal to change in inflation minus 1 percent. In Service Basket 3, if the competitive test is met, then pricing flexibility is capped at 12 percent per year. If the competitive test is not met, then pricing flexibility is equal to the change in inflation -1 percent. Both scenarios fall under 30-day notice and regulatory review. Pricing flexibility for all competitive services in Basket 4, per PUD 2004-0042.	*Streamlined ROR*. Incumbents can raise monthly local rates up to $2 annually but boosts are subject to investigation and possible rollback if 15 percent of ratepayers protest. Price flexibility for competitive services, but revenues count in rate-of-return calculations.	*Rates flexibly regulated*.
OR	**Qwest:** *Price caps (2000)*. Rate freeze for residential and small business basic exchange, PBX trunks, and payphone access services, except for cost-justified rate changes. Nonindexed price caps for all other services, with cost floors. Carrier can lower its rates for all services on short notice and has done so for most of its OR markets. **Verizon, Sprint, and Century Tel**: *ROR*. Companies can request right to change rates on short notice 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.	*Rates and earnings not reviewed* for other incumbents with fewer than 50,000 lines. PUC can review rate changes if the lower of 10 percent of affected ratepayers petition for review.	*Rates not reviewed*.
PA	**All**: *Price caps (2002)*. Basic services under indexed caps. Competitive services flexibly priced. Revenue-neutral rate rebalancing permitted. All telcos were required to restructure their access charges so fixed costs would be recovered through flat rates. A Dec. 2004 state law ended productivity offsets in price cap indexing formulas if telcos agreed to shorten an original 2015 broadband deployment deadline to 2008. All but four small companies agreed.		*Rates flexibly regulated*. A Dec. 2004 state law capped CLEC access charges at incumbents' level and freed CLECs from Lifeline and residential service obligations unless they are receiving federal universal service subsidies.
RI	**Verizon**: *Price caps (2003-2005)*. Basic residential service under nonindexed caps 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 any point above cost floors. Plan expired in December 2005.	No other incumbents	*Rates reviewed, but normally not questioned*.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 1
STATE RETAIL RATE REGULATION OF LOCAL EXCHANGE COMPANIES
(AS OF SEPTEMBER 2005) - *Continued*

State	Large Incumbents	Other Incumbents	CLECs
SC	**BellSouth:** *Price caps (1999)*. Nonindexed price caps for basic service. Other services flexibly priced. Cumulative effect of all rate changes cannot increase total revenue more than 5 percent per year. Rate deregulation for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle. **Sprint and Verizon**: *Price caps (1999)*. 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 percent per year. Rate deregulation for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle.	*Price caps (2004)*. 2004 state law established optional price cap system for other incumbents. Eleven incumbents opted in. Basic residential and business services capped at statewide average rates. Other nonbasic under caps indexed to national CPI. Price flexibility, subject to revenue cap for competitive basket equal to 5 percent annually. 2005 state law deregulated rates for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle. *ROR*. Remaining other incumbents.	*Rates not reviewed*. Certified CLECs must seek "presumptively valid" tariffing status to receive minimal regulation.
SD	**Qwest**: *Deregulation (2003)*. All retail rates for Qwest were deregulated statewide based on competition.	*Rates not reviewed (1987)*. State law allows for reregulation if petitioned by most customers. Power has not been used.	*Rates not reviewed*.
TN	**BellSouth, Citizens Telecom, and Sprint:** *Price caps (1996)*. Indexed price caps (lesser of one-half GDP-PI or GDP-PI - 2 percent) for all services. Rate deregulation of bundled services and customer-specific service contracts of price-regulated incumbents.	*ROR*. Option to switch to price caps or other alternatives to ROR, but have not done so.	*Rates not reviewed*.
TX	**SBC, Verizon, Sprint, Valor Telecom**: *Price caps (1999-2007)*. Residential basic, 911, Lifeline and carrier access under nonindexed caps. All other services flexibly priced, except for ban on below-cost pricing. Intrastate access charges to be reduced to interstate levels. A 2005 state law gives incumbents option of new program that will deregulate retail rates of all providers in cities over 100,000 population effective Jan. 1, 2006. Law is being challenged in state courts and effective dates may be stayed.	*Price caps (1999-2007).* Cap system same as SBC and other large incumbents. Law will deregulate rates in communities between 30,000 and 100,000 population on Jan. 1 if there are two landline and one wireless carrier competing against incumbent. Rates in communities under 30,000 will be deregulated Jan. 1, 2007 except where PUC determines meaningful competition is lacking.	*Rates not reviewed*.
UT	**Qwest**: *Price caps (2005)*. Nonindexed caps for residential basic exchange. Service capped at current rates through 2007. Rates for all other retail services deregulated. After 2007, PSC must lift residential cap in exchanges where local competitors offer residential basic exchange.	*Streamlined ROR*. Earnings and rate changes for other incumbents (all with fewer than 30,000 lines) get speedy administrative review through expedite process. But if 10 percent of ratepayers challenge result, full rate case is held. Other incumbents have option to switch to deregulation regime prescribed in the 2005 law.	*Rates flexibly regulated*.
VT	**Verizon**: *Price caps (2005-2008)*. All noncompetitive services under nonindexed caps set at levels prevailing in April 2005. $8.18 million in retail rate reductions at the outset of the plan. Rate reductions can be offset by increased broadband rollout. Price flexibility for new competitive services. New plan extended through 2008.	*Streamlined ROR*. 2005 state law allows state's nine other incumbents to increase rates 9 percent total over three years without rate case, but basic service rates can't rise first year. Carriers can seek additional increases from regulators to cover external cost increases such as tax hikes or weather disasters.	*Rates flexibly regulated*. PSB considering rule changes to lighten CLEC regulation.
VA	**Verizon VA/Verizon South:** *Price caps (2005)*. Basic service rates capped at 1994 levels, adjusted annually for inflation as measured by GDP-PI. Nonbasic rates can rise up to 10 percent the first year and additional 1 percent each additional year this program runs. Revenue-neutral price changes can be sought any time, providing no single increase exceeds the lesser of 25 percent or the basic-service rate cap, and providing at least a year has passed since the last rate increase. Price cuts are subject to cost floor. **Sprint Telcos**: *Price caps (1995)*. Basic services under indexed caps (one-half GDP-PI). Discretionary services indexed (GDP-PI). Competitive services flexibly priced.	*Rate deregulation*. 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.	*Some rates regulated*. Rates are capped at incumbent's rate unless regulatory waiver is obtained.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 1
STATE RETAIL RATE REGULATION OF LOCAL EXCHANGE COMPANIES
(AS OF SEPTEMBER 2005) - *Continued*

State	Large Incumbents	Other Incumbents	CLECs
WA	**All**: *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 and for all retail business telecom services in 2004.		*Rates flexibly regulated*.
WV	**Verizon:** *Incentive regulation*. Basic rates under nonindexed caps, vertical services allowed to rise by rate of inflation (GDP-PI), competitive services rates deregulated. **Frontier Communications**: *Incentive regulation*. Basic rates capped, vertical services allowed to rise by rate of inflation (GDP-PI); company can request rate deregulation for competitive services.	*ROR*.	*Rates flexibly regulated*.
WI	**SBC:** *Price caps (1994)*. Indexed price caps for noncompetitive services (GDP-PI - 3 percent); the 3 percent X-factor applies to companies with more than 500,000 access lines. Competitive services flexibly priced. The PSCW removed small business (one to three lines) from price regulation in 2004 after a competitive showing. The PSCW removed residential service in urban and suburban areas from price regulation in 2005 after a competitive showing. This increased SBC's rate flexibility for these services. **Verizon**: *Price caps (1995)*. Indexed price caps for noncompetitive services (GDP-PI - 2 percent); the 2 percent X-Factor applies to companies with less than 500,000 access lines. Competitive services flexibly priced.	*Flexible regulation*. 26 under some form of *price-based regulation*; 42 under *streamlined ROR* with some degree of price flexibility but no earnings reviews unless they seek rates above statewide averages; two under *traditional ROR;* 12 telephone cooperatives are *not rate regulated*.	*Rates not reviewed*.
WY	**All Incumbents**: *Rates not reviewed* (*Cost-based pricing flexibility - 2003)*. Retail service rates to be set above TSLRIC cost floor. But an incumbent that prices basic local service above statewide benchmark rate of $23.10 monthly may face review of its state universal service support.		*Rates not reviewed*. Rate change of fully facilities-based CLECs could be subject to regulatory staff review, but such carriers are not currently operating in the state.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 2

CHANGES IN STATE RETAIL RATE REGULATION OF INCUMBENT LOCAL EXCHANGE COMPANIES (OCTOBER 2004 TO SEPTEMBER 2005)

STATE	COMPANY	CHANGES
AL	All incumbents	2004 state law allows incumbents starting this year to opt into more-flexible capping system that bases rate regulation on population density. Plan deregulates retail rates other than residential basic exchange in dense urban areas. In less-dense suburbs, rate increases limited to 15 percent annually through 2006, 20 percent in 2007 and 25 percent afterward. In rural areas, increases limited to 5 percent through 2007, gradually rising to 15 percent by 2010. 2005 state law gave incumbents option of regime that will deregulate bundled and contract services statewide in summer 2006 and, starting 2008, allow incumbents facing at least two local competitors to opt out of state retail rate regulation. PSC has opened proceeding to reevaluate its entire regulatory scheme, in hopes of enticing at least some incumbents to remain under state rate regulation.
AK	All incumbents	Regulators in Sept. 2005 adopted new rules that designate as competitive any market where a facilities-based wireline carrier is providing local service in competition with the incumbent.
AZ	Qwest	Noncompetitive services can rise up to 25 percent per year. Staff in August 2005 recommended extending price cap program through 2007 and allowing Qwest $43.3 million in rate increases for nonbasic services over three-year span to correct revenue deficiency. In return, Qwest would abandon its May 2004 proposal for rate-deregulated competitive zones in state's major cities and drop litigation over a $12 million productivity adjustment ordered in April 2005. Decision possible before end of 2005.
AR	SBC	SBC in late 2004 and early 2005 received basic exchange rate deregulation in its competitive urban markets.
CA	SBC, Verizon, Surewest Telecom, Citizens Telecom/Frontier	PUC is reviewing price cap regulation programs for all four incumbents, aiming to eliminate retail rate regulation other than for basic exchange service of larger incumbents.
	Other incumbents	PUC required that if earnings-regulated small incumbents want to continue receiving state high-cost subsidies, it must file a rate case within five years of their last case. Otherwise their state high-cost support will be phased out.
CO	Qwest	New plan adopted in June 2005. Basic exchange on first residential line and first five business lines under nonindexed caps. Statewide deregulation of interexchange service rates; rates for business services to customers over five lines and optional or discretionary services deregulated in state's five largest cities and in any other market where sufficient competition can be demonstrated. Under the 2005 new regulatory plan, Qwest is only subject for penalties for two service quality metrics: out of service for 24 hours or more (direct payment to affected customer with no maximum penalty amount per year) and access to repair centers (with a maximum penalty of $250,000 per year).
CT	Verizon	Regulators in August 2005 tentatively affirmed contested December 2004 decision to continue Verizon price flexibility through 2007; final decision was approved by the commissioners on Aug. 31, 2005.
DE	Verizon	In June 2005, PSC concluded review of plan by extending it unchanged until September 2011. No special conditions imposed.
DC	Verizon	Plan was to have expired in April 2004; extended to end of 2006 under settlement that gave Verizon a small local rate increase.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 2

CHANGES IN STATE RETAIL RATE REGULATION OF INCUMBENT LOCAL EXCHANGE COMPANIES

(OCTOBER 2004 TO SEPTEMBER 2005) - *Continued*

STATE	COMPANY	CHANGES
FL	BellSouth, Verizon, Sprint	PSC in December 2003 approved plan to give the three companies $355 million total in local rate increases. Increases were stayed by the Florida Supreme Court and finally upheld in June 2005. BellSouth, Verizon and Sprint filed (Sept. 16, 2005) for increases in basic services and for an intrastate access charge decrease, effective Nov. 2005. The companies may file for another increase in basic services and decrease in intrastate access charge effective one year after the effective dates of 2005 rebalancings.
HI	Verizon	Verizon Hawaii's wireline operation was sold to NY-based Carlyle Group in transaction that closed May 2005, renamed Hawaiian Telcom and reorganized. PUC sale-approval condition PUC required new owners to not file general rate case before 2009. New company remains under ROR.
ID	Qwest	Passage of a state law effective in June 2005 changed basic exchange to customers under five lines from rate-of-return regulation to temporary price caps that limit annual rate increases to 10 percent. Caps will expire in 2008, unless PUC extends them to 2010. After caps expire, basic exchange will be deregulated.
IL	SBC	Rate freeze of residential rates lifted. Residential rates are now under caps indexed to GDP-PI minus 3 percent, similar to other noncompetitive services.
IN	SBC	Following plan ending in 2007, all other retail services and all service bundles are considered competitive and rate deregulated except for floor set at cost plus 10 percent.
	Verizon	Plan ending in 2007 sets basic local rates under nonindexed caps. Company can impose single 25¢ increase for vertical services in 2006. Deregulation for all other retail services and service bundles, considered competitive. Price floor set at cost plus 10 percent.
	Sprint	Plan ending in 2007 deregulated rates for all service bundles and retail services, with the exception of basic residential, small business and vertical services. Floor price set at cost plus 10 percent.
IA	Qwest	2005 state law deregulated retail rates except for single-line basic exchange service. Single-line basic exchange under caps. Rates can rise by $1 per year residential or $2 per year business up to a statewide cap of $19 monthly for residential service and $38 for business service. Full rate deregulation allowed in any market where competitive alternatives exist. To March 2006, 40 communities had been deregulated under Dockets Nos. INU-04-1 and INU-05-2.
KS	SBC	Companies can petition for rate deregulation of competitive services in markets where competition exists. In June 2005 SBC was granted rate deregulation for multiline business services, Plexar access lines, and Digital Loop Service in Wichita; for bundled services in Kansas City and Wichita; and flat rate business trunks, Smart Trunks and Digital Loop Super Trunk Option in Kansas City, Wichita, and Topeka. (Docket No. 05-SWBT-997-PDR).
KY	BellSouth	Basic service rates now under caps indexed to GDP-PI.
	Cincinnati Bell	To mirror the regulatory plan for Cincinnati Bell in Ohio, the company adopted Ohio's generic price cap plan in late 2004. New plan freezes rates for basic local; rates for some vertical services and specialty business service rates are frozen only through 2006 and then allowed to increase up to cap set at double the initial rate.
LA	BellSouth	In 2004, the company fulfilled its DSL infrastructure investment requirements, making DSL available throughout its service area. After 2006, BellSouth may raise basic service rates up to 10 percent a year in urban markets with competition.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 2

CHANGES IN STATE RETAIL RATE REGULATION OF INCUMBENT LOCAL EXCHANGE COMPANIES

(OCTOBER 2004 TO SEPTEMBER 2005) - *Continued*

STATE	COMPANY	CHANGES
ME	Verizon	PUC in March 2005 opened docket on successor plan. First phase will determine starting revenue requirement and rates for successor plan; Second will address specifics of new price regulation plan. Proceeding in discovery phase, with initial briefs scheduled for fall 2005. Current plan expires July 2006.
	Other incumbents	PUC in June opened investigation into petitions for price-based regulation from Pine Tree Telephone and Saco River Telephone, both Country Road Communications affiliates. First phase will address whether to consider alternative regulation; Second, specific plans. Schedule not set.
MD	Verizon	PSC has open docket to consider price cap indexing adjustments for 2002 and 2003, but expanded in 2004 into general review of price cap program. Verizon has proposed elimination of productivity offset, and rate deregulation of toll and local business services. Record completed in spring 2005. On Nov. 23, 2005, PSC adopted a settlement agreement (Case Nos. 8745, 8918 and 8937) that increased basic service rates by a modest amount, imposed a subsequent two-year cap and constrained post-cap increases to be no higher than the rate of inflation.
MA	Verizon	Basic residential local service and analog private lines under nonindexed caps. All other retail services under pricing flexibility. Rates can move anywhere above wholesale floor.
MI	SBC, Verizon, other incumbents, CLECs	In August 2005 PSC approved rate deregulation for retail services of all telecom providers in state's 30 largest cities, effective late October 2005, after customers receive notice. The Order has been appealed to state courts. Regulation of all providers may be affected by Dec. 2005 Michigan Telecom sunset and legislature's response. On Nov. 21, 2005 Governor Jennifer M. Granholm signed into law PA 235, which amends PA 179 of 1991 entitled "Michigan Telecommunications Act." The effective date is Nov. 22, 2005. The amended Act has new provisions for services that are rate regulated and how they are rate regulated. This information will be included in the next update.
	Other incumbents	Since 2002, 22 incumbent companies under rate freeze have been allowed to adjust their rates so they could respond to customer demand for expanded calling areas.
MN	Qwest	Price cap plan extended two years until December 2005 by a 2004 state law. Qwest and the state are negotiating a new regulatory plan to become effective in 2006.
	Sprint	Sprint's plan was to have come up for review this fall but telco has asked it be extended through 2006 without change.
	Other incumbents	Two other small incumbents opted for flexible pricing in 2005. As of September 2005, 67 of 83 eligible carriers had opted for this regime.
MO	SBC, Sprint, Century Tel, Spectra/Century	Nonbasic services can rise up to 5 percent annually down from 8 percent in last report. 2005 legislature passed law (effective August 2005) deregulating rates for bundled services and for stand-alone services in any exchange where two or more local competitors operate. SBC sought competitive status for roughly 2/3 of its 160 exchanges. Sprint filed for five exchanges, CenturyTel for 15 and Spectra for five. All these petitions were to be decided by end of October 2005.
	Other incumbents	BPS Telephone 2004 petition for switching to caps under the old law was denied. A 2005 state law allows other incumbents to seek rate deregulation in any exchange where two or more local competitors operate. Only Alltel Communications has requested price cap status under the new law and its request was granted (effective Oct. 14, 2005).
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, not the agency. Lower court sided with Qwest in fall 2004 but PSC appealed further. Case is pending.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 2

CHANGES IN STATE RETAIL RATE REGULATION OF INCUMBENT LOCAL EXCHANGE COMPANIES (OCTOBER 2004 TO SEPTEMBER 2005) - Continued

STATE	COMPANY	CHANGES
NE	All incumbents	Basic exchange rate increases exceeding 10 percent get automatic review, unless telco has under 5 percent of state total access lines, in which case review threshold is 30 percent.
NE	CLECs	Rate changes aren't reviewed, except if a basic exchange increase exceeds 30 percent.
NV	Sprint	Impending spin-off of Sprint's local exchange operations to LTD Holdings under terms of Sprint-Nextel merger isn't expected to change nature and duration of regulatory plan. Sprint filed spin-off plan in August and PUC is expected to complete its review by end of 2005.
NH	All incumbents	State law effective July 1 2005 gave incumbents other than Verizon option of same regulation as CLECs if they prove to PUC most customers have access to competitive wireline, wireless or IP-based service providers.
NJ	Verizon	Plan reviewed in 2005. Statewide basic residential and business caps restructured in 2005, fixed at $8.95 (residential) and $15.00 (business). Business rates for customers with two or more lines deregulated. Other competitive service rates deregulated. 2005 restructured plan continued investment and service qual. requirements, as well as requirement for Verizon to provide public schools and libraries discounted monthly rates for high-speed Internet access until 2014.
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 early 2005, staff concluded Qwest would fall $288 million short of investment commitment and suggested sanctions. Qwest requested more time or reduced investment requirement and appealed to state and federal courts. Matter is pending.
NM	Valor	A 2004 state law requires Valor's cap program to include some form of indexing for adjusting caps, starting in 2006.
NY	Frontier Telephone of Rochester	Frontier's price cap plan expired at the end of 2004, when it defaulted to fully tariffed ROR.
NC	BellSouth	Price cap plan adopted in April 2005 to replace expired 1996 plan. Basic service charges can rise up to 10 percent, subject to revenue cap for basic basket equal to 1.5 times annual GDP-PI. Vertical and nonbasic services can rise up to 20 percent, subject to basket revenue cap equal to 2.5 times annual GDP-PI. Competitive services' rates deregulated. Effective December 2005, all BellSouth business services will be classed as competitive -- except basic exchange and installation, classed competitive in December 2006.
NC	Verizon	New cap plan adopted in Spring of 2005. Basic service rates can rise up to 10 percent subject to basic basket revenue cap of 1.5 times annual GDP-PI. Vertical and nonbasic services can rise up to 20 percent, subject to basket revenue cap equal to 2.5 times annual GDP-PI. Competitive services' rates deregulated.
NC	Sprint (i.e. Carolina Telephone and Telegraph and Central Telephone Co.)	New cap plan adopted in spring of 2005. Sprint basic services can rise up to 12 percent subject to basic-basket revenue cap equal to annual GDPPI. Vertical and nonbasic services can rise up to 20 percent, subject to basket revenue cap equal to 2.5 times annual GDP-PI. Competitive services' rates deregulated.
NC	Other incumbents	Concord Telephone revised price-based plan, similar to the new programs for BellSouth, Verizon and Sprint, became effective in September 2005. Altell filed a stipulated new price cap on Oct. 18, 2005, which was approved on January 2006 and became effective on March 15, 2006. Randolph Telephone requested price-based regulation in 2005 and its new plan became effective on Jan. 1, 2006.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 2

CHANGES IN STATE RETAIL RATE REGULATION OF INCUMBENT LOCAL EXCHANGE COMPANIES

(OCTOBER 2004 TO SEPTEMBER 2005) - *Continued*

STATE	COMPANY	CHANGES
ND	Qwest	Business basic exchange and additional residential lines were removed from nonindexed caps by state law (August 2005).
OH	Alltel, Western Reserve	Companies opted for generic alternative price regulation framework PUC adopted April 2002. Plan freezes basic local rates indefinitely. Rates for certain vertical services and specialty business services frozen two years from effective date of each individual telco's plan and then can increase up to double initial rate. All other retail rates flexibly priced.
OK	SBC	Regulators in July 2005 approved new regulation plan that would allow SBC to set retail rates at any point above cost floor except in rural areas where local rate increases were limited to $2 per year. Order required SBC to expand DSL availability in rural areas. Order was stayed pending outcome of CLEC appeals to state Supreme Court, where case is pending.
PA	All incumbents	A December 2004 state law ended productivity offsets in price cap indexing formulas if telcos agreed to shorten the original 2015 broadband deployment deadline to 2008. All but four small companies agreed. That law also allowed incumbents to self-certify that a service is competitive and exempted rural telcos under 50,000 lines from many competition obligations, effectively limiting rural competition to facilities-based providers.
	CLECs	A December 2004 state law capped CLEC access charges at incumbents' level and freed CLECs from Lifeline and residential service obligations unless they are receiving federal universal service subsidies.
RI	Verizon	Verizon's plan expired in December 2005. PUC opened docket on successor plan; Verizon filed proposal in September 2005.
SC	BellSouth, Sprint and Verizon	2005 state law deregulated rates for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle.
	Other incumbents	2004 state law established optional price cap system for other incumbents. Eleven incumbents have opted for this system. Basic residential and business services capped at statewide average rates. Other nonbasic under caps indexed to national CPI. Price flexibility, subject to revenue cap for competitive basket equal to 5 percent annually. 2005 state law deregulated rates for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle.
TN	BellSouth, Sprint, Citizens Telecom	2005 state law deregulated retail rates for bundled services and customer-specific service contracts of price-regulated incumbents.
TX	All incumbents	A 2005 state law gives incumbents option of new program that will deregulate retail rates of all providers in cities over 100,000 population effective Jan. 1, 2006. Law will deregulate rates in communities between 30,000 and 100,000 population on January 1 if there are two landline and one wireless carrier competing against incumbent. Rates in communities under 30,000 will be deregulated Jan. 1, 2007 except where PUC determines meaningful competition is lacking. Law also vests video franchising authority with state, not municipalities. Law is being challenged in state courts and effective dates may be stayed. In February 2006, the PUC refused to reconsider its decision to deregulate retail rates in 14 mid-size local markets.
UT	Qwest	A 2005 state law replaced a price cap regime established in 1997. The new system caps residential basic exchange at current rates through 2007 and deregulates all other retail service rates. After 2007, PSC must lift residential cap in exchanges where local competitors offer residential basic exchange. In 2004 and 2005 Qwest continued winning significant retail rate deregulation in more populated areas because of competition (about 85 percent of total business lines and about 50 percent of residential lines).
	Other incumbents	Other incumbents have option to switch to deregulation regime prescribed in the 2005 law.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 2

CHANGES IN STATE RETAIL RATE REGULATION OF INCUMBENT LOCAL EXCHANGE COMPANIES (OCTOBER 2004 TO SEPTEMBER 2005) - *Continued*

STATE	COMPANY	CHANGES
VT	Verizon	Carrier completed $16.5 million in rate cuts over life of plan and provision of free T-1 service to 56 high-schools expired in April 2005. New plan was approved in 2005. Nonindexed caps for basic and other noncompetitive services set at levels prevailing in April 2005. $8.18 million in retail rate reductions at the outset of the plan. Rate reductions can be offset by increased broadband rollout to unserved areas. Price flexibility for new competitive services.
	Other incumbents	Other incumbents under new streamlined ROR. 2005 state law allows state's nine other incumbents to increase rates 9 percent total over three years without rate case, but basic service rates can't rise first year. Carriers can seek additional increases from regulators to cover external cost increases such as tax hikes or weather disasters. Law sunsets July 2008.
VA	Verizon VA and Verizon South	New price cap plan caps basic service rates at 1994 levels, adjusted annually for inflation as measured by GDP-PI. Nonbasic rates can rise up to 10 percent the first year and additional 1 percent each additional year this program runs. Revenue-neutral price changes can be sought any time, providing no single increase exceeds the lesser of 25 percent or the basic-service rate cap, and providing at least a year has passed since the last rate increase. Price cuts are subject to cost floor. The new plan eliminates previous link between price increases and service quality performance of local exchange service.
WA	Qwest	In 2004 Qwest received statewide deregulation for all retail business telecom services. In March *2006* Qwest expressed an interest in negotiating an AFOR plan with the WUTC. The WUTC is organizing a process that would include all interested parties in those discussions.
	Verizon	In April 2005 Verizon settled a rate case requesting $240 million increase; the company only received $38.6 million.
WV	Verizon	Verizon in 2004 received approval to add 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. Incentive regulation plan expires at year-end 2005. PSC staff and Verizon planned to meet in August 2005 to discuss extension or replacement of plan.
	Frontier Communications	PSC extended the company's program in May 2005 until end of 2012. Basic rates capped , vertical services allowed to rise by rate of inflation (GDPPI), company can request rate deregulation for competitive services. Extension order requires Frontier to invest $116 million over next seven years in infrastructure, contribute $132,000 per year to public benefit projects approved by State Telecommunications Users Council and reduce intrastate access charges to interstate levels.
WI	SBC	In late 2004, regulators reclassified SBC's basic business and toll services as competitive and in late 2005 reclassified SBC's residential service as competitive in city and suburban market areas.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005)

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 and access rates)	Can rise up to 10 percent per year, in aggregate, with rate design subject to PSC review.		Not regulated				2004 state law allows incumbents starting this year to opt into more-flexible capping system that bases rate regulation on population density. Plan deregulates retail rates other than residential basic exchange in dense urban areas. In less-dense suburbs, rate increases limited to 15 percent annually through 2006, 20 percent in 2007 and 25 percent afterward. In rural areas, increases limited to 5 percent through 2007, gradually rising to 15 percent by 2010. 2005 state law gave incumbents option of regime that will deregulate bundled and contract services statewide in summer 2006 and, starting 2008, allow incumbents facing at least two local competitors to opt out of state retail rate regulation. PSC has opened proceeding to reevaluate its entire regulatory scheme, in hopes of enticing at least some incumbents to remain under state rate regulation.
AK	Large incumbents (more than $500,000 annual revenue)	Streamlined rate of return (1992)					Revenues from services in competitive markets still count in rate-of-return calculations			Rate boosts up to 6 percent 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 or where a facilities-based wireline local service provider competes with incumbent), incumbents can cut rates on 30 days' notice without prior state approval but any increase back to previous level may be subject to sate review. They can also set limited-duration promotional rates to match competition without prior state approval.	Regulators in September 2005 adopted new rules that designate as competitive any market where a facilities-based wireline carrier is providing local service in competition with the incumbent.
	Small incumbents (less than $500,000 annual revenue)	Streamlined rate of return (1992)					Revenues from services in competitive markets still count in rate-of-return calculations			Rate boosts up to 6 percent 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 or where a facilities-based wireline local service provider competes with incumbent), incumbents can cut rates on 30 days' notice without prior state approval but any increase back to previous level may be subject to sate review. They can also set limited-duration promotional rates to match competition without prior state approval.	Regulators in September 2005 adopted new rules that designate as competitive any market where a facilities-based wireline carrier is providing local service in competition with the incumbent. 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.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - *Continued*

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 percent	Noncompetitive services can rise up to 25 percent per year.	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.		Notice to affected customers within 60 days of the effective date of any changes in tariffs (A.A.C. R14-2-504). The commission 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. Staff in August 2005 recommended extending price cap program through 2007 and allowing Qwest $43.3 million in rate increases for nonbasic services over three-year span to correct revenue deficiency. In return, Qwest would abandon its May 2004 proposal for rate-deregulated competitive zones in state's major cities and drop litigation over a $12 million productivity adjustment ordered in April 2005. Decision possible before end of 2005.
	Other incumbents	ROR		Fully tariffed ROR. No pricing flexibility allowed.			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 percent of GDP-PI (basic exchange and switched access)	Deregulation		Not regulated			Companies can request basic exchange rate deregulation in exchanges with effective local competition. SBC in late 2004 and early 2005 received basic exchange rate deregulation in its competitive urban markets. Alltel hasn't sought basic exchange rate deregulation.	
	Century Tel	ROR		ROR regulation							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 February 2003 carrier filed rate case seeking $35 million increase, only a 12 percent 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 percent or $2 per line monthly.	Deregulation		Not regulated				Century Tel's original 45,000-line Arkansas operation is under that cap system.
CA	SBC, Verizon, Surewest Telecom, Citizens Telecom/ Frontier	Price caps (1990)	None	Rate freeze, except for cost-justified changes		Price flexibility	SBC and VZ earnings not regulated since 1999 when profit sharing was suspended. Other telcos must share earnings over 11.5 percent.				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 price cap regulation programs for all four incumbents, aiming to eliminate retail rate regulation other than for basic exchange service of larger incumbents.
	Other incumbents	ROR		Fully tariffed ROR							Seventeen other incumbents are under this regime. In 1997 PUC established a one-time schedule to ensure rates of each small incumbent were reviewed. PUC required that if earnings-regulated small incumbents want to continue receiving state high-cost subsidies, it must file a rate case within five years of their last case. Otherwise their state high-cost support will be phased out.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - *Continued*

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					
CO	Qwest	Price caps (2005)	Qwest extended until deregulatory application is complete	Nonindexed caps for basic exchange on first residential and first five business lines.	Price deregulation for interexchange service rates statewide. Rates for business services to customers over five lines and optional or discretionary services deregulated in state's five largest cities and in any other market where sufficient competition can be demonstrated.		Not regulated	None	14 days notice for rate changes, either increases or decreases	Company was liable for up to $15 million in annual penalties for failure to meet plan's service quality goals. Qwest paid $11.2 million penalty for 2000, $4.1 million for 2001, $2.2 million for 2002 and $2.27 million in 2003. Under the 2005 new regulatory plan, Qwest is only subject for penalties for two service quality metrics: out of service for 24 hours or more (direct payment to affected customer with no maximum penalty amount per year) and access to repair centers (with a maximum penalty of $250,000 per year).	New system adopted in June 2005 to replace expired 1999 plan. Although an X-Factor is included in Colorado's state law, it has not been enacted or analyzed in the state's PUC regulation.
	Other incumbents	ROR		Fully tariffed ROR							Option to petition for earnings-based or price-based alternative regulation systems but none have done so.
CT	SBC (SNET)	Price caps (1996-2006)	2006 review	Caps indexed to GDP-PI. X-Factor= 5 percent. Caps levels don't change unless GDP-PI exceeds 5 percent per year, when caps can rise by half the amount over 5 percent.		Price flexibility	Not regulated		Competitive services: five 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.	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 (1999-2007)	2007 review	Price flexibility			Not regulated		Same as SBC		Verizon in 2003 proposed change to price caps, but later withdrew application. Regulators in August 2005 tentatively affirmed contested Dec. 2004 decision to continue Verizon price flexibility through 2007; final decision was approved by the Commissioners on Aug. 31, 2005. 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		No pending proceedings.
DE	Verizon	Price caps (1994-2011)	September 2011	Caps indexed to GNP-PI minus 3 percent productivity-gain offset.		Price flexibility	Not regulated		Notice to Commission for review. Basic service: 60 days; discretionary services: 20 days; competitive services: three days	No special conditions imposed.	Verizon's September 2002 long distance entry triggered 2003 review of plan. Verizon proposed alternative cap program but settled for extension of current plan until September 2006 because of federal regulatory uncertainties. In June 2005, PSC concluded review of plan by extending it unchanged until September 2011.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3

DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS

(AS OF SEPTEMBER 2005) - *Continued*

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					
DC	Verizon	Price caps (2006)	2007	Rate freeze: Residential dial tone until Dec. 31, 2005. 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 and business rates may be increased by up to 10 percent each year, but percentage revenue can't exceed annual inflation rate.	Discretionary services may be increased by up to 15 percent annually.	Not rate regulated, except that they must be priced above incremental cost.	Not regulated		All Basic and Discr.: 30 days for comment; 15 days for reply comment. Comp. serv.: 14 days. Serv. Reclassification: After NOPR, 30 days for comments and ten days for reply comments. PSC issues order within 60 days after publ. Serv. withdrawals: *Discr. and comp. serv.* on 30 days notice to comm'n; *basic serv.* needs comm'n approval; application deemed approved 60 days after publication.		Plan was to have expired in 200, but was extended through the end of 2006 under settlement that gave Verizon a small local rate increase.
FL	BellSouth, Verizon, Sprint	Price caps (1995 statute)	None	Caps indexed to GDP-PI minus 1 percent.	Rates for nonbasic services categories can be increased up to 6 percent per year in noncompetitive markets.	Nonbasic services categories can be increased up to 20 percent per 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 Jan. 1, 1996. A 2003 state law permitted major rate rebalancing to shift hundreds of millions of dollars from access charges onto local rates and allowed basic services to be regulated like others after two years (three years for Sprint). PSC in Dec. 2003 approved plan to give the three companies $355 million total in local rate increases. Increases were stayed by the FL Supreme Court and finally upheld in June 2005. BellSouth filed (Sept. 16, 2005) for an increase in basic services with an effective date of Nov. 5, 2005 and for an intrastate access charge decrease effective Nov. 1, 2005. Verizon and Sprint filed (Sept. 16, 2005) for a basic services increase and intrastate access charge decrease, both effective on Nov. 1, 2005. The companies may file for another increase in basic services and decrease in intrastate access charge effective one year after the effective dates of 2005 rebalancings.
	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.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - *Continued*

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					
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.			
	Other incumbents	Price caps (1996)						No infrastructure investment requirements			Other incumbents can elect price cap regulation under program similar to BellSouth, but without infrastructure requirements. As of September 2005, 75 percent of the state's 34 other incumbents have elected price caps. The rest remain under fully tariffed ROR.
HI	Hawaiian Telcom	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.		Formerly Verizon-Hawaii. Some of Verizon's rates have been adjusted to reflect cost shifts, but no full rate case has occurred since 1997. Wireline operation was sold to NY-based Carlyle Group in transaction that closed May 2005, renamed and reorganized. PUC sale-approval condition PUC required new owners to not file general rate case before 2009.
ID	Qwest	Price Caps on basic exchange services; Deregulation (1989) for all other services		Nonindexed price cap: Basic local exchange under five lines. Annual rate increases limited to 10 percent.	Deregulation for all retail service rates except basic local exchange provided to accounts with fewer than five lines.		Not regulated		Price regulated services: Ten days notice for commission and customers; regulated services: 30 days notice for commission and ten days for customers.	Qwest petitioned unsuccessfully in 2003 for full rate deregulation in its seven largest Idaho exchanges. Its request in 2004 for statewide basic exchange deregulation through legislature was also unsuccessful. Passage of a state law effective in June 2005 changed basic exchange to customers under five lines from rate-of-return regulation to temporary price caps. Caps will expire in 2008, unless PUC extends them to 2010. After caps expire, basic exchange will be deregulated.	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.
IL	SBC	Price caps (1995)	None	Caps indexed to GDP-PI minus 3 percent. Telecom reform law passed in July 2001 changed retail rate structure for residential and single-lined business customers to require that three grades of flat-rate local service be offered at regulated rates.		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 three 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							Telecom reform law passed in July 2001 changed retail rate structure for Verizon's residential and single-lined business customers, requiring three grades of flat-rate local service. No pending proceedings to change ROR status.

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TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - *Continued*

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	SBC	Price caps (2004-2007)	November 2007	Nonindexed caps for basic residential and business services to customers below five 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 percent of shared and common costs.	Increases for vertical services limited to 38¢ per feature yearly. All other retail services and all service bundles are considered competitive and rate deregulated except for floor set at cost plus 10 percent.		Not regulated	Company must make DSL available to 77 percent of customers by July 2008, with at least 30 percent of new deployment in rural areas.	Tier 1: Decreases 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 three days of notice, SBC and comm'n post details on their websites. If no objections received, change is "deemed approved." Tier 3: Changes effective no earlier than on the day after written notice to 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.
	Verizon	Price caps (2004-2007)	November 2007	Nonindexed caps for Tier 1 basic residential service.	Company can impose single 25¢ increase for vertical services in 2006. Deregulation for all other retail services and all service bundles considered competitive, except for floor set at cost plus 10 percent.		Not regulated	Company must make DSL available to 75 percent of customers before 2008, with 45 percent 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 three 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.	Plan required the elimination of rural zone charges to customers living far from central offices and for Verizon to waive certain nonrecurring installation charges for low-income customers by the end of 2004. Verizon was also required to 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.	Cumulative annual increases for vertical services limited to 8.75 percent of annual revenues for services in this basket; services must be priced at least 10 percent above TSLRIC. All other retail services and all service bundles considered competitive and rate deregulated except for floor set at cost plus 10 percent.		Not regulated	Sprint must make DSL available to 70 percent of customers before 2009.	Tier 2: Changes effective ten days after tariff filing, as long as they exceed TSLRIC plus 10 percent. 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		Pricing flexibility for investor-owned incumbents with fewer than 30,000 lines. Rate deregulation for telephone cooperatives.			Investor-owned incumbents with fewer than 30,000 lines may have their earnings subject to review.		Tariffs must be filed and rates are deemed approved the next day. Other ILECs fall under rate filing requirements for a "rate case".		

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - *Continued*

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 Communica-tions of Iowa, Iowa Telecom Services (see comment section)	Price caps (1995)	None	Single-line basic exchange under caps. Rates can rise by $1 per year residential or $2 per year business up to a statewide cap of $19 monthly for residential service and $38 for business service.	Deregulated (2005)		Not regulated	Iowa Telecommuni-cations 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 implemen-tation.	Full rate deregulation allowed in any market where competitive alternatives exist. To March 2006, 40 communities had been deregulated under Dockets Nos. INU-04-1 and INU-05-2. In the Frontier ILEC territory: Orange City and Oyens; Iowa Telecom: Armstrong, Belle Plaine (includes Luzurne), Bennett, Cambridge, Coon Rapids, Delmar, Forest City, Greene, Grundy Center (includes Holland), Guthrie Center, Harlan, Hartley, Lowden, Manning (includes Aspinwall), Marble Rock, Marengo, Oxford, Oxford Junction, Paullina (includes Germantown), Primghar, Reinbeck (includes Morrison), Saint Ansgar, Slater (includes Alleman and Sheldahl), Solon, Stacyville, Stanwood, Tiffin, and Wapello; and Qwest: Alta, Carter Lake, Council Bluffs, Laurens, Mapleton, Onawa, Osage, Spencer, Storm Lake, and Whiting.	The X-Factor (2.6 percent) 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 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)		Deregulated (1983)			Not regulated			Companies must keep current tariffs on file and give 30 days' notice of changes. Rate changes aren't reviewed, but changes to other terms and conditions of service receive regulatory staff review and may be questioned.	
KS	SBC, Sprint	Price caps (1998)	None. Formula reviewed every five years	All services under caps indexed to GDP-PI minus X-Factor of 3.15 percent on Basic Local for Res. and S-L Bus; 1.5 percent on Multiline Bus, vertical, and other retail		Price deregulation of Centrex, Speed Calling, operator services and directory asst. (SBC, 2002).	Not regulated	In 2004 SBC completed DSL deployment to exchanges with more than 1,000 lines, and near ubiquitous DSL service in eight cities.	For Comm. Review 21 days for new services; seven days for existing ones, and 30 days for rules and regulations.	Companies can petition for rate deregulation of competitive services in markets where competition exists. SBC in June 2005 was granted rate deregulation for bundled services in Kansas City and Wichita and for multiline business services in Wichita. Its bid for rate deregulation in Topeka was denied.	The 2006 Kansas Legislature is likely to pass SB350 that would expend deregulation, permitting SBC to receive price deregulation of all services in exchanges with 75,000 or more access lines. In exchanges with fewer than 75,000 access lines, companies will have to provide evidence that there are at least two competitive carriers, one of which must be facilities-based. Additionally, all bundles of services would be price deregulated immediately, with individual services available under price-cap regulated rates until the exchange qualifies for price deregulation.
	Other incumbents	ROR		Fully tariffed ROR			ROR		For Comm. Review 30 days for all tariff filings.		No pending proceedings to change regulatory situation.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - *Continued*

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	Basic service rates under caps. Access capped at interstate levels.		Deregulation	Not regulated		30 days notice period for rate changes		No X-Factor included in the price cap formula. In 2004, 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	Price caps (2004)		Rate freeze	Rate freeze through 2006 for some vertical services and specialty business services. After this period, rates can increase up to cap set at double initial rate.	Price flexibility	Not regulated		30 days notice period for rate changes		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 in 2004. The company in Kentucky adopted Ohio's system in late 2004.
	Alltel Kentucky	Price caps (2003)		Caps	Pricing flexibility		No earnings review		30 to 60 days notice period, depending on the rate being changed.		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 incumbent companies have the 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 August 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 basic services, except for rate changes intended to consolidate eight local rate groups into one by 2006. After 2006, BellSouth may 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. The infrastructure requirements were completed and DSL is available throughout BLS' service area.		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. Future reviews at PSC discretion.
	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.

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TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - *Continued*

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)	July 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 percent	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. PUC in March 2005 opened docket on successor plan. First phase will determine starting revenue requirement and rates for successor plan; second will address specifics of new price regulation plan. Proceeding in discovery phase, with initial briefs scheduled for fall 2005.
ME	Other incumbents	ROR		Fully tariffed							Underwent rate cases in 2003 to bring intrastate access charges down to interstate levels. PUC in June opened investigation into petitions for price-based regulation from Pine Tree Telephone and Saco River Telephone, both Country Road Communications affiliates. First phase will address whether to consider alternative regulation; second, specific plans. Schedule not set.
MD	Verizon	Price caps (1996), Revised 2005.	None	Rates for basic services capped at current levels until Nov. 23, 2007, then permitted to escalate at the rate of inflation as measured by GDP-PI.		Deregulation	Not regulated	By Sept. 30, 2006, Verizon must deploy DSL capability in 16 central offices that currently do not have broadband Internet access capability.		Verizon is required to offer and promote an enhanced Lifeline plan to eligible low income customers. Such plan consists of unlimited local calling for $10.00 per month.	PSC has open docket to consider price cap indexing adjustments for 2002 and 2003, but expanded in 2004 into general review of price cap program. Verizon has proposed elimination of productivity offset, and rate deregulation of toll and local business services. Record completed in spring 2005. On Nov. 23, 2005, PSC adopted a settlement agreement (Case Nos. 8745, 8918 and 8937) that increased basic service rates by a modest amount, imposed a subsequent two-year cap and constrained post-cap increases to be no higher than the rate of inflation.
MD	Other incumbents	ROR		Fully tariffed ROR							No pending proceedings to change status
MA	Verizon	Price caps (2003)	None	Basic residential local service and analog private lines under nonindexed caps.	All other retail services under pricing flexibility. Rates can move anywhere above wholesale floor.		Not regulated		Dept. has 30 days to review a tariff filing, but carriers may request expedited review. Carriers must give customers 30 days advance notice of price increases.	Plan requires Verizon to meet quality of service standards on pain of maximum annual penalty equaling 1 percent of intrastate retail revenues.	New alternative plan was approved June 2003.
MA	Other incumbents	ROR		Fully tariffed ROR							Four small ILECs. No proceedings pending.

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TABLE 3

DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS

(AS OF SEPTEMBER 2005) - *Continued*

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					
MI	SBC	Price caps (1995)	None	Caps indexed to Detroit-area CPI minus 1 percent. Rate cuts presumed competitive and not reviewed.		Deregulation	Not regulated				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 February 2003 following settlement agreement with state in December 2002 that waived rate freeze and allowed continued billing of state SLC at reduced rate. In August 2005 PSC approved rate deregulation for retail services of all telecom providers in state's 30 largest cities effective late October after customers receive notice. But order has been appealed to state courts. In November 2005, Governor Granholm signed into law PA 235, which amends the 1991 "Michigan Telecommunications Act" (PA 179). The amended Act, effective Nov. 22, 2005, has new provisions for services that are rate regulated and how they are rate regulated. Changes to be reported in next update.
	Verizon	Price caps (1995)	None	Caps indexed to Detroit-area CPI minus 1 percent. Rate cuts presumed competitive and not reviewed.		Deregulation	Not regulated				
	Other incumbents	Rate freeze (2000)		Local rate freeze		switched access charges deregulated				In return for switching from indexed price caps to local rate freeze, other incumbents obtained deregulation of their intrastate switched access charges and waiver of law's requirements for expanding local calling areas.	Incumbents other than SBC and VZ had option of switching from indexed price caps to local rate freeze. All elected to switch. Since 2002, 22 companies have been allowed to break freeze and adjust their rates so they could respond to customer demand for expanded calling areas. In August 2005, PSC approved rate deregulation for retail services of all telecom providers in state's 30 largest cities, effective late Oct., after customers receive notice. But order has been appealed to state courts. In November 2005, Governor Granholm signed into law PA 235, which amends the 1991 "Michigan Telecommunications Act" (PA 179). The amended Act, effective Nov. 22, 2005, has new provisions for services that are rate regulated and how they are rate regulated. Changes to be reported in next update.
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 competitive services). A 2004 law deregulated business rates in three major metropolitan areas.	Not regulated			Company must meet minimum service quality standards.	Plan was to have expired in 2003, but 2004 state law extended it until Dec. 2005. Qwest and the state are negotiating a new regulatory plan to become effective in 2006. The 2004 law deregulated business rates in three major metropolitan areas.
	Sprint, Frontier Comm's of MN	Price caps (1996)	None, but plans subject to periodic review	Nonindexed caps	Price flexibility (nonbasic and emerging competitive services)	Deregulated (fully competitive services).	Not regulated	Carriers must meet infrastructure investment requirements			Sprint's plan was to have come up for review this fall but telco has asked it be extended through 2006 without change.
	Citizens Telecom (formerly GTE)	ROR		Fully tariffed ROR							Citizens properties purchased from GTE in 1999. Terms of PUC's purchase approval order barred company from seeking alternative regulation for three years, but that provision expired in August 2002. Company has not proposed any alternative regulation option.
	Other incumbents (under 50,000 lines)	Price flexibility	None	Allowed to price basic services to market unless greater of 500 or 5 percent 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-seven of 83 eligible small incumbents have opted for flexible pricing program.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3

DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS

(AS OF SEPTEMBER 2005) - *Continued*

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					
MS	BellSouth	Price caps (1996-2007)	2007	Rate freeze. Access capped at interstate rates.	Service rates can increase up to 20 percent 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.		In June 2004, PSC completed midcourse review of program, and changed standards for appointment and repair timeliness. PSC requires for 77 percent of trouble reports to be repaired within 36 hours, rather than 60 percent of troubles fixed the same day. On-time appointment keeping was raised from 80 percent to 90 percent.	
	Other incumbents	ROR		Fully tariffed							No pending proceedings to change status
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 5 percent annually.	In 2001, SBC won local rate deregulation of certain large business services in St. Louis and Kansas City and of residential rates in two suburban St. Louis exchanges, plus inter-exchange services statewide. Deregulation (2005) of rates for bundled services and for stand-alone services in any exchange where two or more local competitors operate.	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.		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 percent 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 three competitive exchanges. In July 2004, SBC filed a petition for statewide rate deregulation of all retail services. SBC's bid became moot when 2005 legislature passed law (effective August 2005) deregulating rates for bundled services and for stand-alone services in any exchange where two or more local competitors operate. SBC sought competitive status for roughly 2/3 of its 160 exchanges. Sprint filed for five exchanges, CenturyTel for 15 and Spectra for five. All these petitions were to be decided by end of October 2005.
	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 from two wireless or landline providers. Alltel lost bid for caps in 2004 because competitors were not providing comparable services. BPS Telephone 2004 petition for switching to caps under the old law was denied. A 2005 state law allows them to seek rate deregulation in any exchange where two or more local competitors operate. Only Alltel Communications has requested price cap status under the new law and its request was granted (effective Oct. 14, 2005).

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3

DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS

(AS OF SEPTEMBER 2005) - *Continued*

State	ILEC	Regime	Expiration Date	Rate Regulation by Type of Service: Basic	Rate Regulation by Type of Service: Other Noncompetitive	Rate Regulation by Type of Service: Competitive	Earnings Regulation	Infrastructure Requirements	Rate/Service Notice	Other Plan Requirements	Comments
MT	Qwest	ROR		Rate-of-return regulation. 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				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, not the agency. Lower court sided with Qwest in fall 2004 but PSC appealed further. Case is pending.
MT	Rural telephone coop	Not subject to PSC regulation		Deregulated							All incumbents have option to petition for alternative forms of regulation but none have done so.
MT	Investor-owned incumbents	ROR		Rate-of-return regulation			Investor-owned incumbents under 12,000 lines have full pricing flexibility but earnings still count in ROR calculations.				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 percent, depending on telco size. Basic exchange rate increases exceeding 10 percent get automatic review, unless telco has under 5 percent of state total access lines, in which case review threshold is 30 percent.			Not regulated. PSC in 2000 set benchmark earnings at 12 percent.		Basic local service rate increase: 90 day notice. Rate increases for other services: 10 day notice.	PSC in 2000 set state universal service benchmark monthly rates of $17.50 residential and $27.50 business, and benchmark earnings of 12 percent. Incumbents remain free to change rates at will, upon ten0 days notice, but those setting rates below benchmarks or posting earnings above 12 percent would see reduced support from state universal service fund.	
NV	Sprint	Price caps (1996-2007)	June 2007	Nonindexed caps. Rate cuts allowed, but not increases	Nonbasic services can increase up to 5 percent annually up to a cumulative total 20 percent 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 percent, and renewed cap plan for another fiv years. Bill passed in 2003 grants carrier more flexibility to make special deals with business customers. Impending spin-off of Sprint's local exchange operations to LTD Holdings under terms of Sprint-Nextel merger isn't expected to change nature and duration of regulatory plan. Sprint filed spin-off plan in August and PUC is expected to complete its review by end of 2005.
NV	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				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 five years without any changes in basic service rates. Bill passed in 2003 grants carrier more flexibility to make special deals with business customers.
NV	Other incumbents	ROR		Fully tariffed ROR							No current proceedings to change situation.
NH	All	ROR						Tariff changes become 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. State law effective July 1, 2005 gave incumbents other than Verizon option of same regulation as CLECs if they prove to PUC most customers have access to competitive wireline, wireless or IP-based service providers.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - *Continued*

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					
NJ	Verizon	Price caps (2005)	None	Statewide basic residential and business caps restructured in 2005, fixed at $8.95 (residential) and $15.00 (business).		Business rates for customers with two or more lines deregulated. Other competitive service rates deregulated.	Not regulated	Verizon must invest $55 million for advanced services to public schools and libraries. 2005 restructured plan continued this requirement.		Restructured plan continues service quality commitments of the 2002 plan, as well as requirement for Verizon to provide discounted rates for high-speed internet access for public schools and libraries 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. A 2004 state law requires that, starting in 2006, Valor's cap program must include some form of indexing for adjusting caps.	***Qwest*** - Nonbasic services capped at average rates in Qwest's 14-state home region. ***Valor*** - can raise nonbasic rates up to 5 percent annually.	Deregulated	Not regulated	***Qwest***- Investment of $788 million in network by 2006.		***Qwest*** and ***Valor's*** plans include service quality requirements.	***Qwest*** - Was entitled to 10 percent boost in September 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 September 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. In early 2005, staff concluded Qwest would fall $288 million short of investment commitment and suggested sanctions. Qwest requested more time or reduced investment requirement and appealed to state and federal courts. Matter is pending. ***Valor*** - 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 percent 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.
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.				Previous plan expired in March 2004, when Verizon defaulted to basic form of tariff regulation. No proceedings to change current status.
	Frontier Telephone of Rochester	ROR (2005)		Fully tariffed ROR							Price cap plan expired at the end of 2004, when Frontier defaulted to fully tariffed ROR.
	Other incumbents	ROR		Fully tariffed ROR							No current proceedings to change status.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3

DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS

(AS OF SEPTEMBER 2005) - *Continued*

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					
NC	BellSouth	Price caps (2005)	None	Rates can rise up to 10 percent, subject to revenue cap for basic basket equal to 1.5 times annual GDP-PI.	Vertical and nonbasic services can rise up to 20 percent, subject to basket revenue cap equal to 2.5 times annual GDP-PI.	Deregulated	Not regulated				Cap plan adopted in April to replace expired 1996 plan. Effective December. 2005, all BellSouth business services will be classed as competitive -- except basic exchange and installation, classed competitive in December 2006.
	Verizon	Price caps (2005)		Rates can rise up to 10 percent subject to basic basket revenue cap of 1.5 times annual GDP-PI.	Vertical and nonbasic services can rise up to 20 percent, subject to basket revenue cap equal to 2.5 times annual GDP-PI.	Deregulated	Not regulated			Verizon is under a cap system similar to BellSouth's.	New cap plan adopted in spring 2005.
	Sprint (i.e., Carolina Telephone and Telegraph and Central Telephone Company)	Price caps (2005)		Rates can rise up to 12 percent subject to basic-basket revenue cap equal to annual GDPPI.	Vertical and nonbasic services can rise up to 20 percent, subject to basket revenue cap equal to 2.5 times annual GDP-PI.	Deregulated	Not regulated			Sprint is under a cap system similar to BellSouth's	New cap plan adopted in Spring 2005.
	Other incumbents	Price caps (1997-1999)	None	Caps indexed to GDP-PI minus 2 percent. Rate element constraint equal to GDP-PI plus 3 percent. X-Factor for basic service=2 percent	Service-specific caps for most other services grouped in baskets. Productivity offset for interconnection and non-basic Category 1=2 percent		Not regulated				Five mid-sized incumbents have elected price cap regulation under program similar to BellSouth's former price cap plan, including Alltel, Concord Tel, Mebtel and North State Communications. Concord Telephone revised price-based plan, similar to the new programs for BellSouth, Verizon and Sprint, became effective in September 2005. Altell filed a stipulated new price cap on Oct. 18, 2005, which was approved on January 2006 and became effective on March 15, 2006.
		ROR (1996)	None	Fully tariffed ROR							Eight small incumbents remain under ROR. Randolph Telephone requested price-based regulation in 2005 and its new plan became effective on Jan. 1, 2006.
ND	Qwest	Price caps (2003)	None	Nonindexed caps (residential flat-rate basic exchange on primary line and switched access). Rate decreases allowed, but no increases except when government action increases service costs.	Price flexibility Business basic exchange and additional residential lines were removed from nonindexed caps (August 2005).		Not regulated				Qwest new cap system became effective Aug. 1, 2003, replacing an older indexed cap system dated back to 1993.
	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				

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TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - *Continued*

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					
OH	SBC, Sprint, Century Tel, Chillicothe Horizon, Western Reserve	Price caps (2002)	None	Indefinite rate freeze for basic local service and basic caller ID service at the existing rates when adopting the plan.	Two-year rate freeze for certain vertical services and specialty business services from effective date of each individual telco's plan and then can increase up to double initial rate.	Price flexibility for all other retail services	Not regulated	Telcos must meet company-specific commitments for expanded availability of advanced services.	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.	Companies must offer enhanced Lifeline plan.	Companies opted for generic alternative price regulation framework PUC adopted in April 2002.
	Cincinnati Bell	Price caps (2004)	None	Indefinite rate freeze for basic local service and basic caller ID service at the existing rates when adopting the plan.	Two-year rate freeze for certain vertical services and specialty business services from effective date of each individual telco's plan and then can increase up to double initial rate.	Price flexibility for all other retail services	Not regulated			CBT asked the PUC for waiver of plan's Lifeline service so it can keep two different Lifeline options from previous company-specific regulation program. Petition pending; decision expected soon.	CBT opted for the generic alternative price regulation plan in 2004.
	Other incumbents	ROR	N/A	Traditional or streamlined ROR			N/A	N/A			36 other incumbent companies have the choice of opting into PUC's generic alternative cap system or proposing company-specific alternative regulation plan.
OK	SBC	Price caps (1999-2005)		For basket 3, pricing flexibility. Switched access, E-911 and payphone access under pricing flexibility equal to change in inflation minus 1 percent. In Service Basket 3, if the competitive test is met then pricing flexibility is capped at 12 percent per year. If the competitive test is not met then pricing flexibility is equal to the change in inflation -1 percent. Both scenarios fall under 30-day notice and regulatory review.		Pricing flexibility for all services in Basket 4, per PUD 2004-0042. All of SBC's services, other than those included in Basket 3, are now in Basket 4.	Not regulated	SBC commited to invest in upgrading its facilities to provide DSL in all its central offices in OK within two years from the date of the order. SBC committed to install DSLAMs or a technological equivalent, in 68 centrals offices not containing this technology yet. In 46 of those offices (classified as rural offices within SBC's Rate Groups 1-3), SBC shall ensure access through broadband or DSL to all K-12 public schools and hospitals.			Regulators in July 2005 approved new regulation plan that would allow SBC to set retail rates at any point above cost floor except in rural areas where local rate increases were limited to $2 per year. Order required SBC to expand DSL availability in rural areas. Order was stayed pending outcome of CLEC appeals to state Supreme Court, where case is pending.
	Other incumbents	Streamlined ROR		Monthly basic exchange rates can rise by up to $2 annually but boosts are subject to investigation and possible roll back if 15 percent of customers protest.		Price flexibility	All revenues count in rate-of-return calculations.				System originally applied only to incumbents with fewer than 75,000 lines, but a 2004 law applied it to all incumbents but SBC. Carriers with greater than 75,000 lines are treated like current SBC (alt reg).
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		Carrier can lower its rates for all services without prior approval. Carrier allowed to change rates on short notice in competitive markets.	Plan allows carrier to seek right to change rates on short notice in competitive markets, and it has done so for most of its OR markets.	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 on short notice 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 percent 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.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3

DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS

(AS OF SEPTEMBER 2005) - *Continued*

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					
PA	All incumbents	Price caps (2002)	None	Indexed caps		Price flexibility	Not regulated	In December 2003, Verizon Pa. and Verizon North completed within the allotted time 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.	Rate decreases can be done on ten-day's notice; rate increases and new services on 30 day's notice and ministerial administrative changes on one-day's notice. Tariff filings for rate changes must also be filed with statutory public advocates.	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. A December 2004 state law ended productivity offsets in price cap indexing formulas if telcos agreed to shorten an original 2015 broadband deployment deadline to 2008. All but 4 small companies agreed. That law also allowed incumbents to self-certify that a service is competitive and exempted rural telcos under 50,000 lines from many competition obligations, effectively limiting rural competition to facilities-based providers.	All incumbent telcos moved under price based 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.
				Revenue-neutral rate rebalancing permitted.							
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			Verizon must donate up to $2 million in 2003 and 2004 to support Internet access for K-12 schools and public libraries and meet service quality requirements.	Plan expired in December 2005. PUC opened docket on successor plan; Verizon filed proposal in September 2005.
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 percent per year. Rate deregulation for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle.		Not regulated				2005 state law deregulated rates for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle.
	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 percent per year. Rate deregulation for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle.		Not regulated				Sprint went under caps in 1999 and Verizon in 2000. 2005 state law deregulated rates for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle.
	Other incumbents	Price caps (2004)		Basic residential and business services capped at statewide average rates.	Other nonbasic under caps indexed to national CPI.	Price flexibility, subject to revenue cap for competitive basket equal to 5 percent annually.					Eleven companies have opted for this system.
		ROR		Fully tariffed ROR							Carriers can petition for switch to price caps or other alternative forms of regulation. Eleven opted to so in 2005.
SD	Qwest	Deregulation (2003)	None	Rates for all retail services deregulated			Not regulated				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				Rate deregulation of other incumbents approved by state law in 1987. State law allows reregulation if majority of company's ratepayers petition for it, but that power hasn't been used to date.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3

DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS

(AS OF SEPTEMBER 2005) - *Continued*

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					
TN	BellSouth, Sprint, Citizens Telecom	Price caps (1996)	None	Caps indexed to lesser of one-half GDP-PI or GDP-PI minus 2 percent. 2005 state law deregulated retail rates for bundled services and customer-specific service contracts of price-regulated incumbents.			Not regulated				Cap system prescribed by state law and changes would require act of legislature. Rate changes exceeding caps allowed as part of revenue-neutral rate rebalancing, expansion of local calling areas or rate group changes.
	Other incumbents	ROR		Fully tariffed ROR							State law allows them to petition for the same price cap system as the large incumbents or propose alternative form of regulation, but to date none have chosen to do so.
TX	All incumbents	Price caps (1999-2007)	2007	Nonindexed caps (residential basic, 911, Lifeline and carrier access)	All other services flexibly priced, except for ban on below-cost pricing. Intrastate access charges to be reduced to interstate levels.		Not regulated			Old cap system will continue for telcos electing to stay with it.	A 2005 state law gives incumbents option of new program that will deregulate retail rates of all providers in cities over 100,000 population effective Jan. 1, 2006. Law will deregulate rates in communities between 30,000 and 100,000 population on January 1 if there are two landline and two wireless carrier competing against incumbent. Rates in communities under 30,000 will be deregulated Jan. 1, 2007 except where PUC determines meaningful competition is lacking. Law also vests video franchising authority with state, not municipalities. Law is being challenged in state courts and effective dates may be stayed. In February 2006, the PUC refused to reconsider its decision to deregulate retail rates in 14 mid-size local markets.
UT	Qwest	Price caps (2005)	None	Nonindexed caps for residential basic exchange. Service capped at current rates through 2007.	Deregulated		Not regulated			After 2007, PSC must lift residential cap in exchanges where local competitors offer residential basic exchange.	A 2005 state law replaced the price cap regime established in 1997. Previous price cap system allowed Qwest to petition for full rate deregulation in markets where competitors operate. Qwest won significant local retail rate deregulation in the state's major cities in 2004 and 2005 because of competition in the more populated areas, covering 85 percent of total business lines and 50 percent of residential lines.
	Other incumbents (fewer than 30,000 lines)	Streamlined ROR (1997)		Streamlined ROR							Rate and earnings for other incumbents get speedy administrative review through expedited process. But if 10 percent of ratepayers challenge result, full rate case is held. Other incumbents have option to switch to deregulation regime prescribed in the 2005 law.
VT	Verizon	Price caps (2005-2008)		Nonindexed caps for all services. Caps set at levels prevailing in April 2005. $8.18 million in retail rate reductions at the outset of the plan. Rate reductions can be offset by increased broadband rollout.		Price flexibility for new services.	Not regulated	No specific infrastructure upgrade requirements. Plan sets minimum network investment floor at $40 million.		Verizon must meet service quality standards on pain of penalties up to $10.5 million annually.	
	Other incumbents	Streamlined ROR (2005)		2005 state law allows state's nine other incumbents to increase rates 9 percent total over three years without rate case, but basic service rates can't rise first year. Carriers can seek additional increases from regulators to cover external cost increases such as tax hikes or weather disasters.			Earnings remain subject to regulatory review.				Law sunsets in July 2008.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - *Continued*

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					
VA	Verizon VA	Price caps (2005)	None	Rates capped at 1994 levels, adjusted annually for inflation as measured by GDP-PI. The $15.45 residential group rate is currently the highest tariffed price for any Verizon rate group. The highest tariffed price serves as the ceiling above which no rate group can exceed.	Nonbasic rates can rise up to 10 percent the first year and additional 1 percent each additional year this program runs. Revenue-neutral price changes can be sought any time, providing no single increase exceeds the lesser of 25 percent or the basic-service rate cap, and providing at least a year has passed since the last rate increase. Price cuts are subject to cost floor. Services other than basic will not have a ceiling. Tariffed Bundled Services can be offered upon notification to the Commission.		Not regulated			The new plan eliminates previous link between price increases and service quality performance of local exchange service.	Verizon new price cap plan is Case PUC-2004-00092. Verizon is required to continue filing tariffs with the SCC's Division of Communications for its basic and competitive services. Final decision available at http://scc.virginia.gov/news/att_orders/c040092_final.pdf
	Verizon South	Price caps (2005)	None								Verizon South is the former GTE, maintained as separate Verizon affiliate. Verizon South is under a regulation plan identical to that of 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.
WA	All incumbents	ROR		ROR regulation		Companies can petition for rate deregulation of competitive services. 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 specialty business services in all markets and for all retail business telecom services in 2004.	Revenues from competitive services continue to be accounted for on regulated side and in rate-of-return calculations.				State law allows incumbents to petition for alternative regulation but no petitions were pending in 2005. In March 2006 Qwest expressed an interest in negotiating an AFOR plan with the WUTC. The WUTC is organizing a process that would include all interested parties in those discussions. Qwest operated under earnings-based incentive plan until 1994, when it reverted to rate-of-return regulation. In April 2005 Verizon settled a rate case requesting $240 million increase; the company only received $38.6 million.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 3
DETAIL OF STATE RETAIL RATE REGULATION PLANS OF INCUMBENT LOCAL TELECOMMUNICATIONS PROVIDERS
(AS OF SEPTEMBER 2005) - *Continued*

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					
WV	Verizon	Incentive regulation (1994-2005)		Nonindexed caps	Vertical services allowed to rise by rate of inflation (GDP/PI)	Deregulated	Earnings regulation suspended, but not eliminated	Program was extended in 2001 for four years on condition that Verizon invest $375 million in network by 2005.		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. Verizon must also contribute $8.5 million to public benefit projects approved by a State Telecommunications Users Council.	No rate case during program. Verizon in 2004 received approval to add 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. Plan expires at year-end 2005. PSC staff and Verizon planned to meet in August 2005 to discuss extension or replacement of plan.
WV	Frontier Comm.	Incentive regulation (1994-2012)		Basic rates capped	Vertical services allowed to rise by rate of inflation (GDP/PI)	Company can request rate deregulation		Extension order requires Frontier to invest a minimum of $95 per access line per year in infrastructure (equivalent to $116 million over next seven years).		Frontier must contribute $132,000 per year to public benefit projects approved by State Telecommunications Users Council and reduce intrastate access charges to interstate levels.	No rate case during program. PSC extended the program in May 2005 until end of 2012. Frontier is business name for Citizens Telecom.
WV	Other incumbents	ROR		Fully tariffed ROR							No pending proceeding to change current status.
WI	SBC	Price caps (1994)	None	Caps indexed to GDP-PI minus 3 percent, + or - 2 percent for infrastructure and service quality performance. The 3 percent X-factor and 2 percent incentive/penalty applies to companies with more than 500,000 access lines.		Price flexibility. Small business (one-three lines) removed from price regulation in 2004. Residential service in urban and suburban areas removed from price regulation in 2005.	Not regulated		Notice period required varies from 0-60 days, depending on the type of regulation and whether the change is in the rate structure or a rate increase or decrease. Level of PSC review also varies with these same factors.		Program continued without major change after 1999 review. Future reviews at PSC discretion. No plans for full-scale review of cap program. The PSCW removed small business (one-three lines) from price regulation in 2004 after a competitive showing. The PSCW removed residential service in urban and suburban areas from price regulation in 2005 after a competitive showing. This allows nearly complete rate flexibility for these services. Business service for more than three lines were never subject to price regulation.
WI	Verizon	Price caps (1995)	None	Caps indexed to GDP-PI minus 2 percent, + or - 1 percent for infrastructure and service quality performance. The 2 percent X-Factor and 1 percent incentive/penalty applies to companies with less than 500,000 access lines.		Price flexibility	Not regulated				Program continued without major change after 1999 review. Future reviews at PSC discretion. No plans to conduct one.
WI	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	Rates not reviewed (2003)	None	Cost-based pricing flexibility. Rates must stay above TSLRIC cost floor.			Not regulated		Basic res and bus local exchange and switched access: 30 days. Non-essential (competitive services): one day.	An incumbent that prices basic local service above statewide benchmark rate of $23.10 monthly may face review of its state universal service support.	

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 4
DETAIL OF STATE RETAIL RATE REGULATION OF COMPETITIVE LOCAL EXCHANGE CARRIERS (AS OF SEPTEMBER 2005)

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.	
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 rate increases, five for reductions and 30 days for changes to terms and conditions	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.	30 days' notice for rate increases, 14 days for decreases.	All tariff or price list changes receive regulatory staff review but normally aren't questioned unless basic residential rate cap is exceeded on a standalone or bundled packaged basis.	Financial assurance bond or letter of credit may be required when a new provider enters the market. Payment to the Colorado High Cost Support Mechanism (CHCSM) and other applicable funds is required. CLECs can opt into alternative regulatory program applied to Qwest (see 2005 change).
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 five days advanced written notice.	All changes receive regulatory staff review but normally aren't questioned.	

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TABLE 4
DETAIL OF STATE RETAIL RATE REGULATION OF COMPETITIVE LOCAL EXCHANGE CARRIERS (AS OF SEPTEMBER 2005) - *Continued*

State	Type of Regulation	Rates Presumed Competitive	State Certification Requirement	Tariff Filing	Rate Change Notice	Review of Rate Changes	Other Requirements
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)	Three 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	One day	Changes are reviewed for administrative accuracy, clarity, and similar treatment of similarly situated customers.	
GA	Rates flexibly regulated	Yes	**Yes** (technical, financial and managerial competence).	Yes	30 days for increases and new services and seven 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)	Ten 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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TABLE 4
DETAIL OF STATE RETAIL RATE REGULATION OF COMPETITIVE LOCAL EXCHANGE CARRIERS (AS OF SEPTEMBER 2005) - *Continued*

State	Type of Regulation	Rates Presumed Competitive	State Certification Requirement	Tariff Filing	Rate Change Notice	Review of Rate Changes	Other Requirements
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 fillings 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' notice of rate increases and 15 days' notice for decreases.	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	One day for rate changes; seven 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) three years of positive financials, or 2) provide a surety bond of $25,000.
KY	Rates flexibly regulated	Yes	CLECs must register with PSC	Yes	15 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 and Energy	Yes	30 days	Changes are not normally reviewed.	

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TABLE 4
DETAIL OF STATE RETAIL RATE REGULATION OF COMPETITIVE LOCAL EXCHANGE CARRIERS
(AS OF SEPTEMBER 2005) - *Continued*

State	Type of Regulation	Rates Presumed Competitive	State Certification Requirement	Tariff Filing	Rate Change Notice	Review of Rate Changes	Other Requirements
MI	Rate flexibly regulated	Yes (initial rates)	**Yes** (state license; need to show technical, financial and managerial competence, statements presumed truthful) Must begin service within two years of receiving license.	Yes (no term provided)	Notice required. 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. In August 2005, PSC approved rate deregulation for retail services of all telecom providers in state's 30 largest cities, effective late October, after customers receive notice. But order has been appealed to state courts. Regulation of CLECs may be affected by December 2005 Michigan Telecom sunset and legislature's response.
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	Ten days for increases and one day 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: ten 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 except if basic exchange increase exceeds 30 percent.	CLECs in state universal service fund are subject to fund's rate benchmarking rules.
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 can take effect immediately.	Changes to terms normally aren't reviewed.	

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TABLE 4
DETAIL OF STATE RETAIL RATE REGULATION OF COMPETITIVE LOCAL EXCHANGE CARRIERS (AS OF SEPTEMBER 2005) - *Continued*

State	Type of Regulation	Rates Presumed Competitive	State Certification Requirement	Tariff Filing	Rate Change Notice	Review of Rate Changes	Other Requirements
NH	Rates not reviewed	Yes	**Yes** (register with PUC, attest to competence to serve and lack of criminal record)	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, five 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.	
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.	

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TABLE 4
DETAIL OF STATE RETAIL RATE REGULATION OF COMPETITIVE LOCAL EXCHANGE CARRIERS
(AS OF SEPTEMBER 2005) - *Continued*

State	Type of Regulation	Rates Presumed Competitive	State Certification Requirement	Tariff Filing	Rate Change Notice	Review of Rate Changes	Other Requirements
OH	Rates flexibly regulated	Yes	**Yes** (technical, financial and managerial competence)	**Yes** (with maximum prices for basic local, certain vertical services and specialty business services).	Rate changes below maximum 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.	
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 (so long as they are at or below incumbent's rates).	**Yes** (technical, financial and managerial competence)	Yes	One day for reductions and rates priced at or below ILEC rates; 30 days for increases and 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. A December 2004 state law capped CLEC access charges at incumbents' level and freed CLECs from Lifeline and residential service obligations unless they are receiving federal universal service subsidies. 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	All changes receive regulatory staff review, but changes normally aren't questioned.	
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 five 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.

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 4
DETAIL OF STATE RETAIL RATE REGULATION OF COMPETITIVE LOCAL EXCHANGE CARRIERS (AS OF SEPTEMBER 2005) - *Continued*

State	Type of Regulation	Rates Presumed Competitive	State Certification Requirement	Tariff Filing	Rate Change Notice	Review of Rate Changes	Other Requirements
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	14 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)	Five 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, five 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.	
WA	Rates flexibly regulated	Yes	CLECs must register with state and attest to their competence to serve; affidavits presumed truthful.	Yes (price lists)	Ten 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	**Registration with PSC**	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	One 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*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 5
STATES WITH COMPANIES UNDER REGIMES DIFFERENT FROM PRICE CAPS (AS OF SEPTEMBER 2005)

State	Regulatory Plan
Alaska	**Streamlined ROR** (large and small incumbents)
Arizona	**ROR** with price caps (Qwest) / **ROR** (other incumbents)
Arkansas	**ROR** (Century Tel)
California	**ROR** (other incumbents)
Colorado	**ROR** (other incumbents)
Connecticut	**ROR** (other incumbents)
Florida	**ROR** (Only one small incumbent)
Georgia	**ROR** (nine small incumbents)
Hawaii	**ROR** (Hawaiian Telcom)
Idaho	**Service deregulation for retail serv. above five lines** (Qwest); **ROR** (other incumbents)
Illinois	**ROR** (other incumbents - Verizon)
Indiana	**Pricing flexibility** (investor-owned incumbents with fewer than 30,000 lines); **deregulation** (telephone cooperatives)
Iowa	**Deregulation** (other incumbents)
Kansas	**ROR** (other incumbents)
Kentucky	**ROR** (Kentucky Alltel, other incumbents)
Maine	**ROR** (other incumbents)
Maryland	**ROR** (only other incumbent telco)
Massachusetts	**ROR** (other incumbents).
Michigan	**Rate freeze** for local services (other incumbents). Since 2002, 22 incumbent companies have been allowed to break the freeze and adjust their rates so that they could respond to customer demands for expanded calling areas.
Minnesota	**ROR** (Citizens Telecom); **Pricing flexibility** (other incumbents with fewer than 50,000 lines).
Mississippi	**ROR** (other incumbents)
Missouri	**ROR** (investor-owned incumbents)
Montana	**ROR** (All, except rural telephone cooperatives, which are not subject to regulation)
Nebraska	**Deregulation** (All)
Nevada	**ROR** (other incumbents)
New Hampshire	**ROR** (All)
New Jersey	**ROR** (other incumbents)
New Mexico	**Rates not reviewed** (other incumbents with fewer than 50,000 lines)
New York	**ROR** (Frontier Telephone of Rochester and other incumbents)
North Carolina	**ROR** (Eight smaller other incumbents)

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 5
STATES WITH COMPANIES UNDER REGIMES DIFFERENT FROM PRICE CAPS
(AS OF SEPTEMBER 2005) - *Continued*

State	Regulatory Plan
North Dakota	**ROR** (North Dakota Telephone); **rates not reviewed** (retail rates of investor-owned incumbents with fewer than 8,000 lines and of all cooperatives regardless of size)
Ohio	**ROR** (36 other incumbents with fewer than 75,000 lines)
Oklahoma	**Streamlined ROR** (Valor Telecom and incumbents with fewer than 75,000 lines)
Oregon	**ROR** (Verizon, Sprint, Century Tel); **rates and earnings not reviewed** (other incumbents)
South Carolina	**ROR** (other incumbents)
South Dakota	**Rates not reviewed** (Qwest and other incumbents)
Tennessee	**ROR** (other incumbents)
Utah	**Streamlined ROR** (all other incumbents with fewer than 30,000 lines)
Vermont	**Streamlined ROR** (other incumbents)
Virginia	**Rate deregulation** (other incumbents)
Washington	**ROR** (All)
West Virginia	**Incentive regulation** (Verizon, Frontier Communications); **ROR** (other incumbents)
Wisconsin	**Streamlined ROR with some pricing flexibility** (42 other incumbents); **traditional ROR** (two other incumbents); **not rate regulated** (12 telephone cooperatives).
Wyoming	**Rates not reviewed** (All incumbents)
TOTAL	**44 states have companies under regimes different from price caps**

Sources: *State Telephone Regulation Report*, August-September 2005, Vol. 23 (17, 18 and 19) and State Utility Commissions.

TABLE 6
DISTRIBUTION OF STATES BY TYPE OF RETAIL RATE REGULATORY REGIME
(AS OF SEPTEMBER 2005)

Regulatory Regime	Price Caps (all incumbents)	ROR (all incumbents)	Deregulation (all incumbents)	Price Caps for Large Incumbents and ROR (other incumbents)	Price Caps for Large Incumbents and Deregulation (other incumbents)	Price Caps for Large Incumbents and Mix of Regimes for Other Incumbents	Mix of Regimes for Large and Other Incumbents	CLECs		
								Rate flexibility	**Some rates regulated**	**Rates not reviewed**
States	**AL** (BLS and others), **DE** (VZ), **DC** (VZ), **LA** (BLS and others), **PA** (VZ PA, VZ North, Commonwealth Telephone, and others), **RI** (VZ), **TX** (SBC, VZ, FON, Valor Telecom, and others)	**AK** (large and small incumbents), **HI** (Hawaiian Telcom), **MT** (Q and others), **NH** (VZ and others), **WA** (Q, VZ, and others)	**NE** (Q and others), **SD** (Q and others), **WY** (Cost-based pricing flexibility: Q and others)	**CA** (*Caps*: SBC, VZ, Surewest Telecom, CZN/Frontier), **CO** (*Caps:* Q), **CT** (*Caps*: SBC, VZ), **FL** (*Caps:* BS, VZ, FON and six other incumbents; *ROR:* only one small incumbent), **GA** (*Caps:* BS and 25 other incumbents ; *ROR*:only nine small incumbents), **IL** (*Caps*: SBC), **KS** (*Caps*: SBC, FON), **KY** (*Caps*: BS, CBT, Alltel KY; ROR: KY Alltel, 16 other incumbents), **ME** (*Caps*: VZ), **MD** (*Caps*: VZ), **MA** (*Caps*: VZ), **MS** (*Caps*: BS), **MO** (*Caps:* SBC, CTL, FON, Spectra/CTL), **NV** (*Caps:* Sprint NV, SBC), **NJ** (*Caps*: VZ), **OK** (*Caps*: SBC), **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 less than 30,000 lines; deregulation: cooperatives), **MI** (Caps: SBC, VZ; local rate freeze and dereg of intrastate switched access rates: other telcos), **NC** (Caps: BS, FON [Centel, Carolina Tel and Telegraph], VZ, AT, Mebtel, Concord Tel and North State Communications; ROR: remaining eight smaller telcos), **OH** (Caps: SBC, FON, CTL, CBT, Chillicothe Horizon, Alltel, Western Reserve; ROR: others), **SC** (Caps: BS, FON, VZ and 11 other incumbents; ROR: remaining smaller telcos), **WI** (Caps: SBC, VZ; price-based reg: 26 telcos; streamlined ROR with some pricing flexibility: 42 telcos; traditional ROR: two telcos; dereg: 12 coops)	**AR** (Caps: SBC, AT, others, and ROR: CTL), **AZ** (ROR with price caps: Q and ROR: others); **ID** (Price caps and deregulation: Q, and ROR: others); **MN** (Caps: Q, FON, Frontier Comm's of MN; ROR: CZN [formerly GTE], and flexibility: others); **NY** (Tariff regulation: VZ; ROR: Frontier Telephone of Rochester and others), **ND** (Caps: Q; ROR: ND Telephone, and deregulation: retail rates of investor-owned companies with less than 8,000 lines and of all coop.), **OR** (Caps: Q; ROR: VZ, FON, CTL, and deregulation: others), **WV** (Incentive regulation: VZ, Frontier/CZN, and 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**
TOTAL	**7**	**5**	**3**	**19**	**3**	**6**	**8**	**27**	**3**	**21**

Sources: *State Telephone Regulation Report*, August-September, 2005, Vol. 23 (17, 18 and 19) and State Regulatory Commissions.

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

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