# State Retail Rate Regulation of Local Exchange Providers as of December 2006

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## EXECUTIVE SUMMARY

The year 2006 saw significant changes in the retail rate regulation of the local exchange services provided by carriers (LECs) in the United States. Between October 2005 and December 2006, the period covered in this report, nine states adopted new state laws affecting the regulatory regimes of their local carriers; seventeen states reviewed or adopted new rate plans for one or more of their incumbents and eighteen states deregulated the rates of certain local exchange services, particularly bundled services and those provided in competitive urban areas.

The majority of states (33) apply some form of price cap regime to regulate one or more of their incumbent local exchange carriers (ILECs), especially their RBOCs. This number, however, has been decreasing since NRRI began this report in 2002, as more states move towards pricing flexibility and rate deregulation in response to regulatory findings of increased competition in their local telephone markets. Traditional rate-of-return regulation (ROR) is still used in 36 states, mostly to regulate their smallest, rural ILECs; of these, only five states still use this traditional form of regulation on all their incumbents. Eight 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, either through legislation or regulatory decisions, greater pricing flexibility and rate deregulation for an increased number of services; in some cases, the adoption of new state laws or new regulatory plans resulted in the elimination of all regulation of retail service rates, except for rates applicable to single-line basic exchange service. Legislatures or state commissions have granted complete pricing flexibility or rate deregulation to the largest incumbents in five states and in seven others, they have done so for all their ILECs. While last year only three states in the Qwest region had approved rate deregulation of all their ILECs, this year the trend reached Iowa, and entered the AT&T (TX) and Verizon's (RI) regions. The rates for stand-alone basic exchange services, which had remained regulated in most states until recently, are now beginning to be flexibly regulated in some states and scheduled to be deregulated in others. Based on statutes, rules, and AFOR plans now in place in several states, rate deregulation of *all* retail local exchange services provided by the largest incumbents or by all the ILECs in a state will be in effect in at least ten percent of the states by 2010.

Competitive local exchange carriers (CLECs) are also obtaining greater pricing flexibility in their markets. This year the number of states no longer reviewing CLEC rates surpassed that of those applying flexible regulation on their CLECs, with 25 and 21 states respectively. The remaining five states (Florida, Michigan, Mississippi, New Jersey, and Virginia) apply some form of rate regulation to specific CLECs' services.

This report includes six 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 summary, refer to Table 6 at the end of the report or to the different Figures.

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## Notes on Sources

The information included in this report was obtained from the "Supplemental White Papers on Retail Rate Regulation of Local Exchange Providers", published by *State Telephone Regulation Report* (STRR) in the third quarter of each year. This report covers regulatory changes reported in *STRR*'s 2006 White Papers, which range from October 2005 to September 2006. To provide a full picture of the year 2006, we included other regulatory information reported in *STRR* from September to December of 2006. Consequently, the information in this report reflects the status of retail rate regulation as of December 2006.

To corroborate the accuracy of our report and of *STRR*'s Supplemental White Papers, NRRI requested staff members of state commissions to review the information collected for their respective state in the report's tables and provide any necessary corrections or additions. This year, NRRI received responses from staff members of 30 state utility commissions, who either confirmed or made modifications to the information originally provided. Information in Tables 1 to 6 reflects the staff revisions.

**Acknowledgments**

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# Glossary[1]

**Basic local exchange service (BLES)(also Basic service or essential service):** Provides telephone subscribers access to the public switched network for local and long distance calling. The features and functions comprised under BLES vary from state to state, but often include an access line, dialtone, the availability of touchtone, access to emergency 911 services, and usage provided to the premises of residential customers or business customers within a local exchange area. It may also include access to Extended Area Service (EAS), directory assistance, operator and relay services.

**Bundled services:** Packages or combinations of retail services offered, whether at a single price or with the availability of the price for one service contingent on the purchase of others. Bundled services may include basic local exchange service and enhanced services.

**Competition:** The definition of “sufficient” competition in the local telephone market – for purposes of justifying a reduced regulatory role in ratemaking–is not uniform across the states. Most consider a market competitive if the incumbent faces competition from at least two other providers, one of them being a facilities-based carrier. Other states define competition based on a combination of market share loss above a certain percentage and the presence of telephone carriers in a market, other than the incumbent.

**Competitive local exchange carrier (CLEC):** Any telephone carrier, other than the incumbent provider, who entered the local exchange network services market for the provision of local services once the Telecommunications Act of 1996 was enacted. CLECs compete with carriers that were already established in this market at that time, also called incumbents or ILECs.

**Enhanced services (also value-added services, advanced services or vertical services):** Refers to calling features, available to a line-side connection in a telephone switch, that enhance the utility of basic local exchange service usually through the application of computerized intelligence. The term includes but is not limited to call forwarding, three-way calling, call waiting, and caller ID.

**Incumbent local exchange carrier (ILEC):** A local exchange carrier providing telephone exchange services to an area of the United States at the time the Telecommunications Act of 1996 was enacted (February 8, 1996). Typically, the incumbent carrier is or was the dominant provider of local public switched telephone network (PSTN) services in a geographical area. ILECs include the former Bell operating companies that were grouped into seven holding companies or Regional Bell

[1] The definitions in this glossary come from several sources, including the United States Code, the World Bank, and *Newton’s Telecom Dictionary*, and do not necessarily reflect those used by *STRR* to organize the information provided in its Supplemental White Papers.

Operating Companies (RBOCs) at the time of AT&T's divestiture in 1983 (i.e., AT&T, BellSouth, Qwest, and Verizon as of the period covered in this report), other large and middle-sized carriers (such as Embarq, Frontier Communications, Century Tel and Alltel), as well as investor-owned operators and telephone cooperatives usually serving rural areas with only a few thousand lines or less.

**Local exchange:** A carrier's "central office" or public exchange where local residential and business subscriber lines terminate. Switching equipment at the central office connects these lines to other local exchanges or to interexchange carriers for the completion of local and long distance calls.

**Local exchange carrier (LEC):** Any person or entity that is engaged in the provision of telephone exchange service or exchange access (47 U.S.C. § 153(26)). A telecommunications operator that provides local telephone service to subscribers through local exchanges connected to the public switched telephone network.

**Local exchange service:** The access to and transmission of two-way voice grade switched telecommunications service within a local exchange area. See also "telephone exchange service".

**Nonbasic service:** All retail telecommunications services provided to a residential or business customer, all arrangements with respect to those services, and all packages of products or services, with the exclusion of basic local exchange services, unless a customer chooses to purchase a package that bundles such services.

**Price cap regulation:** A form of price regulation developed as an alternative to traditional rate-of-return regulation (see below). It uses a formula to determine the maximum price increases (also ceilings or "caps") that a carrier is authorized to apply on a regulated service or, most commonly, a group of services (service basket) for a specified year or number of years. The regulated firm has pricing freedom as long as its actual prices do not exceed the allowed price cap index. The prices of different services are weighted based on their relative contribution to the operator's revenue. Prices for major services receive a major relative weight and may not be increased as much without affecting the price index significantly.

The initial level of prices may be set by the regulator based on the operator's revenue requirement or the carrier may be given a transition period to reach a pre-determined price level. The price cap formula permits carriers to recover their unavoidable costs through price increases, using some inflation measure or price index, but also requires them to lower their prices to reflect improvements in productivity an efficient operator may expect due to technological change (productivity factor or "X" factor).

**Pricing flexibility (also flexible regulation)**: A form of price regulation that streamlines or eliminates some regulatory pricing restrictions and limitations imposed on LECs, giving carriers greater flexibility to set the price of specific services. Pricing restrictions may include service categories, price floors (including imputation rules), price ceilings, the requirement to provide cost data, and any other limitations on pricing. Carriers subject to pricing flexibility are permitted to increase or decrease the price of selected services without obtaining commission approval, provided they fulfill certain requirements, such as setting rates above cost, publishing notice of rate changes, and not subsidizing these services with revenues from regulated services. In theory, state regulators approve pricing flexibility for a retail service once they have determined through various methods that such service is subject to competition; that is, that a competitive carrier (CLEC) is authorized to provide the same or substitutable service in the same designated geographic area.

**Primary basic local exchange service (PBLES):** Is the provision of telephone facilities for communication between customers within a Local Calling Area. This service is usually restricted to the provision of one primary basic local exchange service line to a residential customer for voice use only. The service may include a certain number of outgoing calls or minutes of use per month and unlimited incoming calls.

**Rate deregulation:** The lessening or complete removal of government regulations that set conditions on the price that a communications service provider is allowed to charge for its services, leaving the seller to choose its own rates. The premise of rate deregulation is that the seller's pricing discretion will be disciplined by competitive forces.

**Rate of return (ROR) regulation:** A form of embedded cost of service regulation. This method first estimates the seller's reasonable costs (the revenue requirement), then estimates the likely sales. Dividing the revenue requirement by the sales yields a rate. If sales occur at the estimated levels, the rate multiplied those sales will produce revenues sufficient to cover the estimated costs and provide an opportunity for reasonable return on investment. These steps can be stated arithmetically as follows:

1. Determine annual revenue requirement = Expenses + (rate base times rate of return).
    a. Rate base is the sum of all dollars invested in capital, whether those dollars come from lenders or shareholders.
    b. Rate of return, in this equation, is the weighted average of (i) the rate of return on debt (i.e., the contractual interest rate on the debt used to finance the rate base, itself a weighted average of the interest rates of the multiple loans used to finance rate base) and (ii) the regulator-authorized return on equity for shareholders' investment.
2. Estimate annual volume of sales.
3. Rate = revenue requirement/sales

**Stand-alone service:** A service offered and priced independently of bundled services or packages provided by a telecommunications carrier.

**State commission:** The commission, board, or official (by whatever name designated) which under the laws of any State has regulatory jurisdiction with respect to intrastate operations of carriers (47 U.S.C. § 153(41)).

**Switched access:** Provision of interconnection to a long distance carrier's end office switches, via line-side or trunk-side connections, for the origination and termination of calls to end users.

**Tariff:** Public documents that regulated telecommunication carriers are required to file before a state commission or the Federal Communications Commission. The tariff provides information on the services, equipment, prices, contract prices and other service arrangements offered by the carrier to its potential customers. Detariffing refers to the partial or full elimination of these filing requirements.

**Telephone exchange service:** According to 47 U.S.C. § 153 (47), "telephone exchange service" means:

> (A) Service within a telephone exchange, or within a connected system of telephone exchanges within the same exchange area operated to furnish to subscribers intercommunicating service of the character ordinarily furnished by a single exchange, and which is covered by the exchange service charge, or
>
> (B) Comparable service provided through a system of switches, transmission equipment, or other facilities (or combination thereof) by which a subscriber can originate and terminate a telecommunications service.

# I. Trends

***Introduction***

This report describes the forms of price regulation applied to local exchange carriers (LECs) in the fifty states and the District of Columbia to regulate the rates of their retail services. The following subsections describe some of the major trends in retail rate regulation from the period of October 2005 to December 2006, describing the status of retail rate regulation by regulatory regimes (price caps, ROR, and rate deregulation) and by type of LEC (ILECs and CLECs). The trends identified in this report are based on observations of changes in retail rate regulation of LECs since NRRI began collecting and reporting this information in 1998.[2]

***Recent Developments by Form of Pricing Regulation Adopted***

State commissions and legislatures were active in terms of retail rate regulation during 2006. Thirty-seven states reported changes affecting the regulatory regimes of their LECs, including the passage of deregulatory state laws, the regulatory adoption of new regulatory plans for one or more LECs, and the regulatory approval of rate deregulation for one or more retail telephone services, among other changes (see Table 2 and Figure 4).

Since the divestiture of AT&T in 1984 and increasingly since the passing of the Telecommunications Act of 1996, incumbent local exchange carriers (ILECs) have been transitioning from rate-of-return regulation (ROR)[3] to alternative forms of regulation, such as price caps, flexible regulation, and, now, towards full rate deregulation of services. Large incumbents[4] that had been under price cap regimes since the 1990s have

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[2] For trends on state retail rate regulation of LECs from the time of AT&T's divestiture in 1984 to1998 see J. Abel and M. Clements, *A Time Series and Cross-Sectional Classification of State Regulatory Policy Adopted for Local Exchange Carriers*, Columbus, OH, NRRI, December 1998. Annual reports on the status of retail rate regulation for the years 2004 to 2006 are available on NRRI's publications website at http://www.nrri.ohio-state.edu/nrri-pubs.

[3] See the Glossary for definitions of traditional and alternative forms of regulation.

[4] Large incumbents are defined by Jason Abel and Michael Clements as those having more than 50,000 lines (see footnote 2 above). The White Papers on Retail Regulation published by *STRR* separate the descriptions of the regulatory plans used for the major ILECs in each state (the RBOC and other large and mid-size carriers) from those applied to other smaller ILECs; *STRR* groups these smaller ILECs under the term "Other Incumbents". The characteristics shared by these carriers vary by state, but

begun requesting state commissions to adopt new regulatory plans that would provide them increased flexibility for pricing their basic local exchange service and allow them to deregulate rates for all other retail services. Several of these alternative plans have been approved in the last couple of years. Moreover, the trend towards increased pricing flexibility has been reinforced by the passing of telecommunications laws in several states that have affected the retail rate regulation of LECs. Since October of 2005, nine states[5] have passed state laws that, in most cases, deregulated the rates for most retail telephone services, while maintaining regulatory oversight over stand-alone basic exchange service rates.

Smaller ILECs[6] and competitive LECs (CLECs) also reaped benefits from recent regulatory changes. For instance, in some states, the new laws have given incumbents subject to ROR regulation the option of adopting alternative regulation plans. Some of these laws also allowed small incumbents to deregulate rates for their retail telephone services after providing evidence of sufficient competition in their geographical markets.[7] Similarly, CLECs have obtained retail rate deregulation and increased freedom from other regulatory requirements, such as tariff filing, as the result of new state laws in Indiana, Kentucky, and Mississippi.

### A. Price Cap Regulation

Among the different rate regulation regimes, price caps are still the most commonly adopted by the states to regulate the rates of their ILECs, particularly of their larger incumbents, as illustrated in Table 6 and Figures 1 and 2. The summary information provided in Table 6 indicates that a total of 33 states used some form of price cap regulation in 2006, down from 40 in 2005. Of these states, only five (Alabama, Delaware, District of Columbia, Louisiana, and Vermont) adopted price cap regimes for all their ILECs, including the Regional Bell Operating Companies (RBOCs) and other smaller incumbent operators. Among the remaining 28 states, the most common

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usually refer to carriers under similar rate regulatory regimes (ROR, for example), carriers serving a determined number of lines, investor-owned carriers, and cooperatives.

5 Indiana, Kansas, Kentucky, Michigan, Missouri, Mississippi, Texas, Vermont, and Washington passed state laws during the October 2005-December 2006 period.

6 Smaller incumbents are usually those service remote rural areas. *STRR* groups these smaller incumbents under the term "Other Incumbents". The characteristics shared by these carriers vary by state, but usually refer to carriers under similar rate regulatory regimes (ROR, for example), carriers serving a determined number of lines, investor-owned carriers, and cooperatives.

7 The definition of what constitutes "sufficient" competition to warrant rate deregulation of a carrier's retail services, as well as the definition of the type and size of incumbents allowed to petition for rate deregulation, varies from state to state.

tendency (14 states) is to regulate the rates of large incumbents using a price cap plan, while the smaller incumbents remain under ROR regulation.[8] Moreover, price cap regulation is also the prevalent form of pricing regulation used to regulate RBOCs' retail rates, with 31 states using it for their state RBOC (AT&T, BellSouth, Qwest or Verizon)[9] during 2006, as illustrated in Figure 2.

Many states have given smaller incumbents the option to transition from traditional ROR regulation to a price cap plan similar to that of the largest carriers or to some other form of alternative regulation. Smaller operators in several states decided to remain under traditional ROR regulation; however, in seven states where the large incumbents are subject to price cap regimes, smaller investor-owned companies, cooperatives, and other incumbents have opted for alternative regulation plans. These plans range from a combination of ROR and pricing flexibility (Maine and Wisconsin) or ROR and alternative regulation (Ohio) to pricing flexibility (Indiana), and from price cap regimes or price-based regulation (North Carolina, Ohio, South Carolina, and Wisconsin) to rate deregulation (Indiana and Wisconsin). In New Mexico, incumbents with fewer than 50,000 lines have been rate deregulated, but Qwest and Windstream, the largest incumbents, remain under price cap regulation.

In the remaining eight states using price cap regulation (Arkansas, Arizona, Idaho, Kansas, Minnesota, North Dakota, Oregon and Virginia), state commissions use a combination of regimes to regulate their large and small ILECs. In Arkansas, for example, only CenturyTel Northwest remains under ROR regulation, while AT&T, other mid-size carriers, and the smallest incumbents are under price caps plans. Similarly, North Dakota and Oregon regulate Qwest, their RBOC, under a price cap plan; other large and mid-size incumbents are subject to ROR regulation, and the smallest incumbents have been rate deregulated.[10]

Arizona, Idaho, and Kansas have established hybrid regimes to regulate specific large incumbents.[11] Qwest is under a hybrid of ROR and price cap regulation in Arizona and under a mix of price caps and deregulation in Idaho. Meanwhile in Kansas, AT&T and Embarq set their retail rates using a combination of price caps and deregulation. Finally, Minnesota and Virginia use caps, ceilings, indexing (VA) or ROR regulation

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[8] Idaho and Kansas are not included within this group because they regulate their largest ILECs (Qwest for Idaho and AT&T and Embarq for Kansas) under a hybrid regime that combines price caps and full price deregulation.

[9] Since the merger of AT&T and BellSouth was approved by the FCC in December of 2006, the two companies are considered as independent for the period of October 2005 to December 2006 covered in this report.

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

[11] Other incumbents are under ROR regulation in these states.

(MN) for their large and mid-size carriers, while deregulating or giving pricing flexibility to their smallest ILECs.

### B. Traditional Rate-of-Return Regulation

Despite the pervasiveness of price caps, traditional rate-of-return regulation is still in use in 36 states. As of December 2006, only Alaska, Hawaii, Montana, New Hampshire, and Washington used ROR regulation for all their ILECs. 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. Twenty-five states used ROR to regulate only their smaller incumbents and the remaining four states (Arkansas, Minnesota, North Dakota, and Oregon) used it for some of their large and mid-size incumbents, as illustrated in Figure 3.

### C. Rate Deregulation

Among the RBOCs, Qwest is the carrier that has obtained rate deregulation of retail services in the largest number of its in-region states,[12] with five of its fourteen states having deregulated most of its retail service rates. In fact, until mid-2005, retail rate deregulation of *all* incumbents in a state had make inroads only within the Qwest region, in the states of Nebraska, South Dakota, and Wyoming.[13] In late 2005 and during 2006, this deregulatory tendency reached Iowa, and expanded to the regions served by AT&T and Verizon, with the passing of state laws in Texas and Michigan, and regulatory changes in Rhode Island (See Figure 1).[14]

In Iowa, Qwest and other large ILECs obtained rate deregulation of all their retail services, except for single-line flat-rated residential and business service. Michigan also granted all its ILECs rate deregulation of all retail services; but in contrast to Iowa, Michigan excluded only stand-alone single-line *residential* basic exchange service from

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[12] Qwest is the Regional Bell Operating Company serving the states of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming.

[13] 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.

[14] In contrast, AT&T and BellSouth (BLS) have been granted rate deregulation in only two of their in-region states (Texas[14] and Michigan for AT&T; Kentucky and Mississippi for BLS) and Verizon is rate deregulated only in Rhode Island (see Figure 2). Also within the AT&T region, California approved a new Uniform Regulatory Framework for its four largest incumbents in 2006, eliminating rate regulation of most of AT&T's residential and business services, except for basic residential services, which will remain capped until January 1, 2009.

rate deregulation. Texas adopted a different approach, deregulating its ILECs based on the population size of their markets and the presence of competitors. Finally, in Rhode Island, Verizon's new regulatory plan, adopted by the Public Utility Commission, allows it to set rate levels and rate structure at the carrier's discretion, subject only to a cost-based price floor.

In other states, state commissions have taken more conservative steps towards rate deregulation. Since late 2005, eighteen states have approved pricing flexibility or rate deregulation for one or more retail services provided by their LECs, either as a result of increased competition in their markets or the adoption of new regulatory plans, as shown in Figure 5. As in previous years, deregulation was granted mostly for the rates of bundled services, vertical, and business services. Alabama, for instance, has deregulated the rates for bundled and contract services statewide and detariffed most retail services.

### *Recent Developments by Type of Local Exchange Carrier*

#### A. Incumbent Local Exchange Carriers (ILECs)

Table 2 presents the major changes in retail rate regulation of local exchange carriers that occurred between October 2005 and December 2006. During these months nine states, shown in Figure 5, passed new laws that modified the rate regulation of either their largest incumbents (Kansas), other incumbents (Vermont) or all the incumbents in the state (Indiana, Kentucky, Michigan, Mississippi, Missouri, Texas, and Washington).

In seven of these states (Indiana, Kansas, Kentucky, Michigan, Missouri, Mississippi, and Texas) the new laws authorized the respective state commission to grant further rate deregulation of retail services in the state, including service bundles. Nevertheless, utility commissions have maintained some form of rate regulation over basic exchange services to protect local customers from sharp rate increases. Rate control is usually limited a subset of basic services, particularly to stand-alone, single-line residential basic exchange service, although in some cases, like in Kansas, basic business exchange service also remained regulated.[15]

Current regulatory tendencies provide evidence of a shift towards increasing approval of deregulation of basic service rates. Although some of the recently adopted state laws have kept the rates for basic exchange under a price cap or rate freeze, they do so for a limited period of time. In Indiana, for example, stand-alone basic exchange service will be regulated until the expiration of the current regulatory plan for AT&T and

[15] The Kansas law deregulated all retail service bundles statewide and stand-alone services for AT&T and Embarq in exchanges with over 75,000 access lines, with the exception of basic residential basic exchange and business basic exchange for customers with up to four lines.

Verizon in July 2007 and for Embarq in 2008. Similarly, Kentucky's 2006 law froze basic exchange rates of its largest incumbents for five years and of its smaller incumbents for one year. After that, carriers will be able to raise basic exchange rates according to regulation for basic service as applicable on June 2006 or to new pricing proposals presented by a carrier. Idaho provides for the deregulation of Qwest's and Verizon's basic exchange service rates after the current caps expire in 2008 or in 2010 if the current plans are extended by the PUC. Finally, in Michigan, the 2005 law required stand-alone, single-line residential primary basic local service to be provided at "just and reasonable" rates.

In other states, commissions have granted carriers greater flexibility in setting rates for basic services offered by an ILEC in particular exchanges, as well as in certain urban and suburban areas. This pricing flexibility is usually based on commissions' findings of sufficient competition in those geographical areas. In Illinois, for instance, the Commerce Commission gave AT&T pricing flexibility to set the rates for residential service in the Chicago LATA, after approving the carrier's reclassification of this service as competitive in the metropolitan area in November 2005.[16] Nevertheless, rate increases to stand-alone basic service in Chicago are capped to $1 annually. Likewise, the Wisconsin Commission reclassified basic residential services as competitive in 17 cities and suburban areas served by AT&T as a result of competitive showing, granting it rate flexibility in those exchanges. Missouri also deems residential and business services competitive and grants its large and mid-size carriers pricing flexibility if they face competition in an exchange.

"Competition" – for purposes of justifying a reduced regulatory role in ratemaking – is not uniformly defined across the states. Most consider a market competitive if there are at least two other providers serving a geographic area, one of them being a facilities-based carrier. In New Hampshire, a 2005 law gave incumbents other than Verizon the option of having the same regulation as the state CLECs if they can prove to the Public Utilities Commission that most customers have access to competitive wireline, wireless, or IP-based service providers. Texas imposed a more stringent definition, requiring the presence of at least three competitors in addition to the ILEC. Such competitors must include at least one CLEC offering residential service, at least one facilities-based competitor and at least one unaffiliated wireless provider in the same market as the incumbent.[17]

Other states define competition based on a combination of incumbent's market share loss and the presence of a certain number of competitive providers. Alaska, for

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[16] In the Illinois Commerce Commission's final Order in Docket No. 06-0027, the Commission approved a competitive classification for all of AT&T Illinois' residential services in MSA-1 with the exception of three so-called "legislative packages" which Section 13-518 of the Act requires AT&T to offer. See http://www.icc.illinois.gov/e-docket/reports/view_file.asp?intIdFile=191869&strC=bd.

[17] These criteria for rate deregulation apply to markets with population between 30,000 and 100,000.

example, ILECs are considered “non-dominant” and given pricing flexibility for all retail services but single-line basic exchange in markets where an incumbent faces two or more facilities-based local exchange competitors or have lost over 40 percent market share, and provides essential exchange access to less than 50 percent of the market.

Other regulatory changes occurring during the 2005-2006 period included the adoption or review of ILECs’ regulatory plans in seventeen states, as shown in Figure 5. In Idaho, Missouri, New York, North Carolina and South Carolina small incumbents, such as Frontier, Windstream, Frontier of Rochester, Concord Tel and other incumbents, petitioned for and were approved to change from ROR regulation to price cap status. Verizon was approved for a similar change in New York.

In Maryland, the Public Service Commission approved a settlement agreement for Verizon that allows the carrier to moderately increase its basic rates. Ohio and Vermont linked the approval of modified plans for their RBOCs to broadband commitments from the carriers. In Ohio, the Basic Local Exchange Service (BLES) alternative regulation plan provides AT&T and Cincinnati Bell pricing flexibility for local telephony and caller ID services in selected competitive exchanges. In return, the carriers must meet company-specific commitments for expanded availability of advanced services, adhere to minimum service quality standards, and expand the offer of enhanced Lifeline plan. In Vermont, Verizon’s new plan eliminated existing rate reduction and specific dollar investment requirements in return for the carrier’s commitment to make all central offices DSL capable and expand DSL availability to 80 percent of the subscribers by 2010.

The year 2006 also witnessed the resolution of a suit over Qwest’s network investment shortfall in New Mexico. The New Mexico Public Regulation Commission (PRC) opened a docket in July 2004 to determine whether Qwest was on schedule to meet the investment commitments of its alternative form of regulation plan (AFOR 1). The PRC staff concluded that Qwest would fall short on its commitment and requested a refund. After litigation, in December of 2006, the Commission staff reached a settlement agreement with Qwest, approved by the Commission, for an amount of $270 million. These funds will be distributed among an educational technology project, quality of service credits to customers and investment projects, including broadband deployment.

In the next section, we discuss the major changes on CLEC retail rate regulation that occurred during the October 2005 to December 2006 period.

### B. Competitive Local Exchange Carriers (CLECs)

In 2006, competitive local exchange carriers faced less regulatory oversight throughout the states, as part of the deregulatory trends discussed above. As illustrated in Figure 5, retail rate regulation for CLECs changed in seven states. State laws approved last year in Indiana, Kentucky, and Michigan deregulated CLEC retail rates on the assumption that they were competitive. In Mississippi, a 2006 state law granted deregulation of CLEC rates for carriers that meet specific requirements, including customer notices, tariff filing, and website itemization. The new Uniform Regulatory

Framework adopted in California had a similar effect on CLEC rates, which are no longer Commission-reviewed, except for the level at which initial rates are set. Finally, utility commissions in Alabama and Vermont lifted tariff filing requirements of their CLECs.

For the first time since 2002, rate deregulation became the prevalent trend among CLECs, with 25 states no longer reviewing their rates;[18] this number is closely followed by states using rate flexibility for their CLECs (21 states), as shown in Table 6 and Figure 4. Only five states (Florida, Michigan, Mississippi, New Jersey, and Virginia) impose some price regulation over CLEC services. These states either review rates for specific services, particularly basic exchange service[19] (Florida, Michigan, Mississippi, and New Jersey) or require CLECs to set rates at or below those of the incumbent (Virginia).

Some states under pricing flexibility also impose caps over certain CLEC rates. In Colorado, for example, CLEC rates are presumed competitive by legislature, but the state law requires that residential basic exchange rates for all providers be set below a statewide cap. Missouri caps CLEC access charges at the incumbent's rate and Pennsylvania considers CLEC rates competitive as long as they are at or below those of the incumbent.

Although CLECs are required to file tariffs or price lists in most states, an increasing number of states are beginning to exempt CLECs from this requirement. As of December 2006, Montana, Nevada, North Carolina, Oregon, Vermont, Washington, and Wisconsin no longer require tariff filing. CLECs are also getting flexibility on the time period required for rate change notices. Illinois and Wyoming, for instance, only require carriers to give a days' notice; Indiana, Kentucky, Montana, Nevada, North Carolina, North Dakota, Oregon, Texas, and Washington do not require a notice anymore, so tariffs are valid upon the effective date. Table 4 provides greater detail on state commission requirements for CLECs regarding certification, rate filings, rate changes, reviews, and notifications.

### *Summary and Structure of the Report*

Since October of 2005, several state legislatures and commissions have approved the adoption of pricing flexibility and rate deregulation plans not only for their incumbent providers but also for their already flexibly regulated CLECs. New state laws and regulatory plans have deregulated certain carriers based on their size, such as telephone cooperatives and other smaller incumbents; certain urban centers, based on their population size, and particularly the rates of certain services, such as bundled and competitive services. The rates for stand-alone basic exchange services, which had remained regulated in most states until recently, are now beginning to be flexibly

[18] South Carolina only exempts from rate review those CLECs that choose a "presumptively valid" tariffing status.

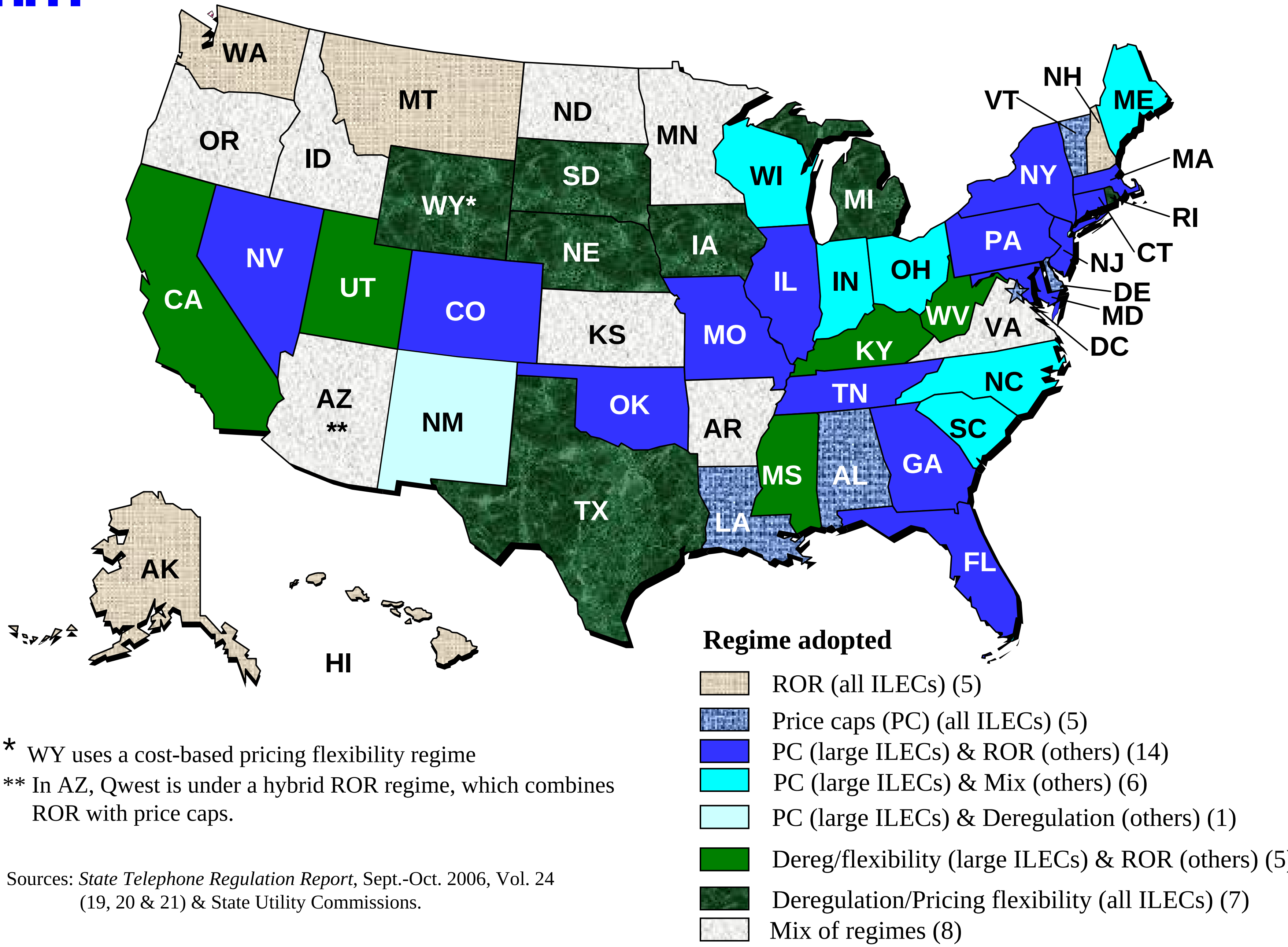
[19] Mississippi and New Jersey also review rates for other nonbasic services.

regulated in some states and scheduled to be deregulated in others. Based on statutes, rules, and Alternative Forms of Regulation (AFOR) plans now in place in several states, rate deregulation of *all* retail local exchange services provided by the largest incumbents or by all the ILECs in a state will be in effect in at least ten percent of the states by 2010.

The second section of this report includes tables that provide increasing levels of detail regarding the forms of retail rate regulation of LECs used in each state. Table 1 gives an overview of the forms of pricing regulation each state applies to its large incumbents, other incumbents, and CLECs. Tables 3 and 4 provide greater detail on the rate regulation plans of ILECs and CLECs, respectively, including information on earnings regulation, notice periods, as well as requirements on infrastructure investment and quality of service. Table 6 summarizes the previous information by classifying states based on the type of rate regulation regime applied to their ILECs and CLECs. Figures 1 and 4 illustrate this information for ILECs and CLECs, respectively. Figure 2 shows the rate regulation regime applied to the four RBOCs in their in-region states, while states with ILECs still under rate of return regulation are illustrated in Figure 3.

For information on rate regulation changes that occurred from October 2005 to December 2006, refer to Table 2. Figure 5 illustrates these changes, indicating the states that adopted new state laws, new regulatory plans, deregulated services, or changed CLEC regulation during the 2005-2006 period. Finally, Table 5 lists the states using regulatory regimes different from price caps.

# II. Figures and Tables




* 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*, Sept.-Oct. 2006, Vol. 24 (19, 20 & 21) & State Utility Commissions.

**Fig. 1.** Retail rate regulation of incumbent local exchange carriers (as of December 2006).

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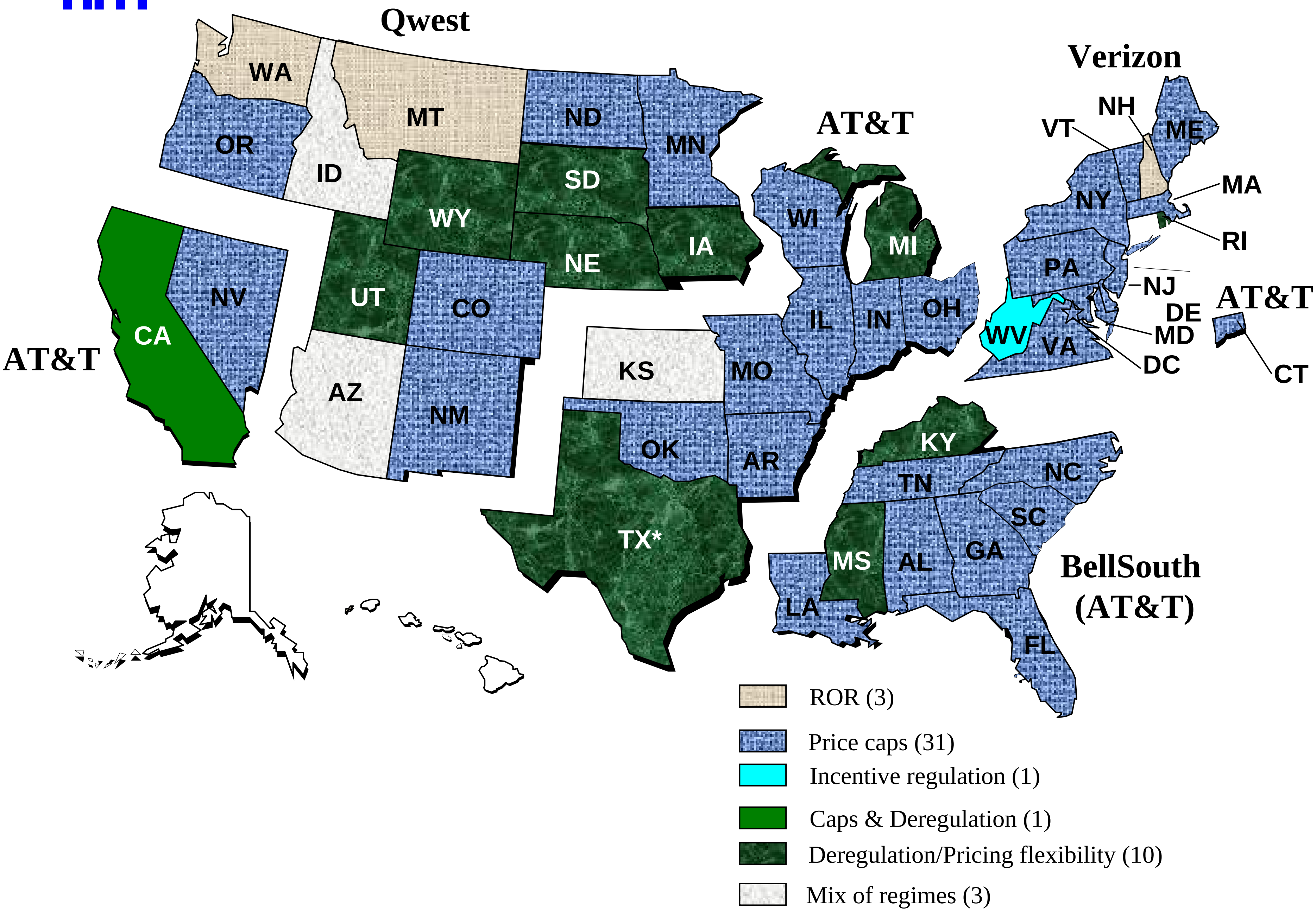
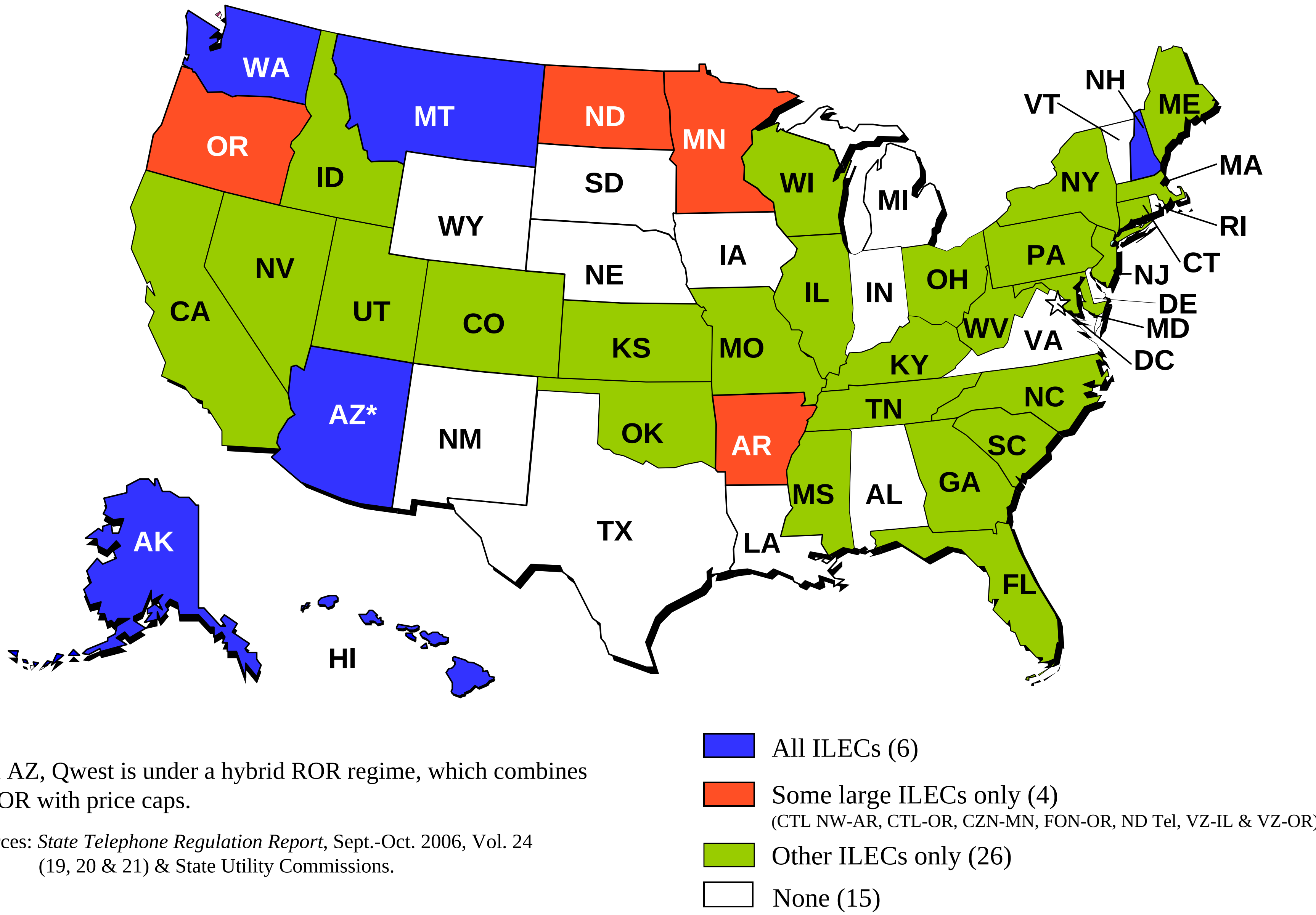


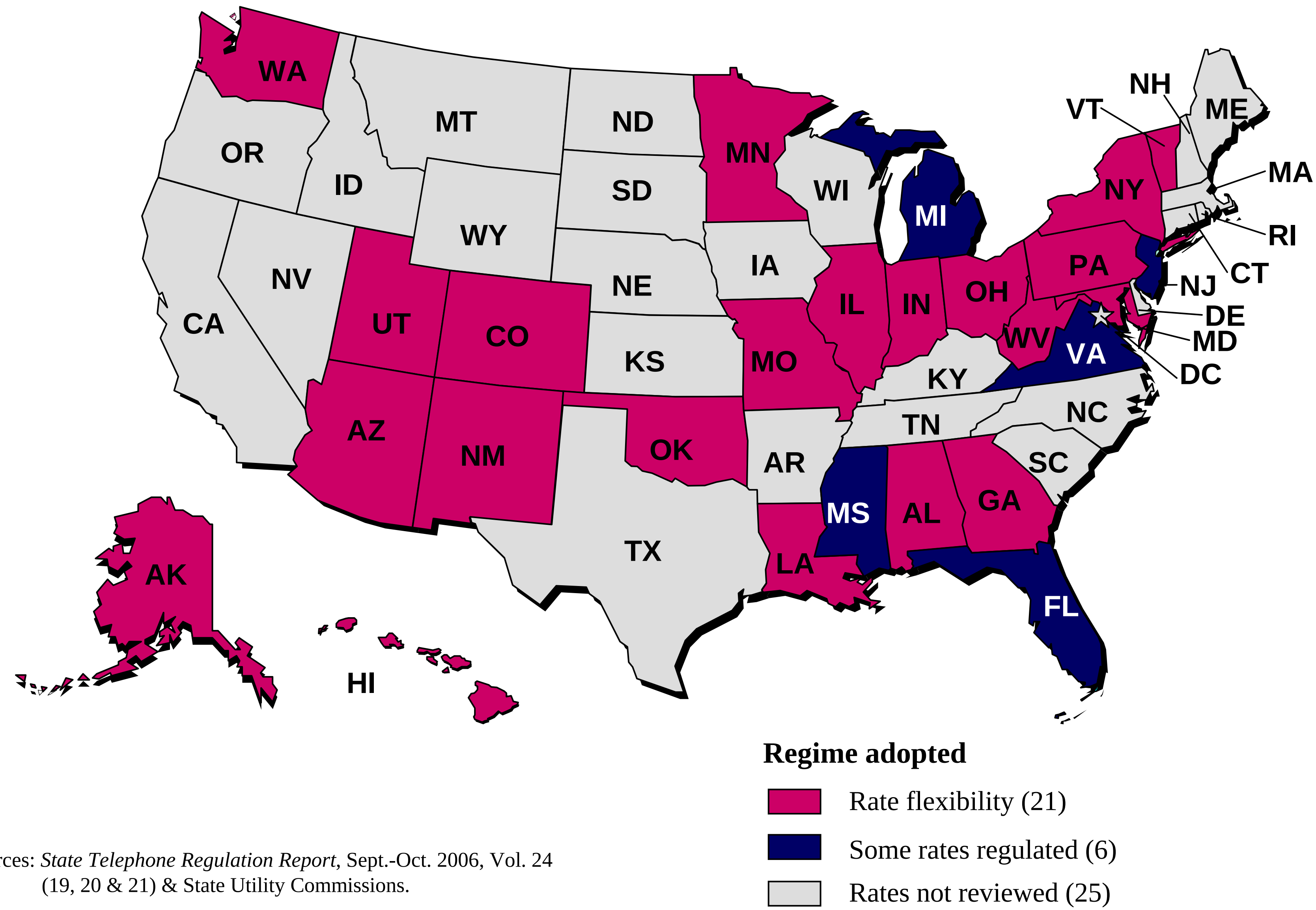

**Fig. 2.** Retail rate regulation regime of the state RBOC (as of December 2006)




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

Sources: *State Telephone Regulation Report*, Sept.-Oct. 2006, Vol. 24 (19, 20 & 21) & State Utility Commissions.

**Fig. 3:** States with incumbent local exchange carriers under Rate-of-Return regulation (as of December 2006)




Sources: *State Telephone Regulation Report*, Sept.-Oct. 2006, Vol. 24 (19, 20 & 21) & State Utility Commissions.

**Fig. 4**: Retail rate regulation of competitive local exchange carriers (as of December 2006).

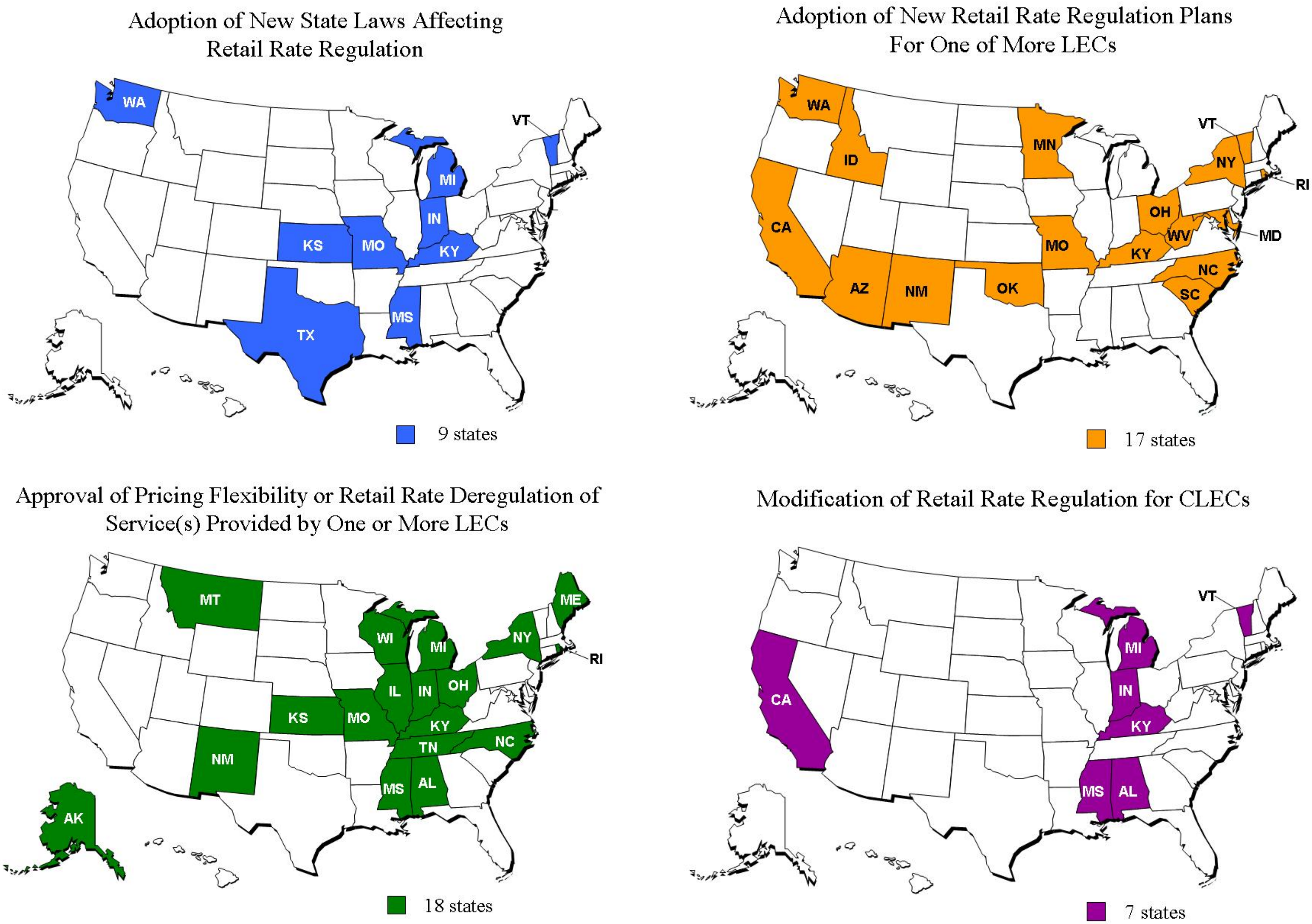



**Fig. 5.** Major changes in state retail rate regulation of Local Exchange Carriers (October 2005 - December 2006)

# Table 1
# State Retail Rate Regulation of Local Exchange Carriers
# (As of December 2006)

| State | Large Incumbents | Other Incumbents | CLECs |
|---|---|---|---|
| AL | **All**: *Price caps (1996)*.<br>Nonindexed price caps for basic exchange and access rates. Other services can rise up to 10% per year, in aggregate, with rate design subject to PSC review. Carriers have two other regulatory options: (1) Flexible capping system that bases rate regulation on population density (urban areas, less dense suburbs & rural areas), or (2) phased deregulation regime.<br><br>A 2005 state law gave incumbents a second option of phased retail rate deregulation. Under this option carriers will deregulate bundled and contract services statewide in July 2006 and detariffed most retail services in February 2007. Starting 2008, incumbents facing at least 2 local competitors will be allowed to opt out of state retail rate regulation. | | *Rates regulated flexibly.*<br>Starting Feb. 2007, CLECs can opt for detariffing of most retail services. |
| AK | **Large (More than $500,000 annual revenue)**: *Streamlined ROR (1992).* In noncomptetitive markets, rate cuts and increases of up to 6% can be decided in as few as 45 days under ROR principles in annual filings. Other changes require full rate case.<br>In markets designated competitive (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 state review.<br><br>In markets where an incumbent faces 2 or more facilities-based local exchange competitors or has lost over 40% market share, and provides essential exchange access to less than 50% of the market, the incumbent is considered nondominant and gets broad pricing flexibility for all retail services other than single-line basic exchange. Basic exchange in such nondominant competitive markets can increase up to 8% annually.<br>Nondominant incumbency can be determined by market or by specific services within a market. | **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.<br>In markets where an incumbent faces 2 or more facilities-based local exchange competitors or has lost over 40% market share, and provides essential exchange access to less than 50% of the market, the incumbent is considered nondominant and gets broad pricing flexibility for all retail services other than single-line basic exchange. Basic exchange in such nondominant competitive markets can increase up to 8% annually.<br><br>**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 its rate base). Price cap system has local rates frozen; other nonbasic and emerging competitive services can rise up to 25% per year, subject to a basket revenue cap. Competitive services flexibly priced, but subject to revenue cap for entire basket of competitive services. | *Fully-tariffed ROR* (earnings-based regulation pegged to ROR on "fair value" of rate base). No price flexibility. | *Rates regulated flexibly*.<br>Major rate changes may be subject to hearings.<br>State constitution mandates relationship between CLEC rates and "fair value" of their rate base. "Fair value" issues solved in case-by-case basis. |

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# Table 1
## State Retail Rate Regulation of Local Exchange Carriers
## (As of December 2006)

| State | Large Incumbents | Other Incumbents | CLECs |
|---|---|---|---|
| AR | **AT&T, Windstream, CenturyTel of Central AR**: *Price caps (1997)*. Indexed price caps for basic exchange and switched access (75% of GDP-PI). Rates for all other services deregulated.<br><br>**Century Tel of Northwest AR:** *ROR* in access lines bought from Verizon in 2000**.** | *Price caps (1997)* that permits basic exchange services to rise annually by lesser of 15% or $2 per line monthly. All other service rates deregulated. | *Rates not reviewed.*<br>CLECs must contribute to state universal service fund regardless of whether they are eligible to receive subsidies from fund. |
| CA | **AT&T, Verizon, Surewest Telecom, Frontier**:<br>*Rate deregulation (2006)*. Residential basic exchange and Lifeline under nonindexed caps until January 1, 2009. Rates for all other retail services deregulated in Oct.2006, except that companies must file tariffs and give customers 30 days' notice of rate increases. | *ROR* | *Rates not reviewed.* |
| CO | **Qwest:** *Price caps (2005)***.** Nonindexed price caps for basic exchange on first residential line and first 5 business lines. Statewide deregulation of intrastate long distance 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*.<br>Residential basic exchange rate can't exceed $14.74 statewide cap set by state law for all providers.<br>Bundled rates can't exceed cumulative stand-alone rates of services comprising bundle. |
| CT | **AT&T**: *Price caps (1996-2007)*. Indexed price caps (GDP-PI) for noncompetitive services. Caps levels don't change unless GDP-PI exceeds 5% per year, when caps can rise by half the amount over 5%. Competitive services flexibly priced. X-Factor= 5%.<br><br>**Verizon:** *Price caps (1999-2007).* Basic, noncompetitive services and competitive services flexibly regulated, under same regulation as AT&T'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% productivity-gain offset) for basic services, plus approved exogenous costs. Competitive services flexibly priced. In June 2005, PSC concluded review of plan by extending it unchanged until September 2011. | No other incumbents | *Rates not reviewed.*<br>Rates presumed competitive, so long as they exceed floor set at incremental cost. Carriers must attest to this, but Commission reserves the right to have the CLEC provide cost data to demonstrate rates are above cost. |

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# Table 1
## State Retail Rate Regulation of Local Exchange Carriers
## (As of December 2006)

| State | Large Incumbents | Other Incumbents | CLECs |
|---|---|---|---|
| DC | **Verizon:** *Price caps (2006)*. Rate freeze on residential dial tone until 12/31/05. Thereafter, VZ has the option of increasing the dial tone rate by 32¢. Rate would remain in effect for duration of plan. Other basic residential and business rates may be increased by up to 10% each year, but percentage revenue can't exceed annual inflation rate. Discretionary service rates can rise up to 15% annually, but percentage revenue can't exceed annual inflation rate. Competitive services not rate regulated, but must be priced above incremental cost. | No other incumbents. | *Rates not reviewed.* |
| FL | **BellSouth, Verizon, Embarq:** *Price caps (1995 statute)*. Indexed price caps (GDP-PI - 1%) for basic services. Rates for nonbasic services categories can be increased up to 6% per year in noncompetitive markets and up to 20% a year in competitive markets.<br><br>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 (3 years for Sprint, now Embarq). PSC in Dec. 2003 approved plan to give the 3 companies $344 million total in local rate increases. | *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.* | *Some rates reviewed.* CLECs providing both residential and single line business basic service are required to file price lists. |
| 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, 9 remain under *ROR*; the other 25 are under price caps. | *Rates regulated flexibly.* |
| HI | **Hawaiian Telcom (formerly Verizon):** *ROR.* State law requires cost-based and earnings-based regulation until PUC determines effective local competition exits. | No other incumbents | *Rates regulated flexibly*. |
| ID | **Qwest, Verizon**: *Nonindexed price caps* in basic local exchange under 5 lines. Annual rate increases limited to 10%. Caps scheduled to end in 2008.<br>*Service deregulation (1989)* for all other retail services except basic local exchange provided to accounts with fewer than 5 lines. | *ROR*. Carriers have the option to petition for rate deregulation.<br><br>Frontier has already petitioned for deregulation, which will become effective 3/1/2007. After this date Frontier will be under a price cap regime similar to that of Qwest and Verizon, with an expiration date of 2010.<br>Mutual companies are not under PUC jurisdiction. | *Rates not reviewed*. |

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# Table 1
## State Retail Rate Regulation of Local Exchange Carriers
## (As of December 2006)

| State | Large Incumbents | Other Incumbents | CLECs |
|---|---|---|---|
| IL | **AT&T**: *Price caps (1995)*. Residential rates and other noncompetitive services under caps indexed to GDP-PI minus 3%. In 2006 AT&T froze rates for 3 specific residential packages in Chicago LATA until 2010. Competitive services flexibly priced, including retail business services statewide and residential services in the Chicago LATA, which were deemed competitive. Stand-alone basic exchange monthly rises in Chicago, however, can't exceed $1 annually. | *ROR*<br>Incumbents under 35,000 lines have broad pricing flexibility for all services, subject to earnings constraints and to regulatory review upon petition by 10% of affected retail customers. | *Rates regulated flexibly*.<br>CLECs in state universal service fund are subject to fund's rate benchmarking rules. |
| IN | **AT&T:** *Price caps*. Basic residential and business services under 5 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% of shared and common costs.<br>Under a 2006 deregulatory law, rates for all AT&T retail services, except stand-alone basic exchange, will be deregulated when current plan expires July 2007; basic exchange increases will be limited to $1 annually.<br><br>**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% of shared and common costs.<br>Under a 2006 deregulatory law, rates for all VZ retail services, except stand-alone basic exchange, will be deregulated when current plan expires at the end of 2007; basic exchange increases will be limited to $1 annually.<br><br>**Embarq**: *Price caps*. Basic res. and small bus. serv. under nonindexed caps. Vertical serv. can have cumulative annual increases limited to 8.75% of annual revenues for serv. in this basket. Rates for all other retail serv. and bundles deregulated. Price floors of TSLRIC plus 10% apply.<br>Under a 2006 deregulatory law, rates for all Embarq retail services, except stand-alone basic exchange, will be deregulated when current plan expires at end of 2008; basic exchange increases will be limited to $1 annually. | **Investor-owned incumbents with fewer than 30,000 lines**: *Pricing flexibility,* but earnings still may be reviewed.<br><br>**Telephone cooperatives**: *deregulated.*<br><br>Under a 2006 law taking effect March 2006, other incumbents' retail rates, except for stand-alone basic exchange, will be deregulated. Basic exchange increases will be limited to $1annually. | *Rates regulated flexibly.*<br>Under a 2006 law that took effect March 2006, all CLEC rates are presumed competitive and deregulated. CLECs must obtain state certificate by showing technical, financial and managerial competence. |

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# Table 1
## State Retail Rate Regulation of Local Exchange Carriers
## (As of December 2006)

| State | Large Incumbents | Other Incumbents | CLECs |
|---|---|---|---|
| IA | **Qwest, Iowa Telecom Services, Frontier Communications of Iowa**: *Rate deregulation (2005).* Single-line flat-rated residential and business service rates under caps indexed to the annual percentage change in the GDP-PI as reported by the Federal government.<br>In addition, rates can rise by $1 per year for residential service or $2 per year for business service up to a statewide cap of $19 monthly for residential service and $38 for business service until July 1, 2008. Other retail service rates are deregulated. Full rate deregulation allowed in any market where competitive alternatives exist. | *Rate deregulation*. 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 not reviewed*.<br>CLEC local calling areas are supposed to coincide with incumbent's, but CLECs can petition for waiver. |
| KS | **AT&T, Embarq:** *Price caps (1997) with rate deregulation (2006)* for all retail service bundles statewide, and all other stand-alone services in exchanges over 75,000 access lines, except for initial single-line residential basic exchange and the business basic exchange for customers with up to 4 lines.<br>Deregulation can be extended to exchanges with fewer than 75,000 access lines, but companies will have to provide evidence that there are at least two competitive carriers, one of which must be facilities-based. | ROR. Can file for price cap regulation and associated price deregulation. | *Rates not reviewed*. |
| KY | **BellSouth**: *Rate deregulation (2006)*. Stand-alone, single-line basic exchange service rates frozen for 60 months after election of plan. After that, rates can rise according to applicable regulation for basic service on June 30, 2006, or a previously approved or new price regulation proposal for basic service. Deregulation of all other retail services.<br><br>**Cincinnati Bell**: *Rate deregulation (2006)*. Stand-alone, single-line basic exchange service rates frozen for 60 months after election of plan. After that, rates can rise according to applicable regulation for basic service on June 30, 2006, or a previously approved or new price regulation proposal for basic service. Deregulation of all other retail services.<br><br>**Windstream**: *Rate deregulation (2006).* Stand-alone, single-line basic exchange service rates frozen for 60 months after election of plan. After that, rates can rise according to applicable regulation for basic service on June 30, 2006, or a previously approved or new price regulation proposal for basic service. Deregulation of all other retail services. | ROR. 15 other incumbents have option to propose price caps or other alternatives to ROR. A 2006 state law also gave smaller incumbents the option of rate deregulation, but with only one-year basic exchange rate freeze. | *Rates not reviewed* |

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# Table 1
## State Retail Rate Regulation of Local Exchange Carriers
## (As of December 2006)

| State | Large Incumbents | Other Incumbents | CLECs |
|---|---|---|---|
| LA | **BellSouth**: *Price caps (1996)*. Nonindexed price caps for basic residential and single-line business basic services, except for rate changes intended to consolidate 8 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, which are capped at May 2002 levels.<br><br>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 sufficient competition exists. | *ROR*. Carriers can petition for pricing flexibility. In Jan. 2006 PUC granted pricing flexibility to Pine Tree Telephone and Saco River Telephone, affiliates of Country Road Communications, for basic and contracted services. The companies, however, remain under a ROR plan.<br><br>In response to 2006 legislative directive, PUC and industry are developing a streamlined process for establishing alternative regulation of incumbents other than Verizon. | *Rates not reviewed.* |
| MD | **Verizon**: *Price caps (1996-2007. Revised 2005)*. Basic services capped at current levels until 11/23/07, then permitted to escalate at the rate of inflation as measured by GDP-PI. Other noncompetitive services under caps indexed to 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.* |
| MI | **AT&T & Verizon**: *Rate deregulation (2005)*. Stand-alone, single-line residential primary basic local exchange service (PBLES) must be offered at a "just and reasonable" price. Rates for all other retail services deregulated. | *Rate deregulation (2005).* Stand-alone, single-line residential primary basic local exchange service must be offered at "just and reasonable" price. Rates for all other retail services deregulated. | *Some rates reviewed.* CLEC rates for stand-alone, single-line residential primary basic local exchange service must be offered at "just and reasonable" prices. All other CLEC retail rates deregulated. |

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# Table 1
## State Retail Rate Regulation of Local Exchange Carriers
## (As of December 2006)

| State | Large Incumbents | Other Incumbents | CLECs |
|---|---|---|---|
| MN | **Qwest**: *Price caps (1999-2009)*. Nonindexed caps for residential and business basic exchange through 2008; then can rise $1 monthly in final year. Other basic and emerging competitive services flexibly priced. Rates for fully competitive services deregulated.<br><br>**Embarq, Frontier**: *Price caps (1996-2007)*. Nonindexed caps for basic services. Nonbasic and emerging competitive services flexibly priced. Rates deregulated for fully competitive services.<br><br>**Citizens Telecom**: *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% 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**: *Deregulation (2006)*. Rates for stand-alone, single-line basic exchange service and switched access service can be increased only by the change in CPI-Urban index from January 1 of the prior year, beginning January 1, 2007. All other retail services were deregulated, effective July 2006. | *ROR.* Under 2006 state law, other incumbents may adopt BellSouth's deregulation regime if they can demonstrate to the PSC that they face two or more active local competitors or have endured substantial business losses to competitors. No Incumbents were deregulated as of December 2006. | *Some rates regulated*. Basic exchange service, vertical and discretionary services.<br>A 2006 deregulation law allows CLECs to request deregulation of services assuming they meet each of the requirements included in the legislation. The most significant requirements are:<br>1) provision of customer notice through customer service agreements;<br>2) appropriate filing of tariffs to detariff all services other than basic local exchange and switched services; and<br>3) website itemization and pricing of all detariffed services. |
| MO | **AT&T, CenturyTel, Embarq, Spectra, Windstream**: *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% annually. Deregulation of rates for bundled services. Residential and/or business services are deemed competitive and subject to pricing flexibility in any exchange where 2 or more local competitors operate. | *ROR* for other investor-owned incumbents.<br>A 2005 state law allows the state's 39 other incumbents to seek price cap status in any exchange where 2 or more wireless providers operate. Only Alltel Communications, now Windstream, requested price cap status under the new law and its request was granted (effective 10/14/05). | *Rates flexibly regulated*.<br>Rates presumed competitive except for access charges, which are capped at incumbent's rate. |

# Table 1
## State Retail Rate Regulation of Local Exchange Carriers
## (As of December 2006)

| State | Large Incumbents | Other Incumbents | CLECs |
|---|---|---|---|
| MT | **All investor-owned incumbents**: *ROR*.<br>**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. | **Investor-owned incumbents under 12,000 lines**: *Full pricing flexibility*, but earnings still count in ROR calculations<br><br>**Rural telephone cooperatives**: *Deregulated.* | *Rates not reviewed*.<br>CLECs rates are not regulated; the companies must comply with PSC's telecom service rules. |
| NE | **All**: *Rates deregulation*.<br>PSC can roll back excessive residential local rate increases in exchanges without competition upon petition by affected ratepayers. Basic exchange rate increases exceeding 10% get automatic review, unless telco has under 5% of state total access lines, in which case review threshold is 30%. Companies receiving universal service funding may be affected by 12% earnings benchmark set by PSC in 2001, as well as by benchmark rates of $17.50 residential and $27.50 business. | | *Rates not reviewed*.<br>Rate changes aren't reviewed, except if a basic exchange increase exceeds 30%. CLECs in state universal service fund are subject to fund's rate benchmarking rules. |
| NV | **Embarq** (1996-2007): *Price caps*. Basic service under nonindexed caps. Rate cuts allowed but not increases. Nonbasic services can increase up to 5% annually to cumulative total 20% increase. Competitive services flexibly priced. Broadband services and business services provided under customer-specific contracts deregulated.<br><br>**AT&T**: *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*.<br>General guidelines for alternative regulation were adopted in 1996. Only Kearsarge Telephone has applied 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. A price cap plan proposal filed by Verizon in spring 2006 was withdrawn in Sept. 2006. | | *Rates not reviewed* |

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# Table 1
## State Retail Rate Regulation of Local Exchange Carriers
## (As of December 2006)

| State | Large Incumbents | Other Incumbents | CLECs |
|---|---|---|---|
| NJ | **Verizon**: *Price caps (2005)*. Statewide basic residential and business caps fixed at $8.95 and $15.00 respectively. Business rates for customers with 2 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. First tariffs presumed reasonable. Increases in rates for basic exchange, vertical services & switched access require cost justification. For other services, rate changes normally not reviewed. |
| NM | **Qwest**: *Price caps (2001-2006)*. Nonindexed caps for basic services. Nonbasic services capped at average of rates in Qwest's 14-state home region. Competitive service rates deregulated. Qwest's approved AFOR II Plan will begin in January 2007.<br><br>**Windstream**: *Price caps (2006-2010)*. Basic exchange under caps indexed to inflation rate for telecom services. Nonbasic service rates can increase 5% annually. Bundled service rates deregulated but must stay above cost floor. Vertical services can increase up to 20% a year combined, exact amount allowed each year determined by formula. | *Rates not reviewed*. Other incumbents with less than 50,000 lines were deregulated. Basic residential rates increases subject to regulatory review if 2.5% of ratepayers affected or if PRC staff protest the increase. | *Rates regulated flexibly*. |
| NY | **Verizon**: Price caps *(2006)*. Unlimited local service rate can rise in annual increments of $2 to absolute cap of $23 monthly. Dial-tone charge in measured local service also can rise up to $2 for 2 years, with PSC approval required for measured-rate increases in 2008 and beyond. Rates for nonbasic, optional, discretionary and competitive services are deregulated.<br><br>**Frontier Telephone of Rochester:** *Price caps (2006)*. Unlimited local rate can increase $2 annually for 2 years. PSC approval required for local increases from 2008 on. Dial-tone charge in measured local service also can rise up to $2 for 2 years, with PSC approval required for measured-rate increases in 2008 and beyond. Rates for nonbasic, optional, discretionary and competitive services are deregulated. | *ROR.*<br><br>In 2006, six affiliate companies of Frontier Communications petitioned for the same pricing flexibility granted Verizon and Frontier of Rochester (Case 06-C-1261). Case is still pending as of March 2007. | *Rates regulated flexibly*. |

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# Table 1
## State Retail Rate Regulation of Local Exchange Carriers
## (As of December 2006)

| State | Large Incumbents | Other Incumbents | CLECs |
|---|---|---|---|
| NC | **BellSouth**: *Price caps (2005)*. Indexed price caps. Basic service rates can rise up to 10%, subject to revenue cap for moderate-price-flexibility basket equal to 1.5 times annual GDP-PI. Vertical and nonbasic residential services can rise up to 20%, subject to basket revenue cap equal to 2.5 times annual GDP-PI. BellSouth's business services, other than basic exchange and installation, were classified as competitive, detariffed and given total pricing flexibility. Basic business and installation remain in moderate-flexibility basket. | **Verizon:** *Price caps* (2005). Basic serv. rates can rise up to 10% subject to basic basket revenue cap of 1.5 times annual GDP-PI. Vertical, nonbasic and competitive service rates under same terms as BS.<br>**Embarq (Central, Carolina Telephone & Telegraph)**: *Price caps* (2005). Basic serv. rates can rise up to 12% subject to moderate-price-flexibility basket revenue cap equal to annual GDP-PI. Vertical, nonbasic and competitive service rates under same terms as BS.<br><br>**North State:** *Price caps.* Basic, Interconnection, and Non-Basic 1 categories services under caps indexed to GDP-PI minus 2%. Individual rate elements cannot exceed the following percentage change in the GDP-PI plus: Basic - 3%; Interconnection - 7%; and Non-Basic 1 - 15%. Other services grouped in baskets with service-specific caps.<br><br>**Mebtel, Randolph Telephone & Windstream:** Individual rate elements, including basic service, can rise up to 10% annually, subject to aggregate revenue cap for moderate-pricing-flexibility basket equal to 1.5 times the increase in the GDP-PI per year. Vertical and nonbasic services can rise up to 20% annually, subject to an aggregate revenue cap for the High-pricing-flexibility basket equal to 2.5 times the increase in the GDP-PI per year.<br><br>**Concord Telephone**: Individual rate elements, including basic service, can rise up to 12% annually, subject to aggregate revenue cap for moderate-pricing-flexibility basket equal to the increase in the GDP-PI per year. Same requirements as Mebtel for the High-pricing-flexibility basket.<br><br>**Seven small incumbents** under ROR. | *Rates not reviewed*. |
| 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).<br><br>**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. Some carriers have elected regulation of intrastate access charges. | *Rates not reviewed.* |

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# Table 1
## State Retail Rate Regulation of Local Exchange Carriers
## (As of December 2006)

| State | Large Incumbents | Other Incumbents | CLECs |
|---|---|---|---|
| OH | **AT&T/Verizon/ Embarq/ Cincinnati Bell/ Alltel/ Century Tel/ Champaign Tel/ Chillicothe Tel/ TSC/ Western Reserve**: *Price cap Alternative Regulation*. Rates are set at the existing rates when adopting the plan. Rates for certain vertical services and specialty business services frozen 2 years from effective date of each individual telco's plan and then can increase up to cap of double the initial rate. All other retail rates deregulated.<br><br>*Basic Local Exchange Service (BLES) Alternative Regulation*: Same as above except basic local rates not frozen if PUC finds markets competitive on exchange by exchange basis.<br><br>**AT&T & Cincinnati Bell**: Under their approved pricing flexibility plans (BLES Alt Reg) basic local telephone service rates cannot increase by more than $1.25 annually and 50 cents annually for caller ID. Lifeline customers will not see any increase. | *ROR (traditional or streamlined)*. 33 remaining incumbent carriers have choice of opting into PUC's generic alternative regulation plan (i.e., "off-the-shelf") or propose a company-specific regulation plan. | *Rates flexibly regulated.* CLECs regulated under the Competitive Retail Service Rules (4901:1-6 Ohio Administrative Code), which allows retail pricing flexibility. |
| OK | **AT&T**: *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%.<br>In Service Basket 3, if the competitive test is met, then pricing flexibility is capped at 12% per year. If the competitive test is not met, then pricing flexibility is equal to the change in inflation -1%. 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% of ratepayers protest. Price flexibility for competitive services, but revenues count in rate-of-return calculations. | *Rates flexibly regulated*. CLEC services are flexibly priced above cost floor. |
| OR | **Qwest**: *Price caps (2000)*. Rate freeze for residential and small business basic exchange, PBX trunks, and payphone access services, but can be changed by PUC for good cause. 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.<br><br>**Verizon, Sprint, 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 10% of affected ratepayers petition for review. | *Rates not reviewed*. |

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# Table 1
## State Retail Rate Regulation of Local Exchange Carriers
## (As of December 2006)

| State | Large Incumbents | Other Incumbents | CLECs |
|---|---|---|---|
| PA | **Verizon PA, Verizon North, Embarq, Windstream & 20 other incumbents**: *Price caps (2002).* All the ILECs are held to a $18 residential dialtone "ceiling". If residence dialtone rate exceeds $18, difference is credited from PA Universal Service Plan (does not apply to VZ PA or VZ North). Only ILECs (except Verizon PA and Verizon North) are eligible to receive disbursements from the state USF. Other services under rate flexibility. The Commission has not set specific rates for any particular nonbasic service. Under the 2004 state law, ILECs may declare services as competitive. Staff frequently requires companies to justify rates that appear to be excessive.<br><br>All telcos were required to restructure their access charges so fixed costs would be recovered through flat rates. A Dec. 2004 state law offered reduced productivity offset in price cap formulas in exchange for an amended network modernization plan and accelerated broadband deployment. Further incentives apply for rural ILECs committing to 100% broadband availability by 2008. | *Streamlined and traditional ROR.* 9 ILECs, with generally less than 10,000 access lines, operate under a Streamlined Regulation Plan with aspects of ROR. Four extremely small ILECs continue operations under traditional ROR.<br><br>In 2004, ILECs serving less than 50,000 access lines were granted a suspension of TA-96 251(b) and (c) until Dec. 2008, thereby delaying entry of non-facilities-based CLECs in their service areas. | *Rates flexibly regulated.*<br>A Dec. 2004 state law capped CLEC access charges at incumbents' level and freed CLECs from Lifeline and residential service obligations. |
| RI | **Verizon**: *Price floor (2006)*. All retail rates can be anywhere above cost floor set at long run incremental cost. Rate levels and rate structures are entirely at Verizon's discretion, subject only to cost floor. | No other incumbents | *Rates reviewed, but normally not questioned.* |
| 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% per year. Rate deregulation for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle.<br><br>**Embarq & Verizon**: *Price caps (1999). Basic services under* caps indexed to CPI; other services flexibly priced. Cumulative effect of all rate changes for all other services can't increase total revenues more than 5% per year. 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. Thirteen incumbents have opted in. Basic residential and business services capped at statewide average rates. Other nonbasic under caps indexed to national CPI. Price flexibility for competitive services, subject to revenue cap for competitive basket equal to 5% annually. 2005 state law deregulated rates for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle<br>*ROR.* Remaining other incumbents. | *Rates not reviewed*.<br>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*. |

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# Table 1
## State Retail Rate Regulation of Local Exchange Carriers
## (As of December 2006)

| State | Large Incumbents | Other Incumbents | CLECs |
|---|---|---|---|
| TN | **BellSouth, Citizens Telecom, Embarq:** *Price caps (1996).* Indexed price caps (lesser of one-half GDP-PI or GDP-PI - 2%) for all services. Rates for bundled services, customer-specific service contracts, business toll and high-speed digital services for businesses of price-regulated incumbents are deregulated. Rate changes exceeding caps allowed as part of revenue-neutral rate rebalancing, expansion of local calling areas or rate group changes. | *ROR.* Option to switch to price caps or other alternatives to ROR. | *Rates not reviewed*. |
| TX | **Regulated ILECs:** *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. Residential call waiting service became a nonbasic service as of July 1, 2006.<br><br>**Transitioning ILECs**:<br>*Regulated Markets*: *Price caps (1999-2007)*.<br>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.<br>*Deregulated markets*: *Pricing flexibility*.<br>Basic residential services priced at any price above the lesser of long-run incremental cost (LRIC) or the tariffed price on the date that the market was deregulated. However, stand-alone basic residential rates cannot be raised until the commission can revise monthly per line support under the Texas high-cost USF. Non-basic retail services priced above LRIC. Other services under pricing flexibility. Intrastate access charges to be reduced to interstate levels.<br><br>**Deregulated ILECs**: *Pricing flexibility*.<br>Rates for stand-alone basic residential service cannot be raised until the commission can revise monthly per-line support. Other services under pricing flexibility. Intrastate access charges to be reduced to interstate levels. | | *Rates not reviewed*. |
| UT | **Qwest**: *Rate deregulation (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 expedited process, but companies or state Div. of Public Utilities can request full rate case.. Other incumbents have option to switch to deregulation regime prescribed in the 2005 law. | *Rates flexibly regulated.* |

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# Table 1
# State Retail Rate Regulation of Local Exchange Carriers
# (As of December 2006)

| State | Large Incumbents | Other Incumbents | CLECs |
|---|---|---|---|
| VT | **Verizon**: *Price caps (2005-2010).* All noncompetitive services under nonindexed caps set at levels prevailing in April 2000. $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 service bundles and stand-alone non-basic services introduced after April 2000.<br><br>April 2006 amendments eliminated Verizon's rate reductions and specific investment dollar amounts requirements in return for carrier's committing to make all central offices DSL capable and make DSL available to 80% of subscribers by 2010. | *Price caps (2005-2008)*. A 2005 state law allows state's 9 other incumbents to increase rates 9% total over 3 years without rate case, but basic service rates couldn't rise before 2006. Carriers can seek additional increases from regulators to cover external cost increases such as tax hikes or weather disasters. The 2005 law eliminated PSB jurisdiction over the smaller incumbents and established a regulatory regime similar to a legislatively enacted price cap plan. | *Rates flexibly regulated*. Under Rule 7.500, adopted by PSB in mid-2006, non-dominant providers such as CLECs are no longer required to file tariffs or get approval for mergers or sales. |
| VA | **Verizon VA/Verizon South**: *Price ceilings (2005)*. Basic services have price ceilings set initially at the lower of 1994 GDP-PI adjusted (through 2004) rates or current highest tariffed rate (among all rate groups). The ceilings are adjusted annually thereafter for inflation as measured by GDP-PI. Rates (Basic and Other) may increase up to 10% the first year and .0083 times the number of months since the last increase thereafter. No single increase may exceed 25% and rates for individual services may not be increased more than once per year. Revenue-neutral price changes may be sought any time. Prices for Competitive and Bundled services are subject to certain competitive safeguards.<br><br>**Embarq Telcos**: *Price indexing (1995, modified in 2000 & 2003).* Basic service rate increases indexed to one-half of GDP-PI. Discretionary services indexed to GDP-PI. Rates for individual services may not be increased more than once per year. Revenue-neutral price changes may be sought any time. Prices for Competitive services are subject to certain competitive safeguards. | *Rate deregulation*. Rates of investor-owned small telcos partly deregulated by statute, giving them pricing flexibility. 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. |
| 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. In late 2006 Qwest petition for an alternative form of regulation, which is under consideration in UT-061625. | | *Rates flexibly regulated*. |

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# Table 1
## State Retail Rate Regulation of Local Exchange Carriers
## (As of December 2006)

| State | Large Incumbents | Other Incumbents | CLECs |
|---|---|---|---|
| WV | **Verizon**: *Incentive regulation (1994-2006)*. Basic rates under nonindexed caps; vertical services allowed to rise by rate of inflation (GDP-PI); competitive services rates deregulated.<br><br>**Frontier Communications**: *Incentive regulation (1994-2012)*. 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 | **AT&T:** *Price caps (1994)*. Indexed price caps for noncompetitive services (GDP-PI - 3%); the 3% X-factor applies to companies with more than 500,000 access lines. Competitive services flexibly priced. The PSCW removed small business (1-3 lines) from price regulation in 2004 after a competitive showing, and reclassified basic residential service as competitive in 17 urban and suburban areas in 2005.<br><br>**Verizon**: *Price caps (1995)*. Indexed price caps for noncompetitive services (GDP-PI - 2%); the 2% X-Factor applies to companies with less than 500,000 access lines. Competitive services flexibly priced. | *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; 2 under traditional fully-tariffed *ROR;* 12 telephone cooperatives are *not rate regulated.*. | *Rates not reviewed*. |
| WY | **All Incumbents**: *Rates not reviewed* (*Cost-based pricing flexibility - 2003)*.<br>Retail service rates to be set above TSLRIC cost floor. But an incumbent that prices basic local service above statewide benchmark rate of $32.34 monthly may face review of its state universal service support. | | *Rates not reviewed*.<br>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*, September-October 2006, Vol. 24 (19, 20 & 21) & State Utility Commissions.

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# Table 2
## Changes in State Retail Rate Regulation of Local Exchange Carriers
## (October 2005 to December 2006)

| State | Company | Changes |
|---|---|---|
| AL | All incumbents | PSC opened proceeding to reevaluate its entire regulatory scheme, in hopes of enticing at least some incumbents to remain under state rate regulation. In Aug. 2006 rural incumbents indicated no interest in changing regulatory options; several opted for phased deregulation under the 2005 law that deregulated bundled and contract services statewide in July 2006 and detariffed most retail services in February 2007. Starting 2008, incumbents facing at least 2 local competitors may opt out of state retail rate regulation. Nine rural incumbents opted to remain under price caps. |
| | CLECs | Starting February 2007, CLECs can opt for detariffing of most retail services. |
| AK | All incumbents | In markets where an incumbent faces 2 or more facilities-based local exchange competitors or has lost over 40% market share, and provides essential exchange access to less than 50% of the market, the incumbent is considered nondominant and gets broad pricing flexibility for all retail services other than single-line basic exchange. Basic exchange in such nondominant competitive markets can increase up to 8% annually. Nondominant incumbency can be determined by market or by specific services within a market. |
| AZ | Qwest | Price cap system was amended in March 2006 to allow more flexibility. Revised plan changed the services in the baskets and eliminated productivity indexing. Next review due early 2009. |
| CA | AT&T, Verizon, Surewest Telecom, Frontier | New Uniform Regulatory Framework (URF) approved August 2006. Residential basic exchange and Lifeline under nonindexed caps until January 1, 2009. Rates for all other retail services deregulated in Oct.2006, except that companies must file tariffs and give customers 30 days' notice of rate increases. The URF eliminates price caps, the annual price cap filing, the productivity factor and all residual elements of ROR regulation, including the calculation of "shareable" earnings. Service quality and universal service issues are being reviewed under separate filings. Other reporting and monitoring issues were deferred to the second phase of the URF proceeding. |
| | 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 6 years of their last case. Otherwise their state high-cost support will be phased out. Eight small incumbents chose not to file rate cases and no longer receive state high-cost subsidies. |
| | CLECs | Rates are no longer reviewed, except for initial rates for a service. The rate change notice period also changed, with rates now effective on one-day notice, and with 30 days notice to customers for increases or more restrictive terms and conditions. |
| CT | AT&T | Plan extension from 2006 to 2007. |
| DC | Verizon | Current plan is scheduled to end in December 2006. No current proceeding on successor plan. |

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# Table 2
## Changes in State Retail Rate Regulation of Local Exchange Carriers
## (October 2005 to December 2006)

| State | Company | Changes |
|---|---|---|
| FL | BellSouth, Verizon, Embarq | PSC in Dec. 2003 approved plan to give the 3 companies $344 million total in local rate increases. Companies imposed first round of rebalancing-related increases in Nov. 2005. The companies may file for another increase in basic services and decrease in intrastate access charge in Nov. 2006. BellSouth is expected to file for 2nd rebalancing-related rate changes in Fall 06, effective early 2007. |
| ID | Verizon | In 2005, Verizon was put under the same regulatory system as Qwest: Basic exchange to customers under 5 lines are under temporary price caps that limit annual rate increases to 10%. Caps will expire in 2008, unless PUC extends them to 2010. After caps expire, basic exchange will be deregulated. |
| | Other incumbents | Carriers have the option to petition for rate deregulation. Frontier, currently under ROR, petitioned for deregulation in January 2007, effective 3/1/2007. After this date, Frontier will be under a price cap regime similar to that of Qwest and Verizon, with an expiration date of 2010. |
| IL | AT&T | Retail business services statewide and residential services in the Chicago LATA were deemed competitive and are flexibly priced. However, stand-alone basic exchange monthly rises for the Chicago LATA can't exceed $1 annually. In 2006 AT&T froze rates for 3 specific residential packages in Chicago LATA until 2010. |
| | Other incumbents | Incumbents under 35,000 lines have broad pricing flexibility for all services, subject to earnings constraints and to regulatory review upon petition by 10% of affected retail customers. |
| IN | AT&T | Under a 2006 deregulatory law, rates for all AT&T retail services, except stand-alone basic exchange, will be deregulated when current plan expires July 2007; basic exchange increases will be limited to $1 annually. |
| | Verizon | Under a 2006 deregulatory law, rates for all VZ retail services, except stand-alone basic exchange, will be deregulated when current plan expires at the end of 2007; basic exchange increases will be limited to $1 annually. |
| | Embarq | Under a 2006 deregulatory law, rates for all Embarq retail services, except stand-alone basic exchange, will be deregulated when current plan expires at end of 2008; basic exchange increases will be limited to $1 annually. Embarq's plan was extended for one year until end of 2008. |
| | Other incumbents | Under a 2006 law taking effect March 2006, other incumbents' retail rates, except for stand-alone basic exchange, will be deregulated. Basic exchange increases will be limited to $1annually. |
| | CLECs | Under a 2006 law that took effect March 2006, all CLEC rates are presumed competitive and deregulated. CLECs must obtain state certificate by showing technical, financial and managerial competence. |

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# Table 2
## Changes in State Retail Rate Regulation of Local Exchange Carriers
## (October 2005 to December 2006)

| State | Company | Changes |
|---|---|---|
| KS | AT&T & Embarq | A 2006 state law (SB350) extended deregulation to all retail service bundles and stand-alone services in exchanges with 75,000 or more access lines, except for single-line residential basic exchange and business basic exchange for customers with up to 4 lines, which remain under indexed price caps. Deregulation can be extended to exchanges with fewer than 75,000 access lines, but companies will have to provide evidence that there are at least two competitive carriers, one of which must be facilities-based. |
| | Other incumbents | Can file for price cap regulation and associated price deregulation. |
| KY | BellSouth | BLS opted in into a new alternative regulation plan established in a July 2006 state law. The new plan deregulates all retail services other than stand-alone, single-line basic exchange service. Basic exchange rates are frozen for 5 years after election of plan. After that rates can rise according to applicable regulation for basic service on June 30, 2006, or a previously approved or new price regulation proposal for basic service. |
| | Cincinnati Bell | Cincinnati Bell opted in into a new alternative regulation plan established in a July 2006 state law. The new plan deregulates all retail services other than stand-alone, single-line basic exchange service. Basic exchange rates are frozen for 5 years after election of plan. After that rates can rise according to applicable regulation for basic service on June 30, 2006, or a previously approved or new price regulation proposal for basic service. |
| | Windstream | Windstream, a spin-off of Alltel's landline business and a merger with Valor in 2006, opted in into a new alternative regulation plan established in a July 2006 state law. The new plan deregulates all retail services other than stand-alone, single-line basic exchange service. Basic exchange rates are frozen for 5 years after election of plan. After that rates can rise according to applicable regulation for basic service on June 30, 2006, or a previously approved or new price regulation proposal for basic service. |
| | Other incumbents | The 2006 state law give smaller incumbents the option of rate deregulation, but with only one-year basic exchange rate freeze. It maintains the alternatives of proposing price caps or other alternative regulation. |
| | CLECs | Rates and terms of CLEC services were deregulated by a 2006 state law. Rates are presumed competitive and are not subject to PSC review. Carriers must register with PSC to conduct business in the state and may file tariffs. |
| MD | Verizon | On Nov. 23, 2005, PSC adopted a settlement agreement (Case Nos. 8745, 8918 & 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. Productivity adjustments were eliminated. Nov. 2005 PSC price cap order reclassified toll service as competitive and set directory listing services as discretionary. Other noncompetitive services indexed to GDP-PI. |

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# Table 2
## Changes in State Retail Rate Regulation of Local Exchange Carriers
## (October 2005 to December 2006)

| 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; 2nd will address specifics of new price regulation plan. Current plan should have expired in July 2006, but was extended pending adoption of successor plan. |
| | Other incumbents | In Jan. 2006 PUC granted pricing flexibility to Pine Tree Telephone and Saco River Telephone, affiliates of Country Road Communications, for basic and contracted services. In response to a 2006 legislative directive, PUC and industry are developing a streamlined process for establishing alternative regulation of incumbents other than Verizon. |
| MI | AT&T, Verizon, other incumbents | On November 21, 2005 Governor Jennifer M. Granholm signed into law PA 235, which amends PA 179 of 1991 entitled "Michigan Telecommunications Act". Under the new law, all residential local exchange providers must offer stand-alone, single-line residential primary basic local exchange service at a "just and reasonable" rate. Rates for all other retail services were deregulated. |
| | CLECs | Under a Nov. 2005 state law, CLEC rates for stand-alone, single-line residential primary basic local exchange service must be at a "just and reasonable" rate. All other CLEC retail rates were deregulated. |
| MN | Qwest | Price cap plan modified and extended four years until 2009. Nonindexed caps for residential and business basic exchange through 2008; then can rise $1 monthly in final year. Other basic and emerging competitive services flexibly priced. Rates for fully competitive services deregulated. |
| | Embarq & Frontier | Embarq's plan was due to expire in Dec. 2006 but was extended through December 2007. Frontier's plan is due to expire in Aug. 2007. |
| MO | AT&T, Embarq, Century Tel, Spectra, Windstream | In 2005, legislature passed law (effective Aug. 2005) deregulating rates for bundled services. Residential and/or business services are deemed competitive and subject to pricing flexibility in any exchange where 2 or more local competitors operate. Competition rule allows one wireline rival and one other type of competitor. By December 2006, AT&T, Embarq, CenturyTel and Spectra have obtained pricing flexibility in several exchanges deemed competitive under the law (for current info on the number of exchanges see http://psc.mo.gov/teleco-competexchange.asp).<br><br>Alltel Communications, now Windstream, requested price cap status under the new law and its request was granted effective 10/14/05. |
| | Other incumbents | A 2005 state law allows the state's 39 other incumbents to seek price cap status in any exchange where 2 or more wireless providers operate. |

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# Table 2
## Changes in State Retail Rate Regulation of Local Exchange Carriers
## (October 2005 to December 2006)

| State | Company | Changes |
| --- | --- | --- |
| MS | BellSouth | BellSouth deregulated all retail services in Mississippi effective July 1, 2006, with the exception of stand-alone, single-line basic exchange service and switched access service. Beginning January 1, 2007, rates for stand-alone, single-line basic exchange service and switched access service can be increased only by the change in CPI-Urban index from January 1 of the prior year. The PSC retains jurisdiction over customer complaints and interpretation of customer service agreements. |
| | Other incumbents | Under 2006 state law, other incumbents may adopt BellSouth's deregulation regime if they can demonstrate to the PSC that they face two or more active local competitors or have endured substantial business losses to competitors. No incumbents were deregulated as of December 2006. |
| | CLECs | A 2006 deregulation law allows CLEC's to request deregulation of services assuming they meet each of the requirements included in the legislation. The most significant requirements are: 1) provision of customer notice through customer service agreements, 2) appropriate filing of tariffs to detariff all services other than basic local exchange and switched services, and 3) website itemization and pricing of all detariffed services. |
| MT | Qwest | In October 2006, Qwest sought deregulation for vertical services, directory listing options, and certain service bundles.<br>Overearnings case, initiated by PSC in 2003, is still pending before MT Supreme Court. Group of Qwest customers in Oct. 2006 filed complaint alleging Qwest since 2001 has had $85 million in excess earnings. |
| NV | Embarq | Spin-off of former Sprint local exchange operation to Embarq in late 2005 didn't change nature or duration of regulatory plan. |
| 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. In Spring 2006, Verizon proposed price cap plan for basic services, negotiated with PUC staff, that would also have deregulated most nonbasic, optional and discretionary retail service rates. Verizon withdrew proposal in Sept. when critics questioned whether plan complies with NH. alternative regulation law. Verizon indicated it may try for deregulation through revised proposal or change of state law in 2007. |

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# Table 2
## Changes in State Retail Rate Regulation of Local Exchange Carriers (October 2005 to December 2006)

| State | Company | Changes |
|---|---|---|
| **NM** | Qwest | AFOR plan was extended until December 2006. Starting in January 2007, Qwest's new AFOR II Pricing and Quality of Service Plan will cap basic local rates at the rate as of the effective date of the Plan for 3 years. Most other retail services will be under caps indexed to the GDP-PI, subject to a cost floor. New telecom services and packaged services will not be subject to price caps. The new plan will be effective until December 2009.<br><br>The PRC reached a settlement with Qwest in 2006 of the $224M shortfall that Qwest did not invest according to the agreed upon AFOR I investment requirements. The total amount required for settlement of the AFOR I Cases is $270M and is allocated in this way: $5M to the STRONG Project (Educational Technology), $10M to quality of service credits to customers, and $255M to investment projects. Qwest must deploy broadband in 23 communities, expanding broadband availability to 83% of the its exchanges from 69%, and rural broadband availability to 50% of rural exchanges from 27%. Settlement requires upgrades to Qwest's network, including rural 911 and facilities serving federal installations, such as White Sands Proving Ground. Qwest will file a detailed timetable for network projects and must set up a $5 million fund for technology grants to disadvantaged public schools. |
| | Windstream | Basic exchange under caps indexed to inflation rate for telecom services. Nonbasic service rates can increase 5% annually. Bundled service rates deregulated but must stay above cost floor. Vertical services can increase up to 20% a year combined, exact amount allowed each year determined by formula. |
| **NY** | Verizon | Changed from tariff regulation to price caps in 2006. Unlimited local service rate can rise in annual increments of $2 to absolute cap of $23 monthly. Rates for nonbasic, optional, discretionary and competitive services are deregulated. |
| | Frontier Telephone of Rochester | Frontier's fully tariffed ROR plan changed to price caps in 2006. Unlimited local rate can increase $2 annually for 2 years. PSC approval required for local increases from 2008 on. Rates for nonbasic, optional, discretionary and competitive services are deregulated. |
| | Other incumbents | In April 2006 PSC let carriers under ROR to petition for a price cap plan like Verizon's and Frontier's by showing they face similar competitive pressures. In 2006, six affiliate companies of Frontier Communications petitioned for the same pricing flexibility granted Verizon and Frontier of Rochester (Case 06-C-1261). Petition is still pending (March 2007). |

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# Table 2
## Changes in State Retail Rate Regulation of Local Exchange Carriers
## (October 2005 to December 2006)

| State | Company | Changes |
|---|---|---|
| NC | BellSouth | BellSouth business services, other than basic exchange and installation, classified as competitive, detariffed and given total pricing flexibility (Dec. 2005). Basic business and installation remain in moderate-flexibility basket. BellSouth in Aug. 2006 petitioned for rate deregulation of residential and basic business services, but regulators put petition on hold pending completion of BellSouth's merger with AT&T. |
| | Other incumbents | Concord Telephone, Randolph Telephone and Windstream came under price-based plans similar to programs for BellSouth, Embarq and Verizon. MebTel's petition was approved and became effective on October 2006. Altell filed a stipulated new price cap on Oct. 18 2005, which was approved on Jan. 2006 and became effective on March 15, 2006. Altell spin-off its landline business and merged with Valor Communications to create Windstream in 2005. The TDS Companies (Barnardsville, Saluda Mountain, and Service), currently under ROR, filed for a new price cap regulation plan on October 30, 2006. The hearing is scheduled for March 7, 2007. If approved, only 4 companies will remain under the ROR regime. |
| OH | Incumbents under BLES alternative regulation | Companies can petition for basic local pricing flexibility, rate deregulation of capped vertical and specialty business services –- or both -- if they can show effective competition exists on an exchange by exchange basis. AT&T and CBT have had such petitions approved, subject to appeal with the Ohio Supreme Court. Under their approved pricing flexibility plans (BLES Alt Reg) AT&T & CBT's basic local telephone service rates cannot increase by more than $1.25 annually and 50 cents annually for caller ID. Lifeline customers will not see any increase. |
| OK | AT&T | Regulators in July 2005 approved new regulation plan that would allow AT&T 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 AT&T to expand DSL availability in rural areas. Order was stayed pending outcome of CLEC appeals to state Supreme Court, where the case is pending. |
| OR | All incumbents | Meetings of an Oregon legislative Task Force on Telecommunications concluded Dec. 29, 2006, without making an overall recommendation to the legislature on deregulation. Legislators on the task force indicated that they will draft legislation based on the work of the task force for the 2007 session. |
| PA | Verizon PA, Verizon North, Embarq & Windstream | Elections made in 2005 permitted Verizon PA & Verizon North, the only nonrural ILECs, to retain their 2015 broadband date and reduce their productivity offsets to 0.5%. Embarq & Windstream committed to a 2013 broadband date and reduced their offsets to 0.0%. These four ILECs are required to launch programs to identify communities where broadband should be deployed faster. Productivity offsets for the remaining price cap ILECs were reduced to zero with commitments for 100% broadband availability in 2008. |
| | All incumbents | State law enacted Dec 2004 lead to PUC proceedings to resolve reduced reporting requirements for ILECs. |

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# Table 2
## Changes in State Retail Rate Regulation of Local Exchange Carriers
## (October 2005 to December 2006)

| State | Company | Changes |
|---|---|---|
| **RI** | Verizon | Verizon's price cap plan expired in December 2005 and was changed for a new price floor plan. Under the new plan, Verizon's retail rates can be anywhere above cost floor set at long run incremental cost. Rate levels and rate structures are entirely at Verizon's discretion, subject only to cost floor. |
| **SC** | Other incumbents | 2004 state law established optional price cap system for other incumbents. Eleven incumbents opted for this system in 2005 and two more did so in 2006. |
| **TN** | BellSouth, Embarq, Citizens Telecom | Regulators in 2005 approved rate deregulation for business toll and high-speed digital services for businesses. |
| **TX** | All incumbents | A 2005 state law gives incumbents option of new program that deregulated retail rates of all providers in cities over 100,000 population effective Jan. 2006. Law deregulated rates in 18 communities between 30,000 and 100,000 population in Jan. 2006 because there were 2 landline and 1 wireless carrier competing against incumbent. Noncompetitive markets remained under old cap system.<br>Rates in communities under 30,000 to be deregulated Jan. 1, 2007, except where PUC determines meaningful competition is lacking. In late 2006, the PUC deregulated rates in 15 AT&T small markets (Case 32977) and 2 Embarq small markets. |
| **VT** | Verizon | New plan, approved in 2005, was amended and extended in April 2006 from 2008 to 2010. The amendments eliminated Verizon's rate reductions and specific investment dollar amounts requirements in return for the carrier's committing to make all central offices DSL capable and make DSL available to 80% of subscribers by 2010. |
| | Other incumbents | Following 2005 state law state's 9 other incumbents were able to begin increases to basic service rates in 2006. Rate increases are capped at a total of 9% over 3 years without rate case. The 2005 law eliminated PSB jurisdiction over the smaller incumbents and established a regulatory regime similar to a legislatively enacted price cap plan. The PSB can reassert regulation if necessary, but it has not done so. This legislation sunsets 7/1/08, and the companies are seeking renewal.<br>In mid-2006 the VT Public Service Board adopted Rule 7.500, which significantly altered the way it regulates non-dominant telco carriers. Specifically, non-dominant providers such as CLECs are no longer required to file tariffs or get approval for mergers or sales. |
| | CLECs | According to the Rule 7.500, adopted in mid-2006, CLECs are no longer required to file tariffs or get approval for mergers or sales. |

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# Table 2
## Changes in State Retail Rate Regulation of Local Exchange Carriers
## (October 2005 to December 2006)

| State | Company | Changes |
|---|---|---|
| WA | Qwest | In late 2006 Qwest petition for an alternative form of regulation, which is under consideration in UT-061625. Qwest's proposed price-based system caps retail residential basic service and deregulates retail rates for all other services. Qwest also wants to end Qwest-specific retail service quality standards and reporting requirements, binding it only to the same retail quality standards and reports as apply to Verizon, CenturyTel, and Embarq. |
| | All incumbents | A 2006 state law ended requirements that carriers file price lists for competitive services. Carriers in future will use contracts or service agreements for their competitive services. Full effect of this legislation is expected in mid-2007. |
| WV | Verizon | Plan extended through 2006, pending replacement. Verizon proposed renewing the plan with rate deregulation of all retail business services and local directory assistance. Hearing officer in Sept. 2006 recommended rejection on grounds of insufficient competition.<br>Verizon, WVPSC Staff and the Consumer Advocate Division have reached an agreement on major changes to the way in which the carrier will be regulated. The new Plan was filed in late 2006 with the PSC for review and approval. |
| WI | AT&T | In late 2005, regulators reclassified AT&T's basic residential service as competitive in 17 city and suburban areas after a competitive showing. This allows nearly complete rate flexibility for these services. |
| WY | All incumbents | Statewide benchmark for basic local service increased from $23.10 to 32.34 monthly. Any incumbent with basic rates above this benchmark may face review of its state universal service support. |

Sources: *State Telephone Regulation Report,* September-October, 2006, Vol. 24 (19, 20 & 21) & State Utility Commissions.

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# Table 3
## Detail of State Retail Rate Regulation Plans of Incumbent Local Exchange Carriers
## (as of December 2006)

| 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| AL | All | Price caps (1996) | None | Nonindexed caps (basic exchange & access rates) | Can rise up to 10% per year, in aggregate, with rate design subject to PSC review. | | Not regulated | | | | 2004 state law allows incumbents, starting 2005, 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% annually through 2006, 20% in 2007, and 25% afterward. In rural areas, increases are limited to 5% through 2007, gradually rising to 15% by 2010.<br>A 2005 state law gave incumbents a second option of phased retail rate deregulation. Under this option carriers will deregulate bundled and contract services statewide in July 2006 and detariffed most retail services in February 2007. Starting 2008, incumbents facing at least 2 local competitors will be allowed to opt out of state retail rate regulation.<br>PSC opened proceeding to reevaluate its entire regulatory scheme, in hopes of enticing at least some incumbents to remain under state rate regulation. In Aug. 2006 rural incumbents indicated no interest in changing regulatory options; several opted for phased deregulation under the<br>2005 law. Nine rural incumbents opted to remain under price caps. |
| AK | Large incumbents (more than $500,000 annual revenue) and most small incumbents | Streamlined rate of return (1992) | | In markets where an incumbent faces 2 or more facilities-based local exchange competitors or has lost over 40% market share, and provides essential exchange access to less than 50% of the market, the incumbent is considered nondominant and gets broad pricing flexibility for all retail services other than single-line basic exchange.<br>Basic exchange in such nondominant competitive markets can increase up to 8% annually. Nondominant incumbency can be determined by market or by specific services within a market. | | | Revenues from services in competitive markets still count in rate-of-return calculations | | In markets designated competitive (Anchorage, Fairbanks and Juneau or where a facilities-based wireline local service provider competes with incumbent), dominant incumbents can cut rates or introduce new bundles on 30 days' notice without prior state approval. | In noncompetitive markets, rate cuts and increases of up to 6% can be decided in as few as 45 days under ROR principles in annual filings. Other changes require full rate case. Carriers can also set limited-duration promotional rates to match competition without prior state approval. | 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. |
| | Small incumbents with less than $500,000 annual revenue | Streamlined rate of return (1992) | | In markets where an incumbent faces 2 or more facilities-based local exchange competitors or has lost over 40% market share, and provides essential exchange access to less than 50% of the market, the incumbent is considered nondominant and gets broad pricing flexibility for all retail services other than single-line basic exchange.<br>Basic exchange in such nondominant competitive markets can increase up to 8% annually. Nondominant incumbency can be determined by market or by specific services within a market. | | | Revenues from services in competitive markets still count in rate-of-return calculations | | | | Small incumbents with less than $5000,000 annual revenue can opt out of state rate and earnings regulation upon approval of ratepayers. Four small incumbents have done so. |
| | Smallest incumbents with less than $50,000 annual revenue | Deregulation | | | | | Rates and earnings are not regulated | | | | |

# Table 3
## Detail of State Retail Rate Regulation Plans of Incumbent Local Exchange Carriers
## (as of December 2006)

| 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 2009 | Rate freeze. X-Factor value eliminated | Nonbasic and emerging competitive services can rise up to 25% per year. Basket subject to revenue caps. | 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. 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. Price cap system was amended in March 2006 to allow more flexibility. Revised plan changed the services in the baskets and eliminated productivity indexing. Next review due early 2009. |
| | 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 | AT&T, Windstream, CenturyTel of Central AR | Price caps (1997) | None | Caps indexed to 75% of GDP-PI (basic exchange and switched access) | Deregulation | | Not regulated | | | Companies can request basic exchange rate deregulation in exchanges with effective local competition. AT&T in late 2004 and early 2005 received basic exchange rate deregulation in its competitive urban markets. | |
| | Century Tel of Northwest AR | 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 Feb.2003 carrier filed rate case seeking $35 million increase, only a 12% increase was approved in January 2004, for $3.1 million. |
| | Other incumbents | Price caps (1997) | None | Rates for basic exchange allowed to rise annually by lesser of 15% or $2 per line monthly. | Deregulation | | Not regulated | | | | Century Tel's original 45,000-line Arkansas operation is under that cap system. |

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# Table 3
## Detail of State Retail Rate Regulation Plans of Incumbent Local Exchange Carriers
## (as of December 2006)

| State | ILEC | Regime | Expiration date | Rate regulation by type of service: Basic | Other noncompetitive | Competitive | Earnings regulation | Infrastructure requirements | Rate/Service Notice | Other plan requirements | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CA | AT&T, Verizon, Surewest Telecom, Frontier | Rate deregulation (2006 Uniform Regulatory Framework) | None | Basic residential rates frozen at current levels until Jan. 1, 2009, when price cap on these services will be lifted. Rates for Lifeline services and basic residential services receiving CHFC-B subsidies (high-cost areas) frozen at current levels until reevaluated in upcoming universal service proceedings R.06-05-028 and R.06-06-028, respectively. Rate floor for basic residential services of any ILEC set at current AT&T's 1Measured Rate (1MR) and 1Flat Rate (1FR), unless Commission stipulates otherwise. Basic residential services under CHFC-B shall be offered on stand-alone basis. Bundles including subsidized residential services shall be made available to Lifeline customers at a discounted rate equal to the Lifeline subsidy. | Rate deregulation for all other business and residential services, including: bundled services (except if they include subsidized Lifeline services), customer specific contracts, newly introduced services and promotions. Lifts geographic deaveraging requirement for all services included in the proceeding that are not subsidized by the California High-Cost Fund-B (CHCF-B). | | Not regulated | | Offering of new services with full pricing flexibility on 1-day advice letter filing with CPUC; all tariffs effective the day after filing them with CPUC, but rate increases and service restrictions require 30-day customer notice. Services may be withdrawn or grandfathered upon 1-day advice letter and 30-day customer notice, except for basic residential & basic business serv. or where withdrawal would cause public safety issues. Contracts effective immediately, but must be filed with CPUC within 15 days of execution. | Carriers will follow FCC's accounting practices and affiliate transaction rules. Service quality issues were deferred to Service Quality Order Instituting Rulemaking 02-12-004. Carriers are allowed to offer bundles of any telecommunications services, which shall be made available to Lifeline customers at a discounted rate equal to the Lifeline subsidy. All promotions lasting over 90-days must be offered for resale. | Phase 1 of the new Uniform Regulatory Framework (URF) was approved August 2006. Service quality and universal service issues are being reviewed under separate filings. Other reporting and monitoring issues were deferred to the second phase of the URF proceeding. The URF eliminates price caps, the annual price cap filing, the productivity factor and all residual elements of ROR regulation, including the calculation of "shareable" earnings. The Cal. PUC plans by March 31, 2007 to finish initial comment cycles in Phase 2 of the URF proceeding (Case R.05-04-005), aiming to deliver a final order by mid-2008. Phase 2 also will deal with detariffing of most retail services, regulation of special access and easing of carrier reporting requirements. The schedule calls for submission of proposals on amending reporting requirements by Feb. 7, with a workshop Feb. 16. Comments are due March 2, replies March 30. The PUC will decide by April 15 whether evidentiary hearings are needed. |
| | Other incumbents | ROR | | Fully tariffed ROR | | | | | | | Eighteen other incumbents are under fully tariffed rate-of-return regulation. PUC 1997-2004 reviewed rates of all small companies. Commission required earnings-regulated small incumbent to file a rate case within 6 years of its last review to keep getting state high-cost subsidies. Otherwise their state high-cost support will be phased out. Eight small incumbents chose not to file rate cases and no longer receive state high-cost subsidies. |
| CO | Qwest | Price caps (2005) | Qwest extended until deregulatory application is complete | Nonindexed caps for basic exchange on first residential and first 5 business lines. | Price deregulation for intrastate long distance rates statewide. Intrastate toll can be deregulated in markets with sufficient competition. 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. | | 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. |

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| State | ILEC | Regime | Expiration date | Rate regulation by type of service: Basic | Other noncompetitive | Competitive | Earnings regulation | Infrastructure requirements | Rate/Service Notice | Other plan requirements | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CT | AT&T | Price caps (1996-2007) | 2006 review | Caps indexed to GDP-PI. X-Factor= 5%. Caps levels don't change unless GDP-PI exceeds 5% per year, when caps can rise by half the amount over 5%. | | Price flexibility | Not regulated | | Competitive services: 5 days advanced written notice, and 21-days for emerging competitive and noncompetitive services. Rate changes within flexible ranges require five-days advanced written notice and promotional offerings may be offered on as little as three-days advanced written notice. | Penalties assessed for failure to meet service quality targets. | No pending proceedings. Last review occurred in 2001, without any changes. Next full review due before 2008. |
| | Verizon | Price caps (1999-2007) | 2007 review | Price flexibility | | | Not regulated | | Same as AT&T | | Verizon in 2003 proposed change to price caps, but later withdrew application. Regulators in Aug. 2005 tentatively affirmed contested Dec. 2004 decision to continue Verizon price flexibility through 2007; final decision was approved by the Commissioners on August 31, 2005. Verizon's rates for other noncompetitive and competitive services are subject to the same level of regulation as AT&T and continue to be reviewed. |
| | Other incumbents | ROR | | Fully tariffed ROR | | | | | Same as AT&T | | No pending proceedings. |
| DE | Verizon | Price caps (1994-2011) | September 2011 | Caps indexed to GNP-PI minus 3% plus approved exogenous costs. | | Price flexibility | Not regulated | | Notice to Commission for review. Basic service: 60 days; discretionary services: 20 days; competitive services: 3 days | No special conditions imposed. | Verizon's Sept. 2002 long distance entry triggered 2003 review of plan. Verizon proposed alternative cap program but settled for extension of current plan until Sept. 2006 because of federal regulatory uncertainties. In June 2005, PSC concluded review of plan by extending it unchanged until September 2011. |
| DC | Verizon | Price caps (2000-2006) | 2007 | Rate freeze: Residential dial tone until 12/31/05. Thereafter, VZ has the option of increasing the dial tone rate by 32¢. That rate would remain in effect for the duration of the plan. Other basic residential and business rates may be increased by up to 10% each year, but percentage revenue can't exceed annual inflation rate. | Discretionary services may be increased by up to 15% annually, but percentage revenue can't exceed annual inflation rate. | 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. Service reclassification: After NOPR, 30 days for comments & 10 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 should have expired in 2004, but was extended through the end of 2006 under settlement that gave Verizon a small local rate increase. No current proceeding on successor plan. |

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## (as of December 2006)

| 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FL | BellSouth, Verizon, Embarq | Price caps (1995 statute) | None | Caps indexed to GDP-PI minus 1%. | Rates for nonbasic services categories can be increased up to 6% per year in noncompetitive markets. | Nonbasic services categories can be increased up to 20% 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 January 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 2 years (3 years for Sprint, now Embarq). PSC in Dec. 2003 approved plan to give the 3 companies $344 million total in local rate increases. Increases were stayed by the FL Supreme Court and finally upheld in June 2005. BellSouth filed (09/16/05) for an increase in basic services with an effective date of November 5, 2005 and for an intrastate access charge decrease effective November 1, 2005. Verizon and Sprint filed (09/16/05) for a basic services increase and intrastate access charge decrease, both effective on November 1, 2005. The companies may file for another increase in basic services and decrease in intrastate access charge in Nov. 2006. BellSouth is expected to file for 2nd rebalancing-related rate changes in Fall 06, effective early 2007. |
| | Other incumbents | Price caps (1995) | | | | | | | | | Other incumbents can elect price cap regulation under program similar to that for large providers. Six other incumbents have chosen price caps. Only one small incumbent remains under ROR. |
| GA | BellSouth | Price caps (1995) | None | Caps indexed to GDP-PI. Access charges capped at interstate rate. | Deregulated | | Not regulated | $2 billion infrastructure investment requirement completed in 2000. No further requirements have been linked to price caps. | | | |
| | Other incumbents | Price caps (1996) | | If electing price cap plan, caps indexed to GDP-PI. Access charges capped at interstate rate. | Deregulated, if company elects plan similar to BLS'. | | Not regulated | No infrastructure investment requirements. | | | Other incumbents can elect price cap regulation under program similar to BellSouth, but without infrastructure requirements. As of September 2006, 75% 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. |

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|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Basic | Other noncompetitive | Competitive | | | | | |
| ID | Qwest, Verizon | Price Caps on basic exchange services; Deregulation (1989) for all other services | | Nonindexed price cap: Basic local exchange under 5 lines. Annual rate increases limited to 10%. | Deregulation for all retail service rates except basic local exchange provided to accounts with fewer than 5 lines. | | Not regulated | | Price regulated services: 10 days notice for commission and customers; regulated services: 30 days notice for commission and 10 days for customers. | Qwest petitioned unsuccessfully in 2003 for full rate deregulation in its 7 largest Idaho exchanges. Its request in 2004 for statewide basic exchange deregulation through legislature was also unsuccessful. Passage of a state law effective in June 2005 changed basic exchange to customers under 5 lines from rate-of-return regulation to temporary price caps.<br>Caps will expire in 2008, unless PUC extends them to 2010. After caps expire, basic exchange will be deregulated. | |
| | Other incumbents | ROR | | Fully tariffed rate-of-return | | | | | | | Carriers have the option to petition for rate deregulation. Frontier has already petitioned for deregulation, effective 3/1/2007. After this date Frontier will be under a price cap regime similar to that of Qwest and Verizon, with an expiration date of 2010.<br>Mutual companies are not under PUC jurisdiction. |
| IL | AT&T | Price caps (1995) | None | Caps indexed to GDP-PI minus 3%. In 2006 AT&T froze rates for 3 specific residential packages in Chicago LATA until 2010. | | Price flexibility, including retail business services statewide and residential services in the Chicago LATA, which were deemed competitive. Stand-alone basic exchange monthly rises in the Chicago LATA, however, can't exceed $1 annually. | Not regulated | | | Company must meet service quality goals. Telecom reform law passed in July 2001 changed retail rate structure for then Ameritech's residential and single-line business services to require that 3 grades of flat-rate local service be offered at regulated rates. Law also imposed additional service quality requirements and penalties. | In late 2006, State Attorney Gen. Lisa Madigan (D) and the City of Chicago requested the Ill. Commerce Commission to reconsider an Aug. 30 order deregulating all AT&T retail service rates in the Chicago LATA, saying the record in Case 06-0027 failed to conclusively prove there's effective competition for all customers in the metro area. Meanwhile, AT&T sought reconsideration of a portion of the decision that will keep 3 specific residential "safe harbor" service packages under rate regulation. |
| | Other incumbents | ROR | | Fully tariffed | | | Earnings constraints for incumbents under 35,000 lines. | | | | Incumbents under 35,000 lines have broad pricing flexibility for all services, subject to earnings constraints and to regulatory review upon petition by 10% of affected retail customers. |
| IN | AT&T | Price caps (2004-2007) | July 2007 | Nonindexed caps for basic residential and business services to customers below 5 lines.<br><br>Prices capped at current rates through the term of the agreement. Prices may be decreased at any time provided the lower price exceeds the total TSLRIC of the service plus 10% of shared and common costs.<br><br>When current plan expires in July 2007, increases to stand-alone basic exchange will be limited to $1 annually. | 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%.<br><br>Rates for all AT&T retail services, except stand-alone basic exchange, will be deregulated when current plan expires July 2007. | | Not regulated | Company must make DSL available to 77% of customers by July 2008, with at least 30% of new deployment in rural areas. | Tier 1: Decreases could be effective next day after notice to Comm'n.<br>Tier 2: 45 days advanced notice for Tier increases or changes in Ts and Cs for tier 1 or 2. Within 3 days of notice, AT&T and comm'n post details on their websites. If no objections received, change is "deemed approved."<br>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. AT&T is required to spend $850,000 on telecom consumer education. | The AT&T Catalog, an informational document, similar in appearance to the tariff, contains the pricing information for the tier 3 services.<br><br>Under a 2006 deregulatory law, rates for all AT&T retail services, except stand-alone basic exchange, will be deregulated when current plan expires July 2007; basic exchange increases will be limited to $1 annually. |

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# Table 3
## Detail of State Retail Rate Regulation Plans of Incumbent Local Exchange Carriers
## (as of December 2006)

| 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **IN** (cont.) | Verizon | Price caps (2004-2007) | November 2007 | Nonindexed caps for Tier 1 basic residential service.<br><br>When current plan expires at the end of 2007, increases to stand-alone basic exchange will be limited to $1 annually. | 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%.<br><br>Rates for all VZ retail services, except stand-alone basic exchange, will be deregulated when current plan expires at the end of 2007. | | Not regulated | Company must make DSL available to 75% of customers before 2008, with 45% of new deployment in rural areas. | Tier 1: A decrease could be effective next day after notice to Comm'n.<br>Tier 2: 45 days advanced notice for Tier increases or changes in Ts and Cs for tier 1 or 2. Within 3 days of notice, VZ and comm'n will post details of increase on their websites. If no objections received, change is "deemed approved".<br>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.<br><br>Under a 2006 deregulatory law, rates for all VZ retail services, except stand-alone basic exchange, will be deregulated when current plan expires at the end of 2007; basic exchange increases will be limited to $1 annually. |
| | Embarq | Price caps (2004-2008) | November 2008 | Nonindexed caps for all basic residential and small business services.<br><br>When current plan expires at end of 2008, rate increases for stand-alone basic exchange will be limited to $1 annually. | Cumulative annual increases for vertical services limited to 8.75% of annual revenues for services in this basket; services must be priced at least 10% above TSLRIC. All other retail services and all service bundles considered competitive and rate deregulated except for floor set at cost plus 10%.<br><br>Rates for all Embarq retail services, except stand-alone basic exchange, will be deregulated when current plan expires at end of 2008. | | Not regulated | Company must make DSL available to 70% of customers before 2009. | Tier 2: Changes effective 10 days after tariff filing, as long as they exceed TSLRIC plus 10%. 24 hours notice of the price change to affected customers;<br>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.<br><br>Under a 2006 deregulatory law, rates for all Embarq retail services, except stand-alone basic exchange, will be deregulated when current plan expires at end of 2008; basic exchange increases will be limited to $1 annually. |
| | Other incumbents | Flexible regulation | December 2006 | Pricing flexibility for investor-owned incumbents with fewer than 30,000 lines.<br>Rate deregulation for telephone cooperatives.<br><br>Beginning March 2006, other incumbents' retail rates, except for stand-alone basic exchange, will be deregulated. Basic exchange increases will be limited to $1annually. | | | Not regulated | | Tariffs must be filed and rates are deemed approved the next day. Other ILECs fall under rate filing requirements for a "rate case". | | Under a 2006 law taking effect March 2006, other incumbents' retail rates, except for stand-alone basic exchange, will be deregulated. Basic exchange increases will be limited to $1annually. |

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# Table 3
# Detail of State Retail Rate Regulation Plans of Incumbent Local Exchange Carriers
# (as of December 2006)

| 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 | Rate Deregulation (2005) | None | Single-line flat-rated residential and business service rates under caps indexed to the annual percentage change in the GDP-PI as reported by the Federal government.<br>In addition, rates can rise by $1 per year for residential service or $2 per year for business service up to a statewide cap of $19 monthly for residential service and $38 for business service until July 1, 2008. | Deregulated (2005) | | Not regulated | Iowa Telecommunications Services' settlement agreement (April 2004) includes a Network Improvement Plan (NIP) as part of a capital investment commitment.<br><br>If a carrier elects to increase its single line flat-rated residential or business service rates it shall offer digital subscriber line broadband service in all of its exchanges in Iowa within 18 calendar months of the first rate increase. Failure to do so may result in assessment of civil penalty or refund requirements (Iowa Code § 476.1D). | Notice required for increases 30 days prior to implementation. | Full rate deregulation allowed in any market where competitive alternatives exist. To 02/2007, 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%) 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.<br>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. Effective July 1, 2008, the retail rate jurisdiction of the board shall not be applicable to single line flat-rated residential and business service rates unless the board extends its jurisdiction over these services during the first six calendar months of 2008. This extension cannot be for more than two years and after finding that such action is necessary for the public interest. |
| | Other incumbents | Rate deregulation (1983) | | Deregulated (1983) | | | Rates and earnings not regulated | | Companies must give 30 days' notice of changes. | Companies must keep current tariffs on file. Rate changes aren't reviewed, but changes to other terms and conditions of service receive regulatory staff review and may be questioned. | |
| KS | AT&T, Embarq | Price caps (1997) with some rate deregulation (2006) | | Price caps apply to single-line residential basic exchange and business basic exchange to customers with up to 4 lines. | Price deregulation of all retail service bundles statewide and standalone services in exchanges with over 75,000 access lines, except for single-line residential basic exchange and business basic exchange for customers with up to 4 lines.<br>In smaller exchanges, price caps continues to be applied to unbundled services. | | Not regulated | In 2004 SBC completed DSL deployment to exchanges with more than 1,000 lines, & near ubiquitous DSL service in 8 cities. | For Comm. Review 21 days for new services; 7 days for existing ones, and 30 days for rules and regulations. | Under 2006 state law, deregulation can be extended to any smaller market where a facilities-based and at least one other kind of local competitor operate. VoIP, resellers and prepaid providers do not count as competitors. Reregulation is allowed if a market can't sustain at least 2 rivals to the incumbent, or if the incumbent has chronic major service quality violations. | The 2006 Kansas Legislature passed SB350 that extended deregulation to all retail service bundles statewide, and to stand-alone services in exchanges with 75,000 or more access lines, except for single-line residential basic exchange and business basic exchange for customers with up to 4 lines. Deregulation can be extended to exchanges with fewer than 75,000 access lines, but companies will have to provide evidence that there are at least two competitive carriers, one of which must be facilities-based. |
| | Other incumbents | ROR | | Fully tariffed ROR | | | | | For Comm. Review 30 days for all tariff filings. | | Can file for price cap regulation and associated price deregulation. |

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# Table 3
## Detail of State Retail Rate Regulation Plans of Incumbent Local Exchange Carriers
## (as of December 2006)

| State | ILEC | Regime | Expiration date | Rate regulation by type of service: Basic | Other noncompetitive | Competitive | Earnings regulation | Infrastructure requirements | Rate/Service Notice | Other plan requirements | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| KY | BellSouth | Rate deregulation (2006) | | Stand-alone, single-line basic exchange service rates frozen for 60 months after election of plan. After that, an electing utility may seek rate adjustments for such service according to regulation applicable to basic services of any ILEC on June 30, 2006, or a previously approved or new price regulation proposal for basic service. | Deregulation of all other retail services. | | Not regulated | | Rates, terms, and conditions for basic and nonbasic services shall be valid upon the effective date stated in the schedule. Tariffs for nonbasic services in effect on the effective date of this Act shall continue to be effective as binding rates, terms, and conditions until withdrawn or modified by the telephone utility. | PSC keeps authority over service quality and consumer protection. Adjustments to basic local exchange service rates are subject to limitations in KRS 278.541 to 278.544 and may become effective on or after the day following the end of the sixty months cap. | A July 2006 state law (Telecommunications Bill - HB337) let incumbent telcos opt-in into a new alternative regulation plan that deregulates all retail services other than stand-alone, single-line basic exchange service. BellSouth elected deregulation. See http://www.lrc.ky.gov/record/06RS/HB337.htm |
| | Cincinnati Bell | Rate deregulation (2006) | | Stand-alone, single-line basic exchange service rates frozen for 60 months after election of plan. After that, an electing utility may seek rate adjustments for such service according to regulation applicable to basic services of any ILEC on June 30, 2006, or a previously approved or new price regulation proposal for basic service. | Deregulation of all other retail services. | | Not regulated | | | PSC keeps authority over service quality and consumer protection. Adjustments to basic local exchange service rates are subject to limitations in KRS 278.541 to 278.544 and may become effective on or after the day following the end of the sixty months cap. | A July 2006 state law (Telecommunications Bill - HB337) let incumbent telcos opt-in into a new alternative regulation plan that deregulates all retail services other than stand-alone, single-line basic exchange service. Cincinnati Bell elected deregulation. |
| | Windstream | Rate deregulation (2006) | | Stand-alone, single-line basic exchange service rates frozen for 60 months after election of plan. After that, an electing utility may seek rate adjustments for this service according to regulation applicable to basic services of any ILEC on June 30, 2006, or a previously approved or new price regulation proposal for basic service. | Deregulation of all other retail services. | | Not regulated | | | PSC keeps authority over service quality and consumer protection. Adjustments to basic local exchange service rates are subject to limitations in KRS 278.541 to 278.544 and may become effective on or after the day following the end of the sixty months cap. | A July 2006 state law (Telecommunications Bill - HB337) let incumbent telcos opt-in into a new alternative regulation plan that deregulates all retail services other than stand-alone, single-line basic exchange service. Windstream (spin-off of Alltel KY and merger with Valor) elected deregulation. |
| | Other incumbents | ROR | | | | | | | | | Fifteen incumbent companies have the option to propose price caps or other alternatives to ROR regulation but only Alltel had done so until 2006.<br>The 2006 state law give smaller incumbents the option of rate deregulation, but with only one-year basic exchange rate freeze. It maintains the alternatives of proposing price caps or other alternative regulation. |
| 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 8 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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|---|---|---|---|---|---|---|---|---|---|---|---|
| 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% | Price flexibility, except for operator services, 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 sufficient 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. Current plan should have expired in July 2006, but was extended pending adoption of successor plan. |
| | Pine Tree Telephone, Saco River Telephone | ROR with pricing flexibility (2006) | | Pricing flexibility for basic services. | | Pricing flexibility for contracted services. | | | | | In Jan. 2006 PUC granted pricing flexibility to Pine Tree Telephone and Saco River Telephone, affiliates of Country Road Communications. The companies, however, remain under a ROR plan. |
| | Other incumbents | ROR | | Fully tariffed | | | | | | Carriers can petition for pricing flexibility. | Underwent rate cases in 2003 to bring intrastate access charges down to interstate levels. In response to 2006 legislative directive, PUC and industry are developing a streamlined process for establishing alternative regulation of incumbents other than Verizon. |
| MD | Verizon | Price caps (1996-2007) | None | Basic services capped at current levels until 11/23/07, then permitted to escalate at the rate of inflation as measured by GDP-PI. Productivity adjustments eliminated (Nov. 2005). | Services indexed to GDP-PI. (Directory listing classified as discretionary--Nov. 2005) | Deregulation. (Toll service reclassified as competitive--Nov. 2005). | Not regulated | In 2006, Verizon fulfilled its requirement of deploying DSL capability in 16 central offices that did 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. | On Nov. 23, 2005, PSC adopted a settlement agreement (Case Nos. 8745, 8918 & 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. |
| | 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 equal to 1% of intrastate retail revenues. | New alternative plan was approved June 2003. |
| | Other incumbents | ROR | | Fully tariffed ROR | | | | | | | Four small ILECs. No proceedings pending. |
| MI | AT&T, Verizon & other incumbents | Rate deregulation (2005) | | Stand-alone, single-line residential primary basic local exchange service must be offered at a "just and reasonable" rate. | Deregulation | | Not regulated | | | | In Aug. 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 was 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 became effective Nov. 22, 2005. |

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| 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 | | | | | |
| MN | Qwest | Price caps (1999-2009) | December 2009 | Nonindexed caps for residential and business basic exchange through 2008; then can rise $1 monthly in final year. Price flexibility for other basic services. | Price flexibility for emerging competitive services. | Deregulated | Not regulated | | Qwest must file tariffs or price lists. Rate changes for services not fully competitive must be "affordable" and may be subject to PUC review upon filing of complaints. | Company must meet minimum service quality standards. | Plan was modified in Dec. 2005 and extended until 2009. Wholesale rate issues were shifted to separate docket, which is pending. A 2004 law deregulated business rates in 3 major metropolitan areas. |
| MN | Embarq, Frontier | Price caps (1996-2007) | 2007 | Nonindexed caps | Price flexibility for nonbasic and emerging competitive services | Deregulated | Not regulated | Carriers must meet infrastructure investment requirements | | | Embarq's plan was due to expire in Dec. 2006 but was extended through December 2007. Frontier's plan is due to expire in Aug. 2007. |
| MN | 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 3 years, but that provision expired in Aug. 2002. Company has not proposed any alternative regulation option. |
| MN | Other incumbents (under 50,000 lines) | Price flexibility | None | Allowed to price basic services to market unless greater of 500 or 5% of ratepayers seek PUC review of rate change. | Price flexibility for nonbasic and emerging competitive services | Deregulated | 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. |
| MS | BellSouth | Rate deregulation (effective July 1, 2006) | None | Stand-alone, single-line basic exchange service and switched access service can be increased only by the change in CPI-Urban index from January 1 of the prior year, beginning Jan. 1, 2007. | Deregulation of all non-basic and competitive retail services, effective July 2006 | | Not regulated | BellSouth has been a recipient of non-rural USF funding since 2000. Approximately $50M per year has been used for infrastructure improvements in central office and facility provisioning under BellSouth's Commission-approved USF service plans. | Customers are provided a customer service agreement to apprise them of BellSouth's deregulation of service. Changes in rates, terms and conditions must be noticed to customers thirty (30) days prior to the effective date. | The 2006 deregulation law allows the PSC to retain jurisdiction over customer complaints and contract disputes. BellSouth must file financial or service quality information as required by the Federal Communications Commission. | |
| MS | Other incumbents | ROR | | Fully tariffed | | | | | | | Under 2006 state law, other incumbents may adopt BellSouth's deregulation regime if they can demonstrate to the PSC that they face two or more active local competitors or have endured substantial business losses to competitors. None were deregulated as of December 2006. |

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|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Basic | Other noncompetitive | Competitive | | | | | |
| MO | AT&T, Embarq, Century Tel, Spectra, Windstream | Price caps (1997) | None | Indexed caps to telecom component of CPI.<br><br>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% annually. | Deregulation (2005) of rates for bundled services and pricing flexibility for services in any exchange where 2 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. Customer notice required. | | In 2005, legislature passed law (effective Aug. 2005) deregulating rates for bundled services. Residential and/or business services are deemed competitive and subject to pricing flexibility in any exchange where 2 or more local competitors operate. Competition rule allows one wireline rival and one other type of competitor.<br>By December 2006, AT&T, Embarq, CenturyTel and Spectra have obtained pricing flexibility in several exchanges deemed competitive under the law (for current info on the number of exchanges see http://psc.mo.gov/teleco-competexchange.asp). |
| | Other incumbents | ROR | | Fully tariffed ROR | | | | | | | A 2005 state law allows the state's 39 other incumbents to seek price cap status in any exchange where 2 or more wireless providers operate. Only Alltel Communications has requested price cap status under the new law and its request was granted (effective 10/14/05). |
| MT | Qwest | ROR | | Rate-of-return regulation.<br><br>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 | | | | In October 2006 Qwest sought deregulation for vertical services, directory listing options, and certain service bundles.<br>In 2003 PSC initiated a docket requiring Qwest to file information on its rate of return. 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 in MT Supreme Court. Group of Qwest customers in Oct. 2006 filed complaint alleging Qwest since 2001 has had $85 million in excess earnings. |
| | 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. |
| | Rural telephone cooperatives | Not subject to PSC regulation | | Deregulated | | | | | | | |
| NE | All incumbents | Rate deregulation | | Retail telecom service rates not regulated since 1986, except that PSC can roll back excessive residential local rate increases in exchanges without competition upon petition by affected ratepayers. Percentage of ratepayers that trigger review varies from 2-5%, depending on telco size. Basic exchange rate increases exceeding 10% get automatic review, unless telco has under 5% of state total access lines, in which case review threshold is 30%. | | | Not regulated. PSC in 2000 set benchmark earnings at 12%. | | 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%. Incumbents remain free to change rates at will, upon 10 days notice, but those setting rates below benchmarks or posting earnings above 12% would see reduced support from state universal service fund. | |

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|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Basic | Other noncompetitive | Competitive | | | | | |
| NV | Embarq | Price caps (1996-2007) | June 2007 | Nonindexed caps. Rate cuts allowed, but not increases | Nonbasic services can increase up to 5% annually up to a cumulative total 20% increase. | Price flexibility. Broadband and business services provided under customer-specific contracts deregulated. | Not regulated | | | | PUC in May 2002 approved $43.5 million revenue increase that raised local rates about 15%, and renewed cap plan for another 5 years. Bill passed in 2003 grants carrier more flexibility to make special deals with business customers. Spin-off of former Sprint local exchange operation to Embarq in late 2005 didn't change nature or duration of regulatory plan. |
| NV | AT&T | Price caps (1997-2008) | Mid-2008 | Nonindexed caps for basic services.<br>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 5 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 | | Fully tariffed ROR | | | | ILECs must file all tariffs for review. The PUC has 30 days to review, with the option to extend for 30 days. The Commission may then require a notice period to the customers. | | | General guidelines for alternative regulation were adopted in 1996 but to date only one incumbent, Kearsarge Telephone, applied for price-based regulation. Its petition, filed in 2001, was denied April 2004.<br>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. In Spring 2006, Verizon proposed price cap plan for basic services, negotiated with PUC staff, that would also have deregulated most nonbasic, optional and discretionary retail service rates. Verizon withdrew proposal in Sept. when critics questioned whether plan complies with N.H. alternative regulation law. Verizon indicated it may try for deregulation through revised proposal or change of state law in 2007. |
| 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 deregulated for customers with 2 or more lines. 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. | |
| NJ | Other incumbents | ROR | | Fully-tariffed ROR | | | | | | | No current proceedings to change situation. |

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|---|---|---|---|---|---|---|---|---|---|---|---|
| NM | Qwest | Price caps (2001-2006) | AFOR plan was to have expired 2006, but was extended until replacement is approved. | Nonindexed caps. | Capped at average rates in Qwest's 14-state home region. | Deregulated | Not regulated | PRC reached a settlement with Qwest in 2006 on the $224M shortfall of Qwest's agreed upon investment req. in AFOR I. Total settlement amount for AFOR1 cases is $270M, allocated among the STRONG Project (Educational Technology: $5M), QoS credits to customers ($10M), and investment projects ($255M). Qwest must deploy broadband (BB) in 23 communities, expanding BB availability to 83% of its exchanges and to 50% of its rural exchanges. Upgrade requirements to Q's network include rural 911 and facilities serving federal installations. Qwest will file a detailed timetable for network projects. | | Carrier must meet service quality standards and customer service requirements. The 2006 settlement agreement requires Qwest to return $10 million to customers for quality failures -- about $12.50 an account. | Qwest was entitled to 10% boost in Sept. 2003 if it was on schedule with investment requirements. In July 2004 the PRC opened docket to determine whether Qwest is on schedule to meet network investment commitment. In early 2005, staff concluded Qwest would fall $224 million short of investment requirement and ordered refund. In Dec. 2006, the N.M. PRC unanimously approved Qwest's $270 million offer to end a suit over its $224 million shortfall. The agreement lets the PRC order as many audits as it needs to monitor compliance, and has clauses intended to keep the telco from escaping its commitment. Qwest's settlement agreement and AFOR1 and 2 are available at http://www.nmprc.state.nm.us/qwestafor.htm. The PRC also extended Qwest's AFOR II Pricing and Quality of Service Plan that will cap basic local rates at the rate as of the effective date of the Plan for 3 years. Most other retail services will be under caps indexed to the GDP-PI, subject to a cost floor. New telecom services and packaged services will not be subject to price caps. The new plan, effective January 1, 2007and until Dec. 2009, lets Qwest reduce rates on a day's notice to the PRC and increase rates 10 business days after filing with PRC. |
| | Windstream | Price caps (2006-2010) | | Caps indexed to inflation rate for telecom services. | Rates can increase 5% annually. | Bundled services rates deregulated but must stay above cost floor. Vertical services can increase up to 20% a year combined, exact amount allowed each year determined by formula. | | | | Company must meet service quality and customer service standards. | |
| | Other incumbents (fewer than 50,000 lines) | Rate deregulation (1999) | | Basic residential rate increases subject to regulatory review if increases affect 2.5% of ratepayers or if PRC staff protests. | | | | | Companies must give 60 days' notice of residential rate increases. | | Deregulation occurred in 1999 by state law. Decision on rate increases required within 60 days of hearing. |

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|---|---|---|---|---|---|---|---|---|---|---|---|
| NY | Verizon | Price Caps (2006) | | Unlimited local service rate can rise in annual increments of $2 to absolute cap of $23 monthly. Dial-tone charge in measured local service also can rise up to $2 for 2 years, with PSC approval required for measured-rate increases in 2008 and beyond. | Rates for nonbasic, optional, discretionary and competitive services are deregulated. | | | | | PSC's April 2006 cap order also set up pending Phase 2 docket to study service quality, customer information and network reliability standards and reporting requirements. | |
| | Frontier Telephone of Rochester | Price Caps (2006) | | Unlimited local rate can increase $2 annually for 2 years. PSC approval required for local increases from 2008 on. Dial-tone charge in measured local service also can rise up to $2 for 2 years, with PSC approval required for measured-rate increases in 2008 and beyond. | Rates for nonbasic, optional, discretionary and competitive services are deregulated. | | | | | | |
| | Other incumbents | ROR | | Fully tariffed ROR | | | | | | | In April 2006 PSC let carriers under ROR to petition for a price cap plan like Verizon's and Frontier's by showing they face similar competitive pressures. In 2006, six affiliate companies of Frontier Communications petitioned for the same pricing flexibility granted Verizon and Frontier of Rochester (Case 06-C-1261). Petition is still pending (March 2007). |
| NC | BellSouth | Price caps (2005) | None | Rates can rise up to 10%, subject to revenue cap for moderate-price-flexibility basket equal to 1.5 times annual GDP-PI. | Vertical and nonbasic residential services can rise up to 20%, subject to basket revenue cap equal to 2.5 times annual GDP-PI. Basic business and installation remain in moderate-flexibility basket. | Deregulated (Including BellSouth's business services, other than basic exchange and installation). Competitive business services were detariffed and given total pricing flexibility. | Not regulated | | | | New cap plan adopted in April 2005 to replace expired plan dating from 1996 (Docket No. P-55, Sub.1013). Effective Dec. 2005, all BellSouth business services were classed as competitive -- except basic exchange and installation. BellSouth in Aug. 2006 petitioned for rate deregulation of residential and basic business services, but regulators put petition on hold pending completion of BellSouth's merger with AT&T. |
| | Verizon | Price caps (2005) | | Rates can rise up to 10% subject to moderate-price-flexibility basket revenue cap of 1.5 times annual GDP-PI. | Vertical and nonbasic services can rise up to 20%, 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. | Verizon's new Stipulated Price Regulation Plan was approved on May 9, 2005 and became effective in June 2005 (Docket No. P-19, Sub 277). |
| | Embarq (i.e. former Carolina Telephone & Telegraph and Central Telephone Company) | Price caps (2005) | | Rates can rise up to 12% subject to basic-basket revenue cap equal to annual GDP-PI. | Vertical and nonbasic services can rise up to 20%, subject to basket revenue cap equal to 2.5 times annual GDP-PI. | Deregulated | Not regulated | | | Embarq is under a cap system similar to BellSouth's | New Stipulated Price Regulation Plan was approved on April 12, 2005 and became effective in April 2005 (Docket No. P-7, Sub 825 and P-10, Sub 479). |
| | North State | Price caps (2002) | None | Basic, Interconnection, and Non-Basic 1 categories services under caps indexed to GDP-PI minus 2%. Individual rate elements cannot exceed the following percentage change in the GDP-PI plus: Basic - 3%; Interconnection - 7%; and Non-Basic 1 - 15%. | | Services grouped in baskets with service-specific caps. | Not regulated | | | | Docket No. P-42, Sub 137. |

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|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Basic | Other noncompetitive | Competitive | | | | | |
| **NC** (cont.) | Other incumbents | Price caps (1996) | None | Individual rate elements, including basic service, can rise up to 10% annually, subject to aggregate revenue cap for moderate-pricing-flexibility basket equal to 1.5 times the increase in the GDP-PI per year.<br>Concord Telephone: Individual rate elements, including basic service, can rise up to 12% annually, subject to aggregate revenue cap for moderate-pricing-flexibility basket equal to 1 time the increase in the GDP-PI per year. | Vertical and nonbasic services can rise up to 20% annually, subject to an aggregate revenue cap for the High-pricing-flexibility basket equal to 2.5 times the increase in the GDP-PI per year. | Deregulated | Not regulated | | | | Mid-sized incumbents, including Concord Tel, Mebtel and North State Communications, have elected price cap regulation under a program similar to BellSouth's former price cap plan. In September 2005, Concord Telephone, Randolph Telephone and Windstream came under price-based plans similar to the new programs for BellSouth, Verizon and Embarq. MebTel's petition was approved and became effective on October 2006. Altell filed a stipulated new price cap on Oct. 18 2005, which was approved on Jan. 2006 and became effective on March 15, 2006. Altell spin-off its landline business and merged with Valor Communications to create Windstream in 2005. |
| | | ROR (1996) | None | Fully tariffed ROR | | | | | | | Seven small incumbents remain under ROR. Randolph Telephone requested price-based regulation in 2005 and its new plan became effective on Jan 1. 2006.<br>The TDS Companies (Barnardsville, Saluda Mountain, and Service) filed for a new price regulation plan on October 30, 2006. The hearing is scheduled for March 7, 2007. If approved, only 4 companies will remain under the ROR regime. |
| **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<br>Business basic exchange and additional residential lines were removed from nonindexed caps (August 2005). | | Not regulated | | | | Qwest new cap system was set by state law and became effective August 1, 2003. It replaced an older indexed cap system dated back to 1993. |
| | North Dakota Telephone | ROR | | Fully tariffed ROR | | | | | | | No current proceedings to change status. |
| | Other incumbents | Rate deregulation | | Retail rates of investor-owned incumbents with fewer than 8,000 lines and of all telephone cooperatives regardless of size have been deregulated since 1993. Carrier access services rate deregulated unless carrier requests intrastate access price regulation, but earnings aren't regulated. Some carriers have elected access charges regulation. | | | Not regulated | | | | |
| **OH** | AT&T, Cincinnati Bell, Verizon, Embarq, Altell, Century Tel, Champaign Tel, Chillicothe Tel, TSC, Western Reserve | Price caps (Alternative Regulation) | None | Indefinite rate freeze for basic local service and basic caller ID service, unless PUC finds markets competitive (BLES Alt Reg). Rates are set at the existing rates when adopting the plan.<br>AT&T & Cincinnati Bell: Under their approved pricing flexibility plans (BLES Alt Reg) basic local telephone service rates cannot increase by more than $1.25 annually and 50 cents annually for caller ID. Lifeline customers will not see any increase. | 2-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 cap set at double the initial rate. | Deregulated | 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 can petition for basic local pricing flexibility, rate deregulation of capped vertical and specialty business services –- or both -- if they can show effective competition exists.<br>Companies must meet company-specific commitments to expand the offer of enhanced Lifeline plan.<br>Any company choosing to apply for this pricing flexibility must continue to adhere to the minimum telephone service standards. | Companies opted for generic alternative price regulation framework PUC adopted in April 2002. AT&T & Cincinnati Bell currently have had BLES Alt Reg cases approved, subject to appeal with the Ohio Supreme Court. In November 2006, the PUCO accepted Cincinnati Bell's application for pricing flexibility in its Cincinnati and Hamilton exchanges. AT&T's application was approved in December 2006. AT&T had applied for pricing flexibility for 145 of its 192 exchanges. The PUCO determined that nine of the exchanges did not meet the requirements of the PUCO rules for granting pricing flexibility. In exchanges where competition is not proven to exist, rates for basic local telephone service and basic caller ID will not change. |
| | Other incumbents | ROR (may choose to opt into elective Alt Reg) | N/A | Traditional or streamlined ROR | | | N/A | N/A | | | State's 33 other incumbent companies have the choice of opting into PUC's generic (i.e. "off the shelf) alternative regulation plan or propose a company-specific regulation plan. |

## Table 3
## Detail of State Retail Rate Regulation Plans of Incumbent Local Exchange Carriers
## (as of December 2006)

| State | ILEC | Regime | Expiration date | Rate regulation by type of service: Basic | Other noncompetitive | Competitive | Earnings regulation | Infrastructure requirements | Rate/Service Notice | Other plan requirements | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| OK | AT&T | 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%.<br><br>In Service Basket 3, if the competitive test is met then pricing flexibility is capped at 12% per year. If the competitive test is not met then pricing flexibility is equal to the change in inflation -1%. Both scenarios fall under 30-day notice and regulatory review. | | Pricing flexibility for all services in Basket 4, per PUD 2004-0042. All of AT&T's services, other than those included in Basket 3, are now in Basket 4. | Not regulated | AT&T, then SBC, committed to invest in upgrading its facilities to provide DSL in all its central offices in OK within 2 years from the date of the order. The carrier also 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, now AT&T, 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% of customers protest. | | Price flexibility. Rates must be above cost floors. | 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, now AT&T.<br>Carriers with greater than 75,000 lines are treated like AT&T (alt reg). |
| OR | Qwest | Price caps (2000) | None | Rate freeze (residential and small business basic exchange, PBX trunks, and payphone access services), but can be changed by PUC for good cause. | 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. Meetings of an Oregon legislative Task Force on Telecommunications concluded Dec. 29, 2006, without making an overall recommendation to the legislature on deregulation. Legislators on the task force indicated that they will draft legislation based on the work of the task force for the 2007 session. |
| | Verizon, Sprint, Century Tel | ROR | | Fully tariffed ROR.<br>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) | Rate deregulation (1983) | | PUC can review rate changes if 10% of affected ratepayers petition for review. | | | Not regulated | | | | Rates and earnings deregulation for other incumbents done under state law in 1983. Under ORS 759.400 et seq, which is an opt-in plan available to the larger companies, telecommunications carriers are allowed to request price cap regulation. |

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# Table 3
## Detail of State Retail Rate Regulation Plans of Incumbent Local Exchange Carriers
## (as of December 2006)

| 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 | Verizon PA, Verizon North, Embarq, Windstream and 20 other incumbents | Price caps (2002) | None | All the ILECs are held to a $18 residential dialtone "ceiling". If residence dialtone rate exceeds $18, difference is credited from PA Universal Service Plan (does not apply to VZ PA or VZ North). Only ILECs (except Verizon PA and Verizon North) are eligible to receive disbursements from the state USF. | Rate flexibility. The Commission has not set specific rates for any particular service. Staff frequently requires companies to justify rates that appear to be excessive. Should a consumer file a complaint about rates, the Commission would investigate it. | Rate flexibility. Under the 2004 state law, ILECs may declare services as competitive. | Not regulated | A 1993 state law mandated 100% broadband deployment by Dec 2015. 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.<br><br>Under a December 2004 law, price cap productivity offsets are tied to broadband commitments. Verizon PA & Verizon North opted for a 2015 broadband deadline. Embarq & Windstream chose 80% availability by 2010 and 100% by 2013. Verizon PA, Verizon North and any rural ILEC not electing a 2008 broadband date are required to implement programs to identify communities for broadband deployment. Other RLECs, including those not under price caps, have committed to a 100% broadband availability by Dec 2008.<br><br>Penalties apply if ILEC fails to fulfill its broadband commitment. | Rate decreases can be done on 10 day's notice; rate increases and new services on 30 day's notice and ministerial administrative changes on 1-day's notice. Tariff filings for rate changes must also be filed with statutory public advocates.<br><br>The ILEC is not required to maintain a tariff with the Commission for services declared as competitive, however, the few ILECs that have made competitive declarations prefer tariffs to individual contracts with consumers. | All telcos were required to restructure their access charges so fixed costs would be recovered through flat rates. In 2004 a revised law offered reduced productivity offset in price cap formulas in exchange for an amended network modernization plan and accelerated broadband deployment. All telcos are required to make broadband service universally available throughout their service areas by 2015. Each telco has its own schedule for achieving goal.<br><br>Further incentives apply for rural ILECs committing to 100% broadband availability by 2008. The 2004 state law ended productivity offsets in price cap indexing formulas for companies other than VZ, if telcos agreed to shorten an original 2015 broadband deployment deadline to 2008. All but 4 small companies agreed.<br><br>The Dec. 2004 law also allowed incumbents to self-certify that a service is competitive on one day's notice. A due process proceeding is required to reclassify services back to noncompetitive. | A 1993 state law mandated migration from traditional rate-base ROR by 1998 to "alternative" regulation. A waiver was granted to 4 extremely small rural ILECs. Of PA's 37 ILECs, 24 large and midsize ILECs currently operate under price caps, while the remainder filed for Streamlined Regulation (nontraditional ROR). 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. |
| | Other incumbents | Streamlined ROR & Traditional ROR | | 9 ILECs, with generally less than 10,000 access lines, operate under a Streamlined Regulation Plan with aspects of ROR. 4 extremely small ILECs continue operations under traditional ROR. | | | | | | A 2004 state law granted a suspension to rural ILECs serving less than 50,000 access lines of TA-96 251(b) and (c) until December 2008, thereby delaying entry of non-facilities-based CLECs in their service areas and effectively limiting rural competition to facilities-based providers. | |
| RI | Verizon | Price floor (2006) | None | All retail rates can be anywhere above cost floor set at long run incremental cost. Rate levels and rate structures are entirely at Verizon's discretion, subject only to cost floor. | | | Not regulated | | Telco must file tariffs, give 30 days' notice of rate changes. | 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. | New plan entered into effect in 2006. |

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|---|---|---|---|---|---|---|---|---|---|---|---|
| SC | BellSouth | Price caps (1999) | None | Nonindexed caps | Other services flexibly priced, except that the cumulative effect of all rate changes for all other services can't increase total revenue more than 5% per year. 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. |
| | Embarq, Verizon | Price caps (1999) | None | Caps indexed to CPI | Other services flexibly priced, except that the cumulative effect of all rate changes for all other services can't increase total revenue more than 5% per year. Rate deregulation for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle. | | Not regulated | | | | Sprint, now Embarq, went under caps in 1999 and Verizon in 2000. A 2005 state law deregulated rates for all retail service bundles offered by price-regulated incumbents. |
| | Other incumbents | Price caps (2004) | | Basic residential and business services capped at statewide average rates. | Nonbasic services under caps indexed to national CPI. A 2005 state law deregulated rates for all retail service bundles offered by price-regulated incumbents, regardless of the services included in the bundle. | Price flexibility, subject to revenue cap for competitive basket equal to 5% annually. | | | | | A 2004 state law set optional price cap system for other incumbents. Thirteen companies have opted for this system. A 2005 state law deregulated rates for all retail service bundles offered by price-regulated incumbents. |
| | | ROR | | Fully tariffed ROR | | | | | | | Carriers can petition for switch to price caps or other alternative forms of regulation. Eleven opted to so in 2005 and two more did so in 2006. |
| SD | Qwest | Rate 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 | Rate 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. |
| TN | BellSouth, Embarq, Citizens Telecom | Price caps (1996) | None | Caps indexed to lesser of one-half GDP-PI or GDP-PI minus 2%. Rates for bundled services, customer-specific service contracts, business toll and high-speed digital services for businesses are deregulated. | | | Not regulated | | | Rate changes exceeding caps allowed as part of revenue-neutral rate rebalancing, expansion of local calling areas or rate group changes. | Cap system prescribed by state law and changes would require act of legislature. Regulators in 2005 approved rate deregulation for business toll and high-speed digital services for businesses. |
| | 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. |
| TX | *Regulated ILECs* (Incumbents with markets of less than 30,000 population before Jan. 1, 2007 and markets the PUC determines should remain regulated) | 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. Residential call waiting service became a nonbasic service as of July 1, 2006. | | Not regulated | | | Regulated companies may still elect to be regulated under PURA Chapter 58 or 59 on incentive regulation after Jan. 1, 2005. New Law removes a requirement that first three directory assistance inquiries in a monthly billing cycle be free of charge as of July 1, 2006. PUC retains authority to reregulate markets with less than 100,000 pop. on its own motion or on a meritorious complaint. | Regulated markets include those with less than 30,000 population before Jan. 1, 2007 and all markets with at least 30,000 that the commission determined should remain regulated on and after Jan. 1, 2006 due to lack of meaningful competition. Regulated companies are subject to provisions under the 2005 state law and those that applied to the companies on September 1, 2005. PUC shall determine no later than Nov. 30, 2006 whether a market of an ILEC with less than 30,000 pop. should remain regulated on or after Jan. 1, 2007, based on market test determination defined in §26.134 of PURA. In late 2006, the PUC deregulated rates in 15 AT&T small markets (Case 32977) and 2 Embarq small markets. After July 1, 2007, a company may petition for deregulation of a market the commission previously determined should remain regulated. Law is being challenged in state courts. |

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# Table 3
## Detail of State Retail Rate Regulation Plans of Incumbent Local Exchange Carriers
## (as of December 2006)

| State | ILEC | Regime | Expiration date | Rate regulation by type of service: Basic | Other noncompetitive | Competitive | Earnings regulation | Infrastructure requirements | Rate/Service Notice | Other plan requirements | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| TX (cont.) | *Transition-ing ILECs* (Incumbents for which one or more, but not all markets, remain regulated after Jan. 1, 2006, regardless of population size) | Price caps (1999-2007) in regulated markets | 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. | | | Service rates in regulated markets are to be set in accordance to provisions that applied immediately before the date the company was classified as transitional. Incentive regulation option continues. | A "transitioning" company is that for which the commission determines that one or more, but not all of its markets, should remain regulated on and after January 1, 2006, regardless of the population size in the area.<br><br>The 2005 Law deregulated all markets over 30,000 population as of Jan. 1, 2006. Criteria for deregulation include:<br>(1) Market population is over 100,000 or<br>(2) population is between 30,000 and 100,000 and there are at least three competitors in addition to the ILEC. Competitors must include at least one CLEC offering residential service, at least one facilities-based competitor, and at least one unaffiliated wireless competitor.<br><br>Nevertheless, an ILEC reserves the option to have all of its markets remain regulated on and after Jan 1, 2006 through an affidavit to PUC making that election no later than Dec. 1, 2005, or to elect incentive regulation under either of the two applicable Utilities Code chapters (PURA Chapter 58 or 59).<br><br>After July 1, 2007, a company may petition for deregulation of a market the commission previously determined should remain regulated. PUC retains authority to reregulate markets with less than 100,000 inhabitants on its own motion or on a meritorious complaint. |
| | | Pricing flexibility in deregulated markets | 2007 | Basic residential services (including flat rate local service, caller ID for customers at least 65 years old, primary directory listings, tone dialing, lifeline and tel-assistance service; 911 service access, mandatory EAS arrangements, mandatory extended metropolitan service or other mandatory residential toll-free calling arrangements, among others) priced at any price above the lesser of long-run incremental cost (LRIC) or the tariffed price on the date that the market was deregulated. However, stand-alone <u>basic residential rates cannot be raised until the commission can revise monthly per line support under the Texas high-cost USF.</u><br><br>**Intrastate switched access rates:**<br><u>Transitioning company with more than 3 million lines:</u> Rate reduction of originating and terminating intrastate access in three annual steps, beginning Jan. 1, 2006 or when classified as transitioning. Each step reduces rates by one-third of difference between federal and state rate. Per minute originating and terminating intrastate charges at the carrier's interstate level by July 1, 2008. Must maintain parity with the federal rate thereafter.<br><u>Transitioning company with fewer than 3 million lines:</u> New formula for a more gradual rate reduction. Originating and terminating intrastate charges at the carrier's interstate level by July 1, 2009 and thereafter, if more than 75 percent of the company's markets are not regulated on July 1, 2009, or any succeeding year. Must maintain parity with the federal rate thereafter. Company may choose to reduce its switched access rates more rapidly than required in the formula. | Pricing flexibility. Non-basic retail services priced above LRIC. | | Not regulated | | New services can be introduced on one day's notice. | In each of its deregulated markets the transitional company shall make available to all customers uniform rates, terms and conditions for all basic and non-basic services, consistent with the pricing flexibility available to the company on or before August 31, 2005.<br>Transitional companies cannot be required to comply with exchange-specific service quality standards or reporting requirements in deregulated markets.<br>No company may establish rates that are anticompetitive, predatory, or discriminatory, nor may it cross subsidize rates in deregulated markets by services in regulated markets. | |
| | *Deregulated ILECs* (Incumbents with all their markets deregulated) | Pricing flexibility | | Rates for stand-alone basic residential service cannot be raised until the commission can revise monthly per-line support under the Texas high-cost USF, regardless of whether the company is an electing company under PURA Chapter 58 on incentive regulation.<br><br>**Intrastate switched access rates**:<br>On the date that a deregulated company's last market is deregulated, it must lower its originating and terminating intrastate switched access rates in each of its markets to the company's respective federal originating and terminating switched access rates. It must maintain parity with the federal rate thereafter. | Pricing flexibility | | | | | The company shall make available to all customers uniform rates, terms and conditions for all basic and non-basic services, consistent with the pricing flexibility available to the company on or before August 31, 2005.<br>A dereg. carrier can petition to relinquish its certificate of convenience and necessity and receive operating authority (for non-dominant carriers) instead. However, carrier keeps its provider-of-last-resort obligations (POLR) under Chapter 54. POLR can fulfill obligations using any technology. Service quality and 911 compliance must be comparable to traditional wireline. | Except as elected by the applicable ILEC, an ILEC market may not remain regulated if its population is at least 100,000 or if the market is in the mid-range of 30,000 to 99,000 population and there are at least three competitors fitting the parameters described above for "transitioning" companies. Accordingly, a "deregulated" company does not have any markets with less than 30,000 inhab. nor any market determined by the commission to remain regulated on and after Jan. 1, 2006.<br>PUC retains authority to reregulate markets with less than 100,000 inhabitants on its own motion or on a meritorious complaint. |

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# Table 3
## Detail of State Retail Rate Regulation Plans of Incumbent Local Exchange Carriers
## (as of December 2006)

| 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| UT | Qwest | Rate deregulation (2005) | None | Residential basic exchange service capped at current rates through 2007. After 2007, cap will be lifted in exchanges where local competitors offer residential basic exchange. | 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% of total business lines and 50% of residential lines. |
| | Other incumbents (fewer than 30,000 lines) | Streamlined ROR (1997) | | Streamlined ROR | | | Administrative review of earnings through expedited process. | | | | Rate and earnings for other incumbents get speedy administrative review through expedited process. Companies or state Div. of Public Utilities can request full rate case. Other incumbents have option to switch to deregulation regime prescribed for Qwest in the 2005 law. |
| VT | Verizon | Price caps (2005-2010) | | Nonindexed caps for all services. Caps set at rate levels prevailing in April 2000. $8.18 million in retail rate reductions at the outset of the plan and &2 million annually thereafter. Rate reductions can be offset by increased broadband rollout to unserved areas, investing same amounts. | | Price flexibility for service bundles and stand-alone non-basic services introduced after April 2000. | Not regulated | No specific infrastructure upgrade requirements. Plan sets minimum network investment floor at $40 million. April 2006 amendments eliminated Verizon's rate reductions and specific investment dollar amounts requirements in return for carrier's committing to make all central offices DSL capable and make DSL available to 80% of subscribers by 2010. | | Verizon must meet service quality standards on pain of penalties up to $10.5 million annually. | Regulators in Sept.2005 extended plan through 2008. In April 2006, regulators amended plan and extended it through 2010. Verizon progress toward plan goals will be reviewed mid-2008. |
| | Other incumbents | Price caps (2005-2008) | | 2005 state law allows state's 9 other incumbents to increase rates 9% total over 3 years without rate case, but basic service rates couldn't rise before 2006. Carriers can seek additional increases from regulators to cover exogenous cost increases such as tax hikes or weather disasters. | | | Earnings remain subject to regulatory review. | | | | In 2005, the legislature passed a statute eliminating PSB jurisdiction over the smaller incumbents and establishing a regulatory regime similar to a legislatively enacted price cap plan. The PSB can reassert regulation if necessary, but it has not done so. This legislation sunsets 7/1/08, and the companies are seeking renewal. In mid-2006, the VT Public Service Board adopted Rule 7.500, which significantly altered the way it regulates non-dominant telco carriers. Specifically, non-dominant providers such as CLECs are no longer required to file tariffs or get approval for mergers or sales. |

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| 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| VA | Verizon VA & Verizon South | Price ceilings (2005) | None | Rates have ceilings set initially (2005) at the lower of 1994 GDP-PI adjusted (through 2004) levels or the then current highest tariff rate (among all rate groups). The ceilings are adjusted annually for inflation as measured by GDP-PI. The price ceiling serves as the highest rate above, which no rate group may exceed. Rates may rise up to 10% the first year.<br><br>After the initial year, prices may increase .0083 times the number of months since the last increase, but no single increase may exceed 25%. Rates for individual services may not increase more than once per year. Revenue-neutral price changes may be sought at any time. | There is no price ceiling. Rates may increase up to 10% the first year. After the initial year, prices may increase .0083 times the number of months since the last increase for an individual service, but no single increase may exceed 25%.<br>Revenue-neutral price changes may be sought any time. | Price flexibility.<br>Prices for Competitive and Bundled services are subject to certain competitive safeguards. | Not regulated | | | For Verizon VA, the new plan eliminates previous link between price increases and service quality performance of local exchange service. Companies must comply with retail service quality rules. | Verizon South formerly was GTE. |
| | Embarq Telcos | Price indexing (1995; modified in 2000 & 2003) | None | Price increases indexed to one-half GDP-PI. Rates for individual services may not increase more than once per year. Revenue-neutral price changes may be sought any time. | Discretionary services indexed to GDP-PI. Rates for individual services may not increase more than once per year. Revenue-neutral price changes may be sought any time. | Price flexibility.<br>Prices for Competitive and Bundled services are subject to certain competitive safeguards. | Not regulated | | | | Carrier hasn't filed for any changes in response to 2004 law that bans below-cost service pricing. |
| | Other incumbents | Rate deregulation (2000) | | Rates of investor-owned small telcos are partly deregulated by statute, giving them pricing flexibility. 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<br>Qwest's petition for an alternative form of regulation (late 2006) is under consideration in UT-061625. | | Companies can petition for rate deregulation of competitive services. Rate deregulation has been granted to large incumbents' toll, directory assistance and business services to large customers in markets where competitors operate.<br>In 2003, Qwest received statewide deregulation for some specialty business services and in 2004, won statewide deregulation for all retail business telecom services. | Revenues from competitive services continue to be accounted for on regulated side and in rate-of-return calculations. | | A 2006 state law ended requirements that carriers file price lists for competitive services. Carriers in future will use contracts or service agreements for their competitive services. | | In late 2006 Qwest petitioned for an alternative form of regulation, as provided for under state statute. That petition is under consideration in UT-061625.<br>State law allows incumbents to petition for alternative regulation. In March 2006 Qwest expressed an interest in negotiating an AFOR plan with the WUTC. In November 2006 WUTC had a prehearing conference on Qwest's proposal. Qwest's proposed price-based system caps retail residential basic service and deregulates retail rates for all other services. Qwest also wants to end Qwest-specific retail service quality standards and reporting requirements, binding it only to the same retail quality standards and reports as apply to Verizon, CenturyTel, and Embarq. Qwest operated under earnings-based incentive plan until 1994, when it reverted to rate-of-return regulation.<br>In April 2005 Verizon settled a rate case requesting $240 million increase; the company only received $38.6 million. |

# Table 3
## Detail of State Retail Rate Regulation Plans of Incumbent Local Exchange Carriers (as of December 2006)

| State | ILEC | Regime | Expiration date | Rate regulation by type of service: Basic | Other noncompetitive | Competitive | Earnings regulation | Infrastructure requirements | Rate/Service Notice | Other plan requirements | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| WV | Verizon | Incentive regulation (1994-2006) | | 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 4 years on condition that Verizon invest $375 million in network from 2001 to 2005. By 2005, Verizon had exceeded this commitment with network investments of approximately $520 million. | | Program extension requires Verizon to cut access charges to interstate levels 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 extended through 2006, pending replacement. Verizon proposed renewal with amendment that would deregulate rates for all retail business services and local directory assistance, but hearing officer in Sept. 2006 recommended rejection on grounds of insufficient competition.<br>Verizon, WVPSC Staff and the Consumer Advocate Division have reached an agreement on major changes to the way in which the carrier will be regulated. The new Plan was filed in late 2006 with the PSC for review and approval. Verizon's Market Transition Plan is Case No. 06-1935-T-PC). |
| | 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 the 2006-2013 period). | | 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. |
| | Other incumbents | ROR | | Fully tariffed ROR | | | | | | | No pending proceeding to change current status. |
| WI | AT&T | Price caps (1994) | None | Caps indexed to GDP-PI minus 3%, + or - 2% for infrastructure and service quality performance.<br>The 3% X-factor and 2% incentive/penalty applies to companies with more than 500,000 access lines. | | Price flexibility.<br>Small business (1-3 lines) removed from price regulation in 2004.<br>Basic residential service in 17 city and suburban market areas reclassified as competitive 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 and 2002 reviews. Future reviews at PSC discretion. No plans for full-scale review of cap program.<br>The PSCW removed small business (1-3 lines) from price regulation in 2004 after a competitive showing. In 2005, the commission reclassified as competitive basic residential service in 17 city and suburban areas after a competitive showing. This allows nearly complete rate flexibility for these services.<br>Business service for more than 3 lines were never subject to price regulation. |
| | Verizon | Price caps (1995) | None | Caps indexed to GDP-PI minus 2%, + or - 1% for infrastructure and service quality performance.<br>The 2% X-Factor and 1% incentive/penalty applies to companies with less than 500,000 access lines. | | Price flexibility | Not regulated | | | | Program continued without major change after 1999 and 2002 reviews. Future reviews at PSC discretion. No plans to conduct one. |
| | Other incumbents | Flexible regulation | | Of state's 82 other incumbents:<br>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 are under traditional fully tariffed ROR. State's 12 telephone cooperatives aren't rate regulated. | | | | | | | |
| WY | All incumbents | Rate deregulation (2003) | None | Cost-based pricing flexibility. Rates must stay above TSLRIC cost floor. | | | Not regulated | | <u>Basic res & bus local exchange and switched access</u>: 30 days. <u>Non-essential (competitive services):</u> 1 day. | An incumbent that prices basic local service above statewide benchmark rate of $32.34 monthly may face review of its state universal service support. | |

Sources: *State Telephone Regulation Report* , September-October 2006, Vol. 24 (19, 20 & 21) & State Utility Commissions.

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## Table 4
## Detail of State Retail Rate Regulation of Competitive Local Exchange Carriers
## (As of December 2006)

| 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. | Starting Feb. 2007, CLECs can opt for detariffing of most retail services. |
| **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 (once multiple competitors operate in a market) | **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 of whether they are eligible to receive subsidies from fund. |
| **CA** | Rates not reviewed | Yes | **Yes** (technical, financial and managerial competence) | Yes | 1 day for any tariff change, 30 days notice to customers for increases or more restrictive terms and conditions. | Initial tariffs receive regulatory review; changes not normally reviewed. | |

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# Table 4
## Detail of State Retail Rate Regulation of Competitive Local Exchange Carriers
## (As of December 2006)

| State | Type of Regulation | Rates Presumed Competitive | State Certification Requirement | Tariff Filing | Rate Change Notice | Review of Rate Changes | Other Requirements |
|---|---|---|---|---|---|---|---|
| **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 stand-alone or bundled packaged basis. Bundled rates can't exceed cumulative stand-alone rates of services comprising bundle. | 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. |
| **CT** | Rates not reviewed | Yes | **Yes** (technical, financial and managerial competence). | Yes | Advanced filing notice to the Department for rate and service changes are the same for CLECs and ILECs. A tariff filing for a competitive service may be effective on 5 days advanced written notice. | All changes receive regulatory staff review but normally aren't questioned. | |
| **DE** | Rates not reviewed | Yes (so long as they exceed floor set at incremental cost).* | **Yes** (technical, financial and managerial competence). | **Yes** (either tariffs or price lists) | 3 days (rate and service changes) | Rate changes are assumed to be above cost floor and are not normally questioned. However, the Commission reserves the right to investigate rates further, including having CLECs provide cost data to demonstrate rates are above cost. Tariff filings are reviewed by regulatory staff and tariffs are kept updated by Staff. | Must post $10,000 performance bond or irrevocable stand-by letter of credit for equivalent amount.<br>* Carriers must attest that their rates exceed the floor set at incremental cost, but Commission reserves the right to have the CLEC provide cost data to demonstrate rates are above cost. |

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# Table 4
## Detail of State Retail Rate Regulation of Competitive Local Exchange Carriers
## (As of December 2006)

| State | Type of Regulation | Rates Presumed Competitive | State Certification Requirement | Tariff Filing | Rate Change Notice | Review of Rate Changes | Other Requirements |
|---|---|---|---|---|---|---|---|
| **DC** | Rates not reviewed | Yes | **Yes** (technical, financial and managerial competence). | Yes | Yes (no term provided) | Changes are not normally reviewed. | |
| **FL** | Some rates reviewed | Yes | **Yes** (technical, financial and managerial competence). | Yes (Only CLECs providing both residential and single-line business basic service required to file price lists). | 1 day (CLECs providing both residential and single-line business basic serv.).<br><br>Rate changes for other CLECs take effect immediately. | Changes for CLECs providing both residential and single-line business basic service get PSC staff review but normally are not questioned. | CLECs not providing residential and single-line business basic service are not regulated. |
| **GA** | Rates flexibly regulated | Yes | **Yes** (technical, financial and managerial competence). | Yes | 30 days for increases and new services and 7 days for decreases. | All changes receive regulatory staff review, but normally are not questioned. | |
| **HI** | Rates flexibly regulated | Yes | **Yes** (technical, financial and managerial competence) | Yes | 30 days for partially competitive and noncompetitive services; rate changes for fully competitive services effective upon filing. | All changes receive regulatory staff review but normally aren't questioned. | |
| **ID** | Rates not reviewed | Yes | **Yes** (technical, financial and managerial competence) | Yes (price lists) | 10 days | Changes are not normally reviewed. | |
| **IL** | Rates flexibly regulated | Yes | **Yes** (technical, financial and managerial competence) | Yes | One day | Initial tariffs for new entrants or new services receive regulatory staff review. Tariff changes take effect without regulatory review. | CLECs in state universal service fund are subject to fund's rate benchmarking rules. |

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# Table 4
## Detail of State Retail Rate Regulation of Competitive Local Exchange Carriers
## (As of December 2006)

| 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.<br><br>Under a 2006 law that took effect on March 2006, all CLEC rates are presumed competitive and deregulated. CLECs must obtain state certificate by showing technical, financial and managerial competence. |
| **IA** | Rates not reviewed | Yes | **Yes** (technical, financial and managerial competence) | Yes | 30 days' notice of rate increases and 15 days' notice for decreases. | The Iowa Utilities Board has no jurisdiction or authority to review CLEC rates. | CLEC local calling areas are supposed to coincide with incumbent's, but CLECs can petition for waiver. |
| **KS** | Rates not reviewed | Yes | **Yes** (technical, financial and managerial competence) | Yes | 1 day for rate changes; 7 days for rules and regulations. | Changes to rules and regulations for service receive regulatory staff review for consistency with Billing Standards and Commission Rules. Rate changes are accepted for filing. | If a CLEC wants to take deposits it must have: 1) 3 years of positive financials, or 2) provide a surety bond of $25,000. |
| **KY** | Rates not reviewed | Yes | CLECs must register with PSC | Yes | Tariffs are valid upon the effective date. | Rates and terms are not subject to PSC review. | CLEC rates were deregulated under a 2006 state law. |
| **LA** | Rates flexibly regulated | Yes | **Yes** (technical, financial and managerial competence) | Yes | 1-10 days, depending on type of change and services affected. | 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. | |

# Table 4
## Detail of State Retail Rate Regulation of Competitive Local Exchange Carriers
## (As of December 2006)

| State | Type of Regulation | Rates Presumed Competitive | State Certification Requirement | Tariff Filing | Rate Change Notice | Review of Rate Changes | Other Requirements |
|---|---|---|---|---|---|---|---|
| **MD** | Rates flexibly regulated | Yes | **Yes** (technical, financial and managerial competence) | Yes | 30 days | All changes receive regulatory staff review but normally aren't questioned. | |
| **MA** | Rates not reviewed | Yes | CLECs must register with Dept. of Telecom & Energy | Yes | 30 days | Changes are not normally reviewed. | |
| **MI** | Some rates reviewed (primary basic local exchange service) | Yes (except rates for single-line, stand-alone residential primary basic local exchange serv.) | **Yes** (state license; need to show technical, financial and managerial competence, statements presumed truthful). Must begin service within two years of receiving license. | Yes | Notice required. Rate reductions take immediate effect. | All rate increases receive regulatory staff review. Rate reductions are not reviewed. | The new state law, passed in November 2005, deregulated CLEC retail rates for all services except for stand-alone, single-line residential primary basic local exchange service. |
| **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. | |

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# Table 4
## Detail of State Retail Rate Regulation of Competitive Local Exchange Carriers
## (As of December 2006)

| State | Type of Regulation | Rates Presumed Competitive | State Certification Requirement | Tariff Filing | Rate Change Notice | Review of Rate Changes | Other Requirements |
|---|---|---|---|---|---|---|---|
| **MS** | Some rates regulated | **No** (Rates are linked to ILEC rate levels through resale of service and purchase of wholesale rate elements. No determination of market competition is made). | **Yes** (technical, financial and managerial competence) | Yes | 30 days | | Commission regulates basic exchange service, vertical and discretionary services provided by CLECs. A 2006 deregulation law allows CLECs to request deregulation of services assuming they meet each of the requirements included in the legislation. The most significant requirements are: 1) provision of customer notice through customer service agreements, 2) appropriate filing of tariffs to detariff all services other than basic local exchange and switched access services, and 3) website itemization and pricing of all detariffed services. |
| **MO** | Rates flexibly regulated | Yes (except for access charges, which are capped at incumbent's rate). | **Yes** (technical, financial and managerial competence) | Yes | 10 days for increases and 1 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: 10 day notice. | New services and changes to terms other than price receive regulatory staff review but normally aren't questioned. Rate changes aren't reviewed except if basic exchange increase exceeds 30%. | 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 December 2006)

| State | Type of Regulation | Rates Presumed Competitive | State Certification Requirement | Tariff Filing | Rate Change Notice | Review of Rate Changes | Other Requirements |
|---|---|---|---|---|---|---|---|
| **NV** | Rates not reviewed | Yes | **Yes** (technical, financial and managerial competence) | Must file lists with terms and conditions of service but not rates. CLEC rates deregulated and don't have to be filed. | Not required. Changes to rates can take effect immediately. | Changes to terms normally aren't reviewed. | |
| **NH** | Rates not reviewed | Yes | **Yes** (register with PUC, attest to competence to serve and lack of criminal record) | Yes (price schedules) | 30-days customer notice of price changes. CLECs may file price changes with the Commission 1 day prior. | 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 which cannot be raised without cost justification). | **Yes** (technical, financial and managerial competence) | Yes | One day for reductions, 5 days for increases. | First tariffs presumed competitive. Subsequent increases in rates for basic exchange, vertical services & switched access require cost justification. For other services, rate changes normally not reviewed. | |
| **NM** | Rates flexibly regulated | Yes | **Yes** (technical, financial and managerial competence) | Yes | 10 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. | |

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# Table 4
## Detail of State Retail Rate Regulation of Competitive Local Exchange Carriers
## (As of December 2006)

| State | Type of Regulation | Rates Presumed Competitive | State Certification Requirement | Tariff Filing | Rate Change Notice | Review of Rate Changes | Other Requirements |
|---|---|---|---|---|---|---|---|
| **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. | |
| **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 regulated under Competitive Retail Service Rules (4901:1-6 Ohio Administrative Code). |
| **OK** | Rates flexibly regulated | Yes | **Yes** (technical, financial and managerial competence) | Yes | 20 days | All changes receive regulatory staff review. | CLEC services are flexibly priced above cost floor. |
| **OR** | Rates not reviewed | Yes | **Yes** (compliance with applicable rules and polices) | Tariffs or price lists not accepted. | Not required. Changes to rates take effect immediately. | Changes to rates and services aren't reviewed. | |

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# Table 4
## Detail of State Retail Rate Regulation of Competitive Local Exchange Carriers
## (As of December 2006)

| State | Type of Regulation | Rates Presumed Competitive | State Certification Requirement | Tariff Filing | Rate Change Notice | Review of Rate Changes | Other Requirements |
|---|---|---|---|---|---|---|---|
| **PA** | Rates flexibly regulated | Yes (so long as they are at or below incumbent's rates). | **Yes** (technical, financial and managerial competence) | Yes | 1 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. A Dec. 2004 state law capped CLEC access charges at incumbents' level and freed CLECs from Lifeline and residential service obligations. 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 normally aren't investigated. | Annual certification of competence. |
| **SC** | Rates not reviewed | Yes (for CLECs that choose "presumptively valid" tariffing status) | **Yes** (technical, financial and managerial competence). Certified CLECs must seek "presumptively valid" tariffing status to receive minimal regulation. | Yes | CLECs that don't seek presumptively-valid status must give 30 days' notice of tariff changes; those that have valid status required 14 days' notice for increases or new services, and 5 days' notice for reductions. | For CLECs that don't seek presumptively-valid status, all changes undergo formal regulatory review; for those CLECs under status, regulatory review of changes isn't required. | To date, all CLECs have chosen presumptively-valid status. |
| **SD** | Rates not reviewed | Yes | **Yes** (technical, financial and managerial competence) | Yes | Yes (rates and services; no term provided) | Changes normally aren't reviewed. | |
| **TN** | Rates not reviewed | Yes | **Yes** (technical, financial and managerial competence) | Yes | 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) |

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# Table 4
## Detail of State Retail Rate Regulation of Competitive Local Exchange Carriers
## (As of December 2006)

| State | Type of Regulation | Rates Presumed Competitive | State Certification Requirement | Tariff Filing | Rate Change Notice | Review of Rate Changes | Other Requirements |
|---|---|---|---|---|---|---|---|
| **TX** | Rates not reviewed | Yes | **Yes** (technical, financial and managerial competence) | Yes | Not required. Changes to rates take effect immediately. | Changes normally aren't reviewed. | |
| **UT** | Rates flexibly regulated | Yes | **Yes** (technical, financial and managerial competence) | Yes (price lists) | 5 days | Price list 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) | Not required | 45 days for increases, 5 days for reductions. | All rate changes receive regulatory staff review but normally aren't questioned. | In mid-2006, the VT Public Service Board adopted Rule 7.500, which significantly altered the way it regulates non-dominant telco carriers. Specifically, non-dominant providers such as CLECs are no longer required to file tariffs or get approval for mergers or sales. |
| **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. | Not required | Not required | Not required | A 2006 state law ended requirements that carriers file price lists for competitive services. Carriers in future will use contracts or service agreements for their competitive services. Full effect of this legislation is expected in mid-2007. During the interim period, notice and other requirements for optional price list filings and for price lists that remain in effect are set forth in WAC 480-80-201 through WAC 480-80-206 and WAC 480-120-196. Docket UT-060676 proposes draft rules to implement the new legislation. |

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# Table 4
## Detail of State Retail Rate Regulation of Competitive Local Exchange Carriers
## (As of December 2006)

| State | Type of Regulation | Rates Presumed Competitive | State Certification Requirement | Tariff Filing | Rate Change Notice | Review of Rate Changes | Other Requirements |
|---|---|---|---|---|---|---|---|
| **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 or filing of tariffs and price lists are not required. | 30 days | Changes normally aren't reviewed. | |
| **WY** | Rates not reviewed | Yes | **Yes** (technical, financial and managerial competence) | Yes | 1 day | Changes are not normally reviewed. Rate changes of fully facilities-based CLECs could be subject to regulatory staff review, but such carriers currently aren't operating in Wyoming. | |

Sources: *State Telephone Regulation Report*, September-October 2006, Vol. 24 (19, 20 & 21) & State Utility Commissions.

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# Table 5
## States with Companies under Regulatory Regimes Different from Price Caps
## (As of December 2006)

| State | Regulatory Plan |
|---|---|
| AK | **Streamlined ROR** (large and small incumbents); **deregulation** (smallest incumbents) |
| AZ | **ROR** with price caps (Qwest) / **ROR** (other incumbents) |
| AR | **ROR** (CenturyTel of Northwest AR) |
| CA | **ROR** (other incumbents) |
| CO | **ROR** (other incumbents) |
| CT | **ROR** (other incumbents) |
| FL | **ROR** (Only one small incumbent) |
| GA | **ROR** (9 small incumbents) |
| HI | **ROR** (Hawaiian Telcom) |
| ID | **Service deregulation for retail serv. above 5 lines** (Qwest, VZ); **ROR** (other incumbents) |
| IL | **ROR** (other incumbents - Verizon) |
| IN | **Pricing flexibility** (investor-owned incumbents with fewer than 30,000 lines); **deregulation** (telephone cooperatives) |
| IA | **Rate deregulation** (All) |
| KS | **ROR** (other incumbents) |
| KY | **ROR** (Other incumbents) |
| ME | **ROR** (other incumbents); **ROR with pricing flexibility** (Pine Tree Telephone and Saco River Telephone) |
| MD | **ROR** (only other incumbent telco) |
| MA | **ROR** (other incumbents). |
| MI | **Rate deregulation** (all providers for all retail rates except single-line primary basic local exchange service). |
| MN | **ROR** (Citizens Telecom); **Pricing flexibility** (other incumbents with fewer than 50,000 lines). |
| MS | **Rate deregulation** (all qualifying providers for all retail services other than stand-alone, single-line basic exchange service and switched access service. BellSouth is the only company that has opted for deregulation); ROR (other incumbents) |
| MO | **ROR** (39 small incumbents) |
| MT | **ROR** (All, except rural telephone cooperatives, which are not subject to regulation) |
| NE | **Rate deregulation** (All) |
| NV | **ROR** (other incumbents) |
| NH | **ROR** (All) |
| NJ | **ROR** (other incumbents) |
| NM | **Rate deregulation** (other incumbents with fewer than 50,000 lines) |
| NY | **ROR** (Other incumbents) |
| NC | **ROR** (Seven smaller other incumbents) |
| ND | **ROR** (North Dakota Telephone); **deregulation** (retail rates of investor-owned incumbents with fewer than 8,000 lines and of all cooperatives regardless of size) |
| OH | **ROR** (33 other incumbents with fewer than 50,000 lines) - May opt into elective Alternative Regulation if they so choose |
| OK | **Streamlined ROR** (Other incumbents) |
| OR | **ROR** (Verizon, Sprint, Century Tel); **rates and earnings not reviewed** (other incumbents) |
| PA | **Streamlined ROR** (nine other incumbents); **ROR** (four extremely small other incumbents) |
| RI | **Price floor** (VZ) |

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# Table 5
## States with Companies under Regulatory Regimes Different from Price Caps
## (As of December 2006)

| State | Regulatory Plan |
|---|---|
| SC | **ROR** (other incumbents) |
| SD | **Rates not reviewed** (Qwest and other incumbents) |
| TN | **ROR** (other incumbents) |
| TX | **Rate deregulation** (all providers in cities over 100,000 population; 18 communities between 30,000 and 100,000 pop.) |
| UT | **Rate deregulation** (Q); **Streamlined ROR** (all other incumbents with fewer than 30,000 lines) |
| VA | **Pricing flexibility** (small investor-owned); **rate deregulation** (cooperatives) |
| WA | **ROR** (All). Statute allows companies to petition for alternative regulation. One such petition is under consideration (Qwest, UT-061625) |
| WV | **Incentive regulation** (Verizon, Frontier Communications); **ROR** (other incumbents) |
| WI | **Pricing flexibility** (26 other incumbents); **streamlined ROR with some pricing flexibility** (42 other incumbents); **traditional ROR** (2 other incumbents); **not rate regulated** (12 telephone cooperatives). |
| WY | **Rate deregulation** (All incumbents) |
| **TOTAL** | **46 states have companies under regimes different from price caps** |

Sources: *State Telephone Regulation Report* , September-October 2006, Vol. 24 (19, 20, & 21) & State Utility Commissions.

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# Table 6
## Distribution of States by Type of Retail Rate Regulatory Regime
## (As of December 2006)

| Regulatory Regime | ROR (All incumbents) | Price caps (All incumbents) | Price caps for large incumbents & ROR (Other incumbents) | Price caps for large incumbents & Mix of regimes for other incumbents | Price caps for large incumbents & Deregulation (Other incumbents) | Deregulation/ Pricing flexibility for large incumbents & ROR (Other incumbents) | Deregulation/ Pricing flexibility (All incumbents) | Mix of regimes for large and other incumbents | CLECs | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Rate flexibility | Some rates reviewed | Rates not reviewed |
| States | **AK** ( large and small incumbents), **HI** (Hawaiian Telcom), **MT** (Q and others)**,** **NH** (VZ and others), **WA** (Q, VZ, and others) | **AL** (BLS and others), **DE** (VZ), **DC** (VZ), **LA** (BLS and others), **VT** (VZ, others) | **CO** (*Caps:* Q), **CT** (*Caps:* T, VZ), **FL** (*Caps:* BLS, VZ, EQ & 6 other ILECs.; *ROR:* only one small ILEC), **GA** (*Caps:* BLS & 25 other ILECs; *ROR:* 9 small ILECs), **IL** (*Caps:* T), **MD** (*Caps:* VZ), **MA** (*Caps* : VZ), **MO** (*Caps:* T, CTL, EQ, Spectra, WIN), **NV** (*Caps:* EQ, T), **NJ** (*Caps:* VZ), **NY** (*Caps* : VZ, Frontier Telephone of Rochester), **OK** (*Caps* : T), **PA** (*Caps:* VZ PA, VZ North, EQ, WIN, & 20 other ILECs; *Streamlined ROR* : 9 other ILECs; *ROR:* 4 very small ILECs), **TN** (*Caps:* BLS, EQ, CZN) | **IN** (*Caps* : T, VZ, EQ; *flexibility:* investor-owned incumbents with less than 30,000 lines; *dereg:* cooperatives), **ME** (*Caps* : VZ; *ROR with pricing flexibility* : Pine Tree Tel. & Saco River Tel; *ROR* : other incumbents), **NC** (*Caps* : BLS, EQ [Central, Carolina Tel & Telegraph], VZ, Mebtel, Concord Tel, Randolph Telephone, North State & WIN; *ROR:* remaining 7 smaller telcos), **OH** (*Caps* : T, VZ, EQ, CTL, CBT, AT, Champaign Tel, Chillicothe Tel, TSC, Western Reserve; *ROR w/Alt Reg available* : others), **SC** (*Caps* : BLS, EQ, VZ & 13 other incumbents; *ROR* : remaining smaller telcos), **WI** (*Caps* : T, VZ; *price-based reg* : 26 telcos; *streamlined ROR w/some pricing flexibility* : 42 telcos; *traditional ROR* : 2 telcos; *dereg* : 12 coops) | **NM** (*Caps* : Q, WIN; *deregulation:* other incumbents with fewer than 50,000 lines) | **CA** (*Caps for residential basic serv. until Jan. 1, 2009/deregulation for other serv.:* T, VZ, Surewest Telecom, Frontier), **KY** (*Rate dereg* : BLS, CBT, WIN) **MS** (*Rate dereg* : BLS), **UT** (*Rate dereg* : Q), **WV** (Incentive reg: VZ, Frontier/CZN) | **IA** (Q, Iowa Telecom Services, Frontier Communications, others), **MI** (T, VZ, others), **NE** (Q and others), **RI** (*Price floor:* VZ), **SD** (Q and others), **TX** (*Dereg. in cities over 100,000 pop. and in smaller communities where meaningful competition exists as of Jan. 2006 and Jan. 2007:* All incumbents) **WY** (*Cost-based pricing flexibility*: Q and others) | **AR** (*Caps* : T, CTL Central AR, WIN, others; *ROR:* CTL NW AR), **AZ** (*ROR w/price caps:* Q; *ROR:* others), **ID** (*Caps & dereg* : Q, VZ; *ROR:* others), **KS** (*Caps & dereg* : T, EQ; *ROR* : others), **MN** (*Caps* : Q, EQ, Frontier; *ROR:* CZN [formerly GTE]; *flexibility:* others), **ND** (*Caps* : Q; *ROR:* ND Telephone; *dereg:* retail rates of investor-owned companies with less than 8,000 lines and of all coop.), **OR** (*Caps* : Q; *ROR:* VZ, FON, CTL; *dereg:* others), **VA** (*Ceilings/ indexing* : VZ VA, VZ South; *Indexing* : EQ Telcos; *flexibility:* small investor-owned; *dereg:* cooperatives) | **AL, AK, AZ, CO, GA, HI, IL, IN, LA, MD, MN, MO, NM, NY, OH, OK, PA, UT, VT, WA, WV** | **FL** (CLECs providing both resid. & single-line bus. basic serv. must file price lists), **MI** (only single-line primary basic local exchange), **MS** (Basic exchange service, vertical & discretionary services) **NJ** (basic exchange, vertical serv. & switched access cannot be raised without cost justification), **VA** (rates capped at VZ's rate unless waiver is obtained; subsequent increases require notice to cust. & Comm'n) | **AR, CA, CT, DE, DC, ID, IA, KS, KY, ME, MA, MT, NE, NV, NH, NC, ND, OR, RI, SC, SD, TN, TX, WI, WY** |
| **TOTAL** | **5** | **5** | **14** | **6** | **1** | **5** | **7** | **8** | **21** | **5** | **25** |

Sources: *State Telephone Regulation Report* , September-October 2006, Vol. 24 (19, 20 & 21) & State Regulatory Commissions

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|---|---|
| **AT**= Alltel | **EQ**= Embarq |
| **BLS**= BellSouth | **FON=** Sprint |
| **CBT**= Cincinnati Bell | **Q**= Qwest |
| **CTL**= Century Telecom | **T**= AT&T |
| **CZN**= Citizens Communications/Frontier | **VZ**= Verizon |
| | **WIN**= Windstream Comm. |