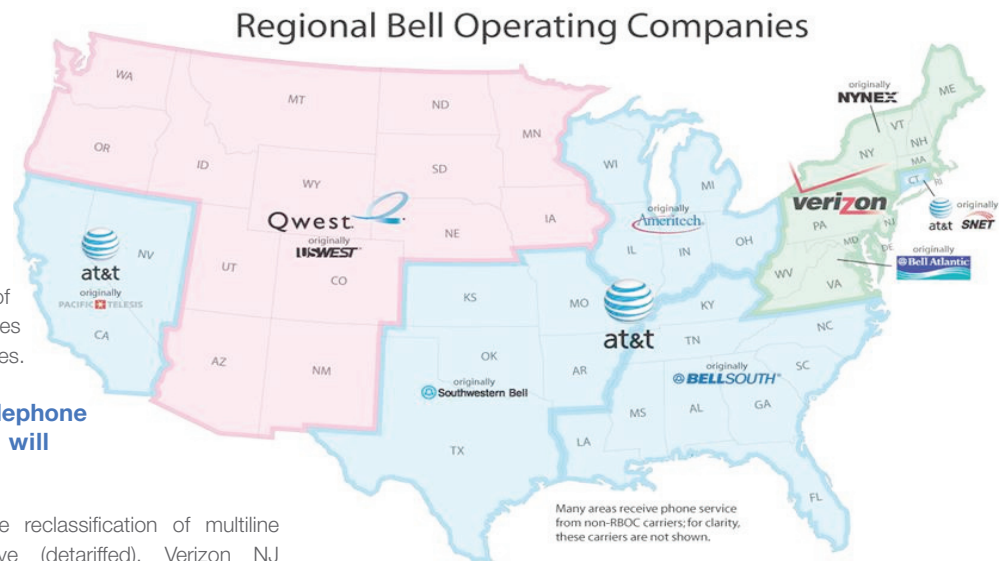


Deregulation

Higher rates are still the norm

Local Telephone Service was originally provided by AT&T, and then broken up by Congress in 1984. At that time there were seven Regional Bell Operating Companies, all heavily regulated by the Federal Communications Commission (FCC) as well as the State Public Utilities Commissions (PUCs). These organizations provided oversight, which controlled the prices that could be charged, and the quality of service that would be delivered through tariffs.

The seven have now consolidated into three, with some additional and smaller (mom-and-pop) companies, primarily in rural areas. There are also pockets within each of the three companies' territories, where others operate. The map below shows the states where each operates.



AT&T and Verizon continue growing their business by concentrating in very high-speed data and wireless services. With deregulation of Incumbent Local Exchange Carrier (ILEC) services (removing oversight of the FCC and PUCs), both companies are bundling services and raising rates.

Deregulation of protected telephone services and other services will translate into higher rates.

During 2006 and 2007, after the reclassification of multiline business services as competitive (detariffed), Verizon NJ implemented various rate increases and new charges. Verizon NJ also increased business Directory Assistance rates subsequent to the determination that business Directory Assistance was competitive. These actions provide compelling evidence that Verizon and other ILECs would likely impose similar increases.

After deregulation in New York, Verizon raised rates for Caller ID by 300%, and in January 2008, raised business line rates by 10%. In Ohio, Verizon's Call Forward feature has risen to \$3 a month from 75 cents in the last two years, which is a 300% increase. Verizon followed this same approach in California once it deregulated.

In New Jersey, after partial deregulation, business rates increased from a range of \$10.26 to \$12.96, to \$17.00 (an increase of 31%-68%). On January 25, 2008, Verizon increased those rates further to \$18.49 (another 9% increase) and increased local per minute message rates from 6.6 cents to 8 cents (a 21% increase). The 8 cent rate is higher than rates charged for long distance.

The experience of states that have deregulated tells us that as a company deregulates, rates go up and not down. The potential for rate shock is clear.

Competition has not yet developed to a level that ensures availability of these services at just and reasonable rates.

The emergence of inter-modal alternatives such as wireless, VOIP and cable telephony, does not yet constrain the rates, service quality or terms and conditions for protected local exchange service.

Sales by ILECs of their local systems (states and regions that are not part of those companies' strategic plans) have significantly destabilized the markets in those areas.

For example, since taking total control of the Verizon system of Northern New England last winter, FairPoint Communications has been plagued by customer service, billing and other operational problems.

The company's subscriber access line count fell roughly 200,000 in the 12-month period ending March 31. Now, with falling revenues brought on by a shrinking customer base and bill collection problems, the company says it might not be able to make its October interest payment.

If you would be interested in finding more effective ways to negotiate with your provider for more just and reasonable rates, we invite you to contact **John Garvin** at Abylity (jgarvin@abylity.com).