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Attachment 2

DECLARATION OF MARK T. SHINE
VICE PRESIDENT-FINANCIAL OPERATIONS
COMMUNICATIONS SECTOR OF CITIZENS UTILITIES COMPANY

I am Mark T. Shine, Vice President-Financial Operations of Citizens Utilities Company's Communications Sector ("Citizens Communications"). Citizens Communications includes the several incumbent local exchange carrier subsidiaries of Citizens Utilities Company (the "Citizens LECs"). By virtue of my position, I am responsible for Citizens Communications' financial, budgetary and regulatory operations, including, as relevant to my Declaration, the financial, budgetary and regulatory operations of the Citizens LECs.

I hold a Bachelor of Business Administration degree from the Pacific Lutheran University-College of Business and Economics. I am a Certified Public Accountant. I began my professional career with the public accounting firm of Ernst and Whinney (now Ernst & Young) in its telecommunications consulting practice. While with that firm, I directed and participated in a wide variety of matters.

In 1986, I joined Contel Corporation, where I held the positions of Manager in the headquarters' Intercity Revenues Department of the Telephone Operations Sector and in the Revenues Department of Contel Central Region Telephone Operations. In 1988, I joined Kennedy and Associates, where I was responsible for expert testimony and analysis in the areas of telecommunications policy, revenue requirements, access charges and other matters relating to rates, accounting and services of telecommunications entities.

In May 1989, I assumed the responsibilities of Regulatory Manager of Citizens Utilities Company of California, whose local exchange operations were later spun out to Citizens Telecommunications Company of California, Inc. I was subsequently promoted to the position of Vice President of Finance and Regulatory in 1991, when Citizens consolidated its Arizona and California telephone operations. I was promoted to Vice President-Regulatory coincident with Citizens' expansion of its telephone operations, through acquisition, in mid-1993, and to my present position in 1996.

I am providing this Declaration in support of the Citizens LECs' petition for reconsideration of the decision of the Federal Communications Commission ("FCC") in *In the Matter of Price Cap Performance Review for Local Exchange Carriers and Access Charge Reform, Fourth Report and Order in CC Docket No. 94-1 and Second Report and Order in CC Docket No. 96-262, CC Docket Nos. 94-1 and 96-262*, FCC 97-159, rel. May 21, 1997 (the "*Price Cap Order*"). In particular, my Declaration will address the impact of the *Price Cap Order's* extension of a 6.5% productivity upon the Citizens LECs and, more importantly, upon their provision of universal and advanced telecommunications services in the rural communities they serve.

In the course of this Declaration, I will be providing certain financial and budgetary data about the impact of a 6.5% productivity factor upon the Citizens LECs. The data used in our impact analysis relied upon books and records maintained by the Citizens LECs in the ordinary course of their business and upon analysis conducted by personnel under my supervision and control.

Citizens LEC Capital Investment in Rural America

Commencing in 1993, Citizens Communications has made multiple acquisitions of incumbent local exchange properties resulting in an expansion of its access lines served from approximately 120,000 to over 800,000. These exchange acquisitions were from companies no longer desiring to maintain, or invest capital in, operations in the rural markets conveyed. The acquisition of these properties reflects the heart of the Citizens Utilities Company business philosophy -- pursuit of opportunities inherent in investment in small and medium-size communities with long-term growth potential. In large measure, Citizens Utilities Company has pursued this strategy through acquisition of properties from larger companies whose business focus is not centered in such communities.

The Citizens LECs have already invested and, under appropriate standards, will continue to invest the capital dollars necessary to ensure that the communities we serve have available the most advanced telecommunications possible. In 1996, the Citizens LECs invested approximately $200 million in capital improvements in their telecommunications operations, primarily in improvements in local exchange plant and equipment. We budgeted 1997 investment of approximately $260 million in our local exchange operations and $50 million in non-regulated services (for a total of $310 million). Table 1 shows the Citizens LEC capital budget projections for the balance of the decade.

Table 1

Local Exchange Operations		Non-Regulated Services	Totals
1998	$230 million	$130 million	$360 million
1999	$240 million	$140 million	$380 million
2000	$130 million	$80 million	$210 million
		Total	$950 million

The foregoing figures represent our projected investment in both traditionally regulated and advanced local telephone operations in our rural communities. We planned to make substantial investments in rural America beyond those necessary to deliver just the best in "plain old telephone service" to our customers. We intend to the bring the full array of modern, advanced telecommunications and information services to our rural communities including, but not limited to, long distance, data and internet services. However, recent regulatory developments will hinder this goal.

At present, 99% of the Citizens LECs' access lines are served by digital switches. The remainder, which are located in extremely rugged, sparsely settled areas in the Navajo Indian Nation and in Nevada, will be converted during the next two to three years. Further, the Citizens LECs operate approximately 3,000 route miles of fiber facilities.[1] Finally, the Citizens LECs' program of deploying SS-7 connectivity in all properties is slated for completion over the next several years, enabling all of our rural customers to enjoy such discretionary services as caller identification, as well as the advanced services that rely upon the SS-7 network. This program, like many of the others I will discuss below, is now jeopardized by the FCC's action in the *Price Cap Order*.

Citizens Communications, like all business enterprises, has a finite amount of investment capital available and seeks to deploy that capital in order to garner an attractive, competitive return. Fully understanding that competition will come to the Citizens LECs' exchange areas, Citizens Utilities Company, nonetheless, continues to invest in equipment and upgrades because it believes that its incumbent LECs can profitably compete in the new era. In addition, Citizens Communications has, in recent years, passed up other investment opportunities, such as PCS auctions. It has chosen, instead, to direct the preponderance of its investment capital to bringing world-class communications services to its rural markets. This business mission, extant well before passage of the

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[1] The rugged nature of many of Citizens LEC properties, such as in the Navajo Indian Nation, Northern California and Utah, also dictate heavy usage of point-to-point microwave and Basic Exchange Telephone Radio facilities.

Telecommunications Act of 1996 (the "1996 Act"), is fully aligned with key universal service provisions in that legislation.

Each of the Citizens LECs has another status that is, we believe, unique -- our LECs are the only rural telephone company entities that are "price cap" regulated by the FCC. It should be pointed out that this status was not mandatory for the Citizens LECs. We elected price cap regulation because we believed it to be the correct decision, consistent with our belief that it was a significant step toward our necessary evolution to ultimately becoming a deregulated player in a competitive telecommunications industry. Our unique status as a rural price cap LEC and the FCC's treatment of it is the principle matter of concern we have with the agency's implementation to-date of its huge responsibilities under the 1996 Act.

The Issue

We estimate that application of the 6.5% productivity factor, the results of access reform and universal service reform will collectively reduce the Citizens LECs' collective interstate access revenues by approximately $52 million for the period of 1997 through 2000. Table 2 shows our calculation of the reduction in interstate revenues we expect from federal access and universal service reform and the impact of the new 6.5% productivity factor. The latter was calculated as the difference between (i) the new 6.5% productivity factor, less an assumed annual inflation rate of 2.5%, and (ii) application of the productivity factors we had selected for 1997 before imposition of the new 6.5% productivity factor, less an assumed annual inflation rate of 2.5%.

Table 2

1997	$7 million
1998	$13 million
1999	$15 million
2000	$17 million
Total	$52 million

We project that the loss of interstate access revenues over the next four years, as a result of imposition of the 6.5% productivity factor and other recent FCC actions, to be $52 million greater than it would have been under the preexisting rules. In absolute terms, giving effect to compounding, the reduction exceeds $100 million. While we contemplated the impact of the former, interim price cap plan in our investment decisions in the rural communities we serve, we could not have calculated the magnitude or timing of the ultimate FCC decision. Of necessity, we have reexamined whether we can still plan investment capital investment of almost $1 billion through the year 2000.

It is not the projected loss of interstate access revenues, *per se*, that forces the Citizens LECs to petition for reconsideration of the *Price Cap Order*. Instead, it is the impact of these lost revenues upon our provision of universal and advanced telecommunications services that is our concern. As I will show, application of the 6.5% productivity factor to our rural LEC is forcing a retrenchment in our capital expenditures. However, the 6.5% productivity factor is not the only new constraint upon our ability to expend capital in rural America. The new productivity factor, in conjunction with the multiple capital expenditure mandates flowing from

FCC implementation of the 1996 Act, hinders our very ability to make the investments required to comply with our universal service obligations, including the provision of advanced telecommunications services in rural America.

The Impact of the 6.5% Productivity Factor Upon the Citizens LECs' Composite Interstate Rate of Return

We conducted an analysis of the Citizens LECs' composite interstate rate of return for the 18 month period prior to the July 1996 effectiveness of their price cap regulation election and for their first year under price cap regulation. We have also projected what their composite rate of return is likely to be under the 6.5% productivity factor for the foreseeable future. These results are shown in Table 3.

Table 3

Period	Composite Interstate Rate of Return
January 1995-June 1996 (immediate period preceding effectiveness of price cap election)	10.85%
July 1996-December 1996 (first six months of first year of price cap regulation)	Before sharing: 15.02% Post-sharing: 12.85% (projected)
January 1997-June 1997 (second six months of first year of price cap regulation)	Before sharing: 16.13% (projected) Post-sharing: 14.46% (projected)
July 1997-December 1997 (first six months under 6.5% productivity factor	10.74% (projected)
1998	10.24% (projected)

The Citizens LECs incurred a sharing obligation in their first year of price cap regulation. In light of the Citizens LECs' composite rate of return for the 18 month period prior to the July 1996 effectiveness of price cap regulation, we did not believe that our composite return under the new form of regulation would exceed 12%. Our belief proved to be incorrect and, if the new 6.5% productivity factor had not intervened, we would have moved several of our properties to the interim price cap plan's 5.3% productivity factor in July 1997.

Our experience during our limited price cap regulation aside, it can be readily predicted that our composite rate of return under a 6.5% productivity factor will quickly trend down. By the first half of 1998, it may be below the 10.25% low-end adjustment threshold and, in all likelihood, remain there for the long term. Any relief that the low-end adjustment offers will be entirely prospective in nature. The damage done if, as we believe to be highly likely, we are not able to meet the 6.5% productivity factor in one tariff period can never be undone. Instead, that damage becomes nothing more than the predicate for the prospective adjustment of rates to allow recovery of at least 10.25% in the next tariff period.

The Impact of the New Universal Service Rules Upon the Citizens LECs' Capital Budgeting

The new universal service rules make eligibility to receive federal high cost funding dependent upon a carrier's provision of all services designated for support, including provision of single-party service. Several Citizens LECs are not presently single-party capable in all exchanges. This may necessitate seeking temporal relief from an immediate implementation requirement from state regulators. It would require large scale investment over a relatively short period of time so that the affected Citizens LECs can maintain universal service eligibility. As indicated below, we may have to forego universal service support in the affected areas because of the enormity of investment involved and uncertainty of recovery.

Table 2 depicts the Citizens LECs' present inventory of multi-party lines.

Table 4

CITIZENS LEC	NO. OF MULTI-PARTY LINES
Citizens Telecommunications Company of New York, Inc.	11,000
Citizens Telecommunications Company of California	22
Citizens Telecommunications Company of Oregon	10
Navajo Communications Company, Inc.	NM-59 AZ-30 UT-3
Citizens Telecommunications Company of Nevada	100
Citizens Telecommunications Company of the White Mountains	37
Citizens Utilities Rural Company, Inc.	53
Totals	11,314

Our New York LEC represents the largest number of Citizens LEC multi-party lines requiring conversion to single-party status as a condition precedent to maintaining universal service eligibility. In late 1995, in the course of designing a new intrastate rate plan, our engineering staff conducted a study to determine the cost of these New York single-party conversions. As shown in the report issued after that study, a copy of which is appended as Exhibit 1 hereto, these conversions will generate a capital expenditure approximating $19 million, exclusive of central office investment. Our engineers estimated that related central office investment approximate $5.6 million. It should be noted that Exhibit 1 indicates that the outside plant investment contemplates use of analog carrier facilities, a technology that does not afford advanced telecommunications services or even the capability for use of modems, answering machines or portable phones. In summary, the lowest cost way to do the mandatory single-party upgrades in our New York properties involves a capital expenditure approximating $24 million, or an average of $2181.81 per line. At that, the technology would allow a less than ideal level of service Substantial additional investment would be needed to bring advanced telecommunications services to the extremely rural communities involved.

Table 5 depicts our network engineers' estimate of the capital investment in facilities required for single-party upgrades in the Table 4 properties, other than New York, using the same minimal level of technology contemplated in the New York study.

Table 5

CITIZENS LEC	ESTIMATED INVESTMENT TO UPGRADE TO SINGLE-PARTY SERVICE
Citizens Telecommunications Company of California	$1,200,000 (avg. of $54,545.54 per line)
Citizens Telecommunications Company of Oregon	$10,000 (avg. of $1,000 per line)
Navajo Communications Company, Inc.	AZ -- $1,900,000 (avg. of $63,333.33 per line NM -- $1,200,000 (avg. of $20,338.98 per line UT -- $800,000 (avg. of $266,666.67 per line)
Citizens Telecommunications Company of Nevada	$4,000,000 (avg. of $40,000 per line)
Citizens Telecommunications Company of the White Mountains	$9,950,000 (avg. of $268,918.91 per line)
Citizens Utilities Rural Company, Inc.	$7,160,000 (avg. of $135,094.33 per line)
Subtotal	$22,620,000
Plus	+
Citizens Telecommunications Company of New York, Inc.	24,000,000
Grand Total	$46,620,000

Prudent management dictates serious consideration of whether the requisite investment in single-party upgrades in the foregoing properties should even be made in order to maintain universal service eligibility. If this investment is made, there will be an obvious impact upon the universal service funding system. The fact that the federal universal service fund will be "capped" during the transition to a new, forward-looking mechanism for rural LECs may well mean that increased demands upon the fund due to investment in single-party upgrades may not be fully met. The Citizens LECs may be forced to seek local exchange rate increases in order to fund this mandated investment.

Impact of Other Capital Expenditures Mandated By Recent FCC Actions

Like all other LECs, the Citizens LECs have a broad array of new requirements imposed by the Telecommunications Act of 1996 and the FCC's implementation decisions. Our Network Engineering and Information Services ("IS") Departments have provided collective, preliminary estimates of Citizens LEC capital expenditures needed to implement these requirements. These estimates are depicted in Table 6, ranked in descending order of likelihood of deployment over the next three years.

Table 6

IntraLATA equal access deployment	$444,155
Reciprocal transport and termination	$951,440
IS changes needed to bill differential levels of EUCL and PICC charges	$770,000
Local number portability	$35,431,800
Provision of wholesale local exchange services to resellers	$14,214,332
Provision of unbundled network elements to local exchange competitors	$6,059,000

I reiterate that the Table 6 estimates are very preliminary in nature. The amounts for the first three categories are the most firm numbers. We have definite, short-term deployment schedules for the first three categories. The capital investment figure shown for transport and termination is for the necessary infrastructure to accommodate transport and termination with local interconnectors in addition to wireless carriers we presently exchange traffic with, and to improve our arrangements with wireless carriers.

Insofar as local number portability is concerned, we have a significant number of end offices in the top 100 MSAs and are subject to providing local number portability upon interconnector request. We have not received any such requests to date. The figure shown for local number portability assumes receipt of conversion requests in all Citizens LEC end offices in the top 100 MSAs. I do not mean to suggest that we will not have to make any capital investment for local number portability until we actually receive requests from interconnectors. We will need to begin "make ready" investments in amounts not yet quantified at all our end offices in the top 100 MSAs in order to respond promptly to local number portability implementation requests.

The Citizens LECs recently received their first resale request from an interconnector, but have not received any requests for unbundled network elements. The entries for resale and unbundled network element provision assume full deployment of both aspects of our incumbent LEC interconnection obligations. Investment will be made serially as resale and other interconnection requests are received.

Obviously, we will not deploy network investment for local interconnection and other Communications Act Section 251 obligations unless and until we have to. My purpose in this portion of my Declaration and in Table 6 is to show the Section 251 investment we must make in short order, *i.e.*, over $2.1 million for the first three entries in Table 6, and those we may have to make over the course of the next few years upon bona fide request from interconnectors.

Retrenchment in Capital Budgeting

As a consequence of regulatory directives including imposition of the 6.5% productivity factor, contemplation of the need to convert multi-party lines to single-party service as a condition precedent to maintaining universal service eligibility, and mandated investment to comply with local interconnection requirements, the Citizens LECs have begun the process of capital budget retrenchment. The process involves, of necessity, determining what capital investment must be made and when and what investment can be put off or eliminated. The investment that is being delayed or eliminated generally involves facility upgrades necessary to extend CLASS services and to replace analog and open wire carrier systems to enable customer access to advanced services. As noted earlier, these non-digital carrier technologies do not afford customers the ability to utilize such modern technologies as computer modems, access to Internet or telecopiers.

Table 7 represents our current estimates of cuts that will have to made in investment in central office upgrades, more than sixty percent of which would entail installation of CLASS features.

Table 7

Year	Estimated Capital Budget Cuts
1997	$24 million
1998	$25 million
1999	$26 million
2000	$27 million
Total	$102 million

Table 8 represents our current estimates of cuts that will have to be made in investment in replacing analog and open wire carrier systems and route reinforcements in our Western LEC properties.

Table 8

Year	Estimated Capital Budget Cuts
1997	$3.6 million
1998	$3.7 million
1999	$3.9 million
2000	$4.1 million
Total	$15.3 million

Table 9 represents our current estimates of cuts that will have to be made in investment in replacing analog and open wire carrier systems and route reinforcements in our Eastern LEC properties.

Table 9

Year	Estimated Capital Budget Cuts
1997	$4.7 million
1998	$4.9 million
1999	$5.1 million
2000	$5.3 million
Total	$20 million

Our estimated cuts in non-mandated capital expenditures through the year 2000(Table 7 + Table 8 + Table 9) totals $137.3 million.

Credit Market Impact

We expect that imposition of the 6.5% productivity factor and other FCC actions upon the Citizens LECs' cash flow will have an impact upon our ability to borrow capital. Our credit market risk profile and consequent costs of borrowing will increase. Increased borrowing costs will be a limiting factor in the amount of capital that we can or will borrow. In our current circumstances, we are facing increasing capital demands at a cost that we expect to increase. Over time, capital cost increases will become a limiting factor in how much we can invest in rural America and in our overall productivity.

Conclusion

I have attempted to portray the problems facing the Citizens LECs when the impact of the new 6.5% productivity factor is piled upon the enormous burden of mandatory capital investment facing our rural telecommunications enterprise. We do not believe that any significant portion of this mandated investment will help us achieve operating efficiencies and become more productive. In fact, quite the contrary may be true as capital dollars are diverted away from the non-mandated facilities' upgrades we were planning to make. We question our ability under present circumstances to meet our universal service obligations, particularly in the case of converting to all single-party service, and to provide advanced telecommunications services to the parts of rural America that we serve.

Accordingly, we must ask the FCC for relief in the form of a price cap productivity factor reflective of our status as a group of rural telephone companies.

Note: Mr. Shine executed an original of his declaration that was transmitted to him electronically. The electronic version he received printed out in smaller type. Accordingly, the attached, execution page shows page number 11 at the top instead of page number 17, as it should have been.