CITIZENS communications SM

PROPOSED INTERSTATE ACCESS REGULATION

February 2, 2000

Citizens Communications appears to have three options for regulation of interstate access services

- Continue under the traditional price cap mechanism
- Adopt a modified version of the CALLs plan
- Petition the FCC for a return to rate of return regulation

CITIZENS communications

The CALLs plan helps to stabilize the "price cap" mechanism, but is currently designed to fit the needs of larger price cap LECs

- 0.0055 price floor based on large company costs
- Pricing flexibility tied to CCL elimination
- Continuation of X-factor based on large company productivity opportunities
- Elimination of low end adjustment mechanism
- No relief from reporting requirements

CITIZENS communications

Unlike many larger companies that are repositioning their assets to focus on metropolitan markets, Citizens Communications is a rural price cap carrier expanding its footprint in the face of competition

- Acquisitions from GTE and US West will double our size by mid year 2001
- Rapidly increasing investment to modernize network in acquired properties
- 172 requests for interconnection
  - Less customers to absorb costs of OSS, LNP and increased reporting requirements
- Lower customer density and efficiency opportunities
- Interstate rate structure more like smaller ILECs - 40% of revenue from interstate access and USF

CITIZENS communications

Rate of return regulation would be one option as Citizens increases its investment in network and OSS facilities to accommodate our growth (acquisitions) and the needs of competitors

- Short term increase in revenues to finance investments for the acquired properties
- Alignment of rates with our costs, not large company costs
- Mechanism to finance investment in OSS and other system changes
- Align our company with smaller ILECs as access and universal service reform are addressed

However, in a competitive environment, the CALLs plan provides customers immediate benefits and stabilizes the *"price cap"* mechanism

CITIZENS communications

Based on our understanding a modified CALLs plan would incorporate the following rate and structural changes:

- Local Switching:
  - 25% reduction 7/1/00
  - 11% reduction 1/1/01
- X - factor frozen & targeted to traffic sensitive elements for 5 years
- NTS Rebalancing
  - Eliminate non multi-line PICC 7/1/00
  - Maintain $4.31 cap for multi-line PICC
  - Multi-line SLC: - No change
  - Single line SLC: - $4.00 7/1/00
    - $5.00 1/1/01
    - $6.00 7/1/02
    - $7.00 7/1/03
  - Terminating CCL eliminated 7/1/00
  - New USF offset for shortfall each year
- USF funding transferred from CCL to optional end user charge

CITIZENS communications

With some modifications, Citizens would be able to accept the CALLs plan

- Price floor based on Citizens TELRIC switching costs - 0.0095
- X-factor consistent with productivity opportunities for a rural ILEC
  - Minimum of 1.2 lower than large company factor
- Pricing flexibility consistent with larger companies[1]
  - SLC deaveraging (effective 7/1/00)
  - Relief consistent with FCC 8/5/99 pricing flexibility order
- Eliminating of CAM and ARMIS reporting requirements for
  - Predominantly rural "price cap" ILECs, or
  - Price cap ILECs with less than $7B in aggregate revenues
- Adoption of current Citizens Communications rates for acquired US West and GTE properties
  - Retention of LFAM in the alternative

[1] CCL and PICC elimination not required.

CITIZENS communications

Citizens Communications urges the FCC to adopt a modified CALLs plan consistent with the needs of a predominantly rural price cap carrier

- Immediate benefit to access customers exceeds traditional price cap or ROR regulation
- Opportunity for rural carrier to respond to competition
- Better alignment of costs and revenues
- Balances customer benefit with regulatory stability
- Provides the FCC almost unanimous acceptance of CALLs