

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
New York on December 17, 2003

COMMISSIONERS PRESENT:

William M. Flynn, Chairman
Thomas J. Dunleavy
James D. Bennett
Leonard A. Weiss
Neal N. Galvin

CASE 02-C-0595 - Proceeding on Motion of the Commission as to
the Rates, Charges, Rules and Regulations of
the New York Intrastate Access Settlement Pool,
Inc. for Traffic Sensitive Access Rates.

ORDER ADOPTING COMPREHENSIVE PLAN

(Issued and Effective December 23, 2003)

BY THE COMMISSION:

INTRODUCTION

By order issued May 30, 2002, we suspended and set for hearing a May 1, 2002 tariff filing by the New York Intrastate Access Settlement Pool, Inc.¹ that would have increased by \$5.2 million annually revenues from traffic-sensitive and non traffic-sensitive access rates and non-recurring charges. We initiated this proceeding to consider that filing and examine Access Pool operations and cost recovery mechanisms generally. Among the issues set for consideration was the Access Pool's revenue distribution mechanism.

Phase I of the ensuing two-phase collaborative process resulted in a Final Joint Report to the Administrative Law Judge. In that report, the Access Pool and Staff of the Department of Public Service agreed that the May 1, 2003 tariff filing would be withdrawn and that limited, expedited rate

¹ The Access Pool, its operations, and its history are described below.

relief should be provided to Access Pool members meeting certain procedural and substantive conditions. We authorized seven companies to increase their rates in accordance with that process.²

Phase II of the proceeding comprised a series of all-party collaborative discussions extending from July 2002 to June 2003. Those discussions culminated in the submission by Staff on October 24, 2003 of a "Comprehensive Plan-Phase II" (the Plan), agreed to by Staff and the Small Company Group³ (SCG) and objected to by no party. The Plan provides, among other things, for the phasing out of the existing pooling arrangements over a four-year period. Staff also then submitted its statement in support of the Plan; the Small Company Group's statement in support was submitted on November 7, 2003, and its response to Staff's statement was submitted on November 14. Brief comments in support of the Plan also were submitted by Sprint Communications Company, L.P. and Sprint Spectrum L.P. d/b/a Sprint PCS (Sprint) and by Verizon New York Inc.

BACKGROUND AND SUMMARY⁴ OF THE PLAN

The Pool and Its History

In 1974, a pool (the Toll Pool) was created to distribute intraLATA toll revenues to both New York Telephone and various independent telephone companies. After divestiture, the Toll Pool began pooling access charges as well as intraLATA

² Case 02-C-0595, untitled orders issued December 26, 2002 and January 30, 2003.

³ The Small Company Group comprises the 29 members of the Access Pool and Taconic Telephone Company.

⁴ The summary of the Plan's provisions is necessarily incomplete and is provided only for the reader's convenience. Readers are advised to refer to the Plan itself, and, in the event of any discrepancy, it is the Plan itself that governs.

toll charges. The creation of the Designated Carrier Plan⁵ in 1992 rendered the pooling of intraLATA toll revenues unnecessary. Because the Toll Pool's purpose was limited to the distribution of access revenue, it was renamed the New York Intrastate Access Settlement Pool. Under the current Pool mechanisms, members report their individual access revenues, expenses, and net investment to the Pool administrator. The Pool administrator then aggregates the data and determines a settlement amount for each company. If a company's revenues exceed its costs (expenses plus a return on the net investment), the company will be a net contributor to the Pool. Conversely, if a company's revenues are less than its costs, it will be a net recipient from the Pool. As shown in Attachment C to the Plan, there are 14 contributors and 15 recipients in the Pool. There are also seven telephone companies that left the Pool, but are still under contractual obligations to contribute to the Pool for various numbers of years, and two companies that left the Pool and are still recipients.

Phase-Out of the Pool

The Plan, which has a term of four years beginning January 1, 2004, provides for phasing out the Pool over the course of that four-year period. At the start of the Plan, contributions and distributions will be frozen at the 2002 level, as adjusted. In each of the ensuing four years, contributions will be reduced by 25%, such that by the start of Year Five (that is, at the conclusion of the Plan), contributions will have been reduced to zero. In each year, a portion of the contribution reduction will be offset by a reduction in the access charges received by the contributing

⁵ Under the Designated Carrier Plan, the predominant LEC (New York Telephone in its LATAs and Rochester Telephone in its service territory) was designated as the intraLATA toll carrier and handled all such traffic. The independent telephone companies remit all intraLATA toll revenues to the designated carriers. The designated carriers then pay the independent telephone companies access charges for intraLATA toll calls that originate and/or terminate in their territory.

company; the remainder will be set aside for the Transition Fund described below. The details of the reduction schedule are set forth in Attachments A and B to the Plan.⁶

Extended Area Service (EAS) settlements paid by Verizon to some members and non-members of the Pool (identified in Attachment C to the Plan) are likewise to be phased out at a rate of 25% per year. The access rate reductions otherwise required of a Pool contributor will be offset by the amount of the reduction in its EAS settlement revenues, and a Pool company may offset its EAS settlement reduction by filing a rate case to recover those losses through local service rate increases.

The Pool phase-out is intended to be revenue neutral for the contributing companies. A contributor wishing to apply some of its contribution reduction to a perceived return shortfall will be required to file a rate case, in which its switched access rates would be subject to reduction. A company's intrastate switched access rate, however, would not be set below its composite interstate switched access rate nor above its composite intrastate switched access rate at the start of the Plan.

Pool recipients, whose receipts will be reduced each year, may recover the resulting losses through rate cases. Any additional access rate reductions for Pool recipients will be determined on a company-specific basis, and the parties agree that an access rate reduction should not occasion a need for external funding.

Transition Fund

The Transition Fund noted above has been established in recognition of the pressure on local service rates that may be created by phase-out of the Pool. It may be drawn on if we decide in a rate case, after considering pertinent factors, that

⁶ By way of illustration, at the start of Year 3 (January 1, 2006), contributions will be reduced by a second 25% installment, for a total reduction of 50%; of that amount, 40% will be offset by access charge reductions and 10% will be set aside for the Transition Fund.

a company's local service rates (which are not to exceed a benchmark equal to the Verizon rate for the comparable local rate group) are insufficient to meet its intrastate revenue requirement and allow the company to continue providing reliable service at just and reasonable rates. Only companies now members of the Pool may receive disbursements from the Transition Fund, and the Fund is to be administered by the current Pool Administrator.

Consideration of Future Funding Arrangements

The Plan provides for establishment of a separate "Fund Track" of this proceeding to consider issues related to any funding arrangement designed to replace the Transition Fund. Parties reserve their rights with respect to the positions they may take in the Fund Track.

Issues that might be considered in the Fund Track include the need for a fund, its purpose and manner of operation, and the need for and level of any benchmark rate. Discussions in the Fund Track would begin following a ruling by an Administrative Law Judge, in response to a party's application, that the Transition Fund may be exhausted within 18 months.

Other Provisions

The Plan recites that it represents a compromise of positions between its signatories and is based in part on the non-signatory parties' acknowledgement that it sufficiently addresses their collective concerns. Each member of the Small Company Group has agreed to the Plan as an integrated whole and without waiver of or prejudice to any positions it has taken or might take in the future. The signatories request that we approve the Plan as an integrated whole. Nothing in the Plan is to be construed to limit our authority to consider rates or cost recovery in accordance with the Public Service Law.

STATEMENTS IN SUPPORT

Staff

Staff maintains that the Access Pool arrangements to be replaced by the Plan have skewed carriers' incentives by allowing them to increase their costs without necessarily suffering the consequences in the form of rate increases or earnings reductions. Instead, the customers of high-cost companies are subsidized by ratepayers around the State. Eliminating the Pool will help align costs and rates, affording all companies the correct incentives to control their costs and enabling low-cost companies to directly benefit from their efforts.

The phase-out of the Pool, Staff notes, will permit contributors to reduce access charges and contribute to the Transition Fund; overall, the effect on contributors will be revenue-neutral. Recipients will be eligible to recover their losses (estimated at 24%, 27%, and 27% during the three years, respectively) through the normal rate case process; rate increases might run from \$0.50 to \$7.50 per access line per month over the Plan's term. The Transition Fund will ensure, however, that local rates do not exceed comparable Verizon rates during the course of the phase-out; Staff estimates that six companies could reach the comparable Verizon rate during the term of the Plan: three in 2006, two in 2007, and one in 2008.

Staff estimates that, by the end of the Plan, about \$847,000 will have been placed in the Transition Fund. Once the Fund is exhausted, additional discussions will be held to determine whether and how a statewide fund should be established, but the Plan does not presuppose establishment of such a Fund.

Staff notes that comments on a draft of the Plan, which had been circulated to the parties, were received from Time Warner Telecom-NY, L.P., PaeTec Communications, Inc., Sprint Communications Company, L.P., Sprint Spectrum L.P.,

Wireless Providers⁷ and Verizon. None of the parties expressed any objection to the draft.

Staff concludes that "the Comprehensive Plan is in the public interest, because it eliminates a pooling structure that did not provide appropriate incentives to reduce costs and operate efficiently. Low cost companies can be rewarded for their cost containment efforts. The manner in which the Pool is phased out protects ratepayers from rate shock, allows for the reduction in intrastate access rates, and provides a Transition Fund to ensure that it will not be necessary to raise high cost company rates above the Verizon benchmark."⁸

Small Company Group

The Small Company Group (SCG) urges prompt adoption of the Plan's terms without change, such that it could go into effect on January 1, 2004. In general, it characterizes the Plan as a cohesive series of compromises that build on the past actions and policies that have allowed the SCG members to meet their universal service obligations and that will avoid resource-intensive litigation of the issues resolved by the Plan.

The SCG notes the principles that guided its participation in the proceeding: (1) the regulatory stability needed for SCG members to foster the economic development of their communities and to continue to make needed infrastructure investments; and (2) the flexibility needed to address its members' diverse economic characteristics. The SCG sought an agreement that would continue our existing policies recognizing the need for appropriate cost recovery and the fact that SCG members have traditionally relied on intrastate access service

⁷ Comprising AT&T Wireless PCS, LLC, Binghamton CellTelCo, Cellular Telephone Company, Vanguard Binghamton, Inc. ("collectively AT&T Wireless"), Nextel of New York, Inc. ("Nextel"), Nextel Partners, Inc. ("Nextel Partners"), Verizon Wireless, Sprint Spectrum L.P. d/b/a Sprint PCS and T-Mobile USA, Inc. ("T-Mobile")

⁸ Staff's Statement in Support, p. 5.

revenues as an integral component of their rate designs. In the SCG's view, the plan adequately addresses these underlying principles.

More specifically, the SCG explains that its members agreed to the phase-out of the pooling arrangements in view of the Plan's features that mitigate the financial effects of the phase-out. These features include the freeze of the Pool and the reduction of the pooling contribution over a period of time; the beginning of intrastate access reform, which will permit the contributors to the Pool to reduce their intrastate access rates to levels approaching interstate access rates; and the provision authorizing recipient companies to seek access rate reduction in the context of a rate case.

That said, the most important aspect of the Plan from the SCG's point of view is the Transition Fund, which the SCG sees, despite the Fund's name, as an initial step toward a state universal service fund. The Fund provides a cost recovery mechanism to be used where the revenues resulting from local service (at a rate no higher than the Verizon benchmark rate) and intrastate access are insufficient to ensure continued maintenance of universal service. Noting the Plan's provision that an evaluation of a permanent fund will be initiated when the Transition Fund approaches exhaustion, the SCG maintains that the need for a "safety net" of this sort arises regardless of whether the Pool continues to exist.

The SCG concludes:

The Plan provides the policy and framework for the transitioning of the SCG members' existing rate designs and recovery mechanisms to reflect the changing marketplace and regulatory environment while protecting the universal service objectives with the SCG members' rural service areas of New York. The facts supporting the Commission's necessary public interest finding with respect to the Plan are readily known to the Commission or can readily be derived from the logical consequences arising from the market changes and dynamics confronting the SCG member companies[,] of which the Commission is fully aware and

about which there can be no serious disagreement.⁹

In its reply comments, the SCG renews its request that we adopt the Plan without change, but it takes issue with Staff's suggestion, in its Statement in Support, that the existing pooling process is inefficient. It asserts that its members assume we exercise proper oversight of the Pool and notes that we and Staff have been provided with monthly reports on the Pool's performance. Maintaining that de-pooling is but one of several interrelated compromises encompassed by the Plan, it contends Staff's opinion regarding the pool is a distraction that should not be taken into account as we evaluate the Plan and need not be relied upon as a basis for adopting the Plan, given the Plan's public interest benefits. It renews its arguments in support of the Plan and concludes that the Plan "provides the policy and procedures for beginning the transition of the SCG members' respective existing rate designs and recovery mechanisms to reflect the changing marketplace and regulatory environment they confront, while protecting the universal service objectives with the SCG members' rural service areas of New York."¹⁰

Other Comments

Sprint supports our adoption of the Plan. It also notes its appreciation of "Staff's leadership in helping the parties reach resolution of this matter."

Verizon supports the Plan and recommends its approval, but emphasizes that it does not thereby agree with all aspects of the SCG's statement in support of the Plan. In particular, it notes that the Plan itself reserves for future litigation all issues related to any successor to the Transition Fund; accordingly sees no need for us to comment now on the need for such a fund or any of its details; and asks that we therefore disregard the SCG's comments on the matter. Verizon adds that

⁹ SCG's Statement in Support, p. 5.

¹⁰ SCG's Reply Comments, p. 2.

though the Plan is not the one Verizon itself would have designed, "it represents a workable and reasonable compromise [among conflicting interests] and should be adopted without modification by the Commission."¹¹

DISCUSSION AND CONCLUSION

The parties' statements and comments disclose continuing differences regarding some of the issues related to the Plan, but that is hardly surprising since their interests continue to diverge despite their ability to reach the compromises embodied in the Plan. The SCG's request that we disregard some of Staff's observations does not suggest a failure of the signatory parties to reach a meeting of the minds on the Plan itself, and Verizon's request that we disregard some of the SCG's comments does not imply opposition to the Plan itself. Accordingly, we regard the Plan as one recommended, or, at least, unopposed, by all parties to the proceeding.

That unanimous support for the Plan by parties having adverse interests argues for its adoption but does not, of course, end the analysis; we are obligated to make our own assessment of whether the Plan's provisions are in the public interest. Having done so, we are satisfied that they are. Regardless of whether the Access Pool entails the inefficiencies alleged by Staff but denied by the SCG, it certainly has the potential for such inefficiencies. It is a vestige of an earlier system of regulation, and it should be replaced by arrangements more consistent with the profound changes in the telecommunications industry. The Plan does so.

As the parties agree, the Plan provides a mechanism that recognizes the important need for gradualism. It would phase out the Pool in a manner that avoids sudden, harsh effects on carriers and ratepayers alike, all the while reducing intrastate access charges and avoiding any threat to the essential goal of universal service. Accordingly, the terms of the Plan are in the public interest; there is no reason to

¹¹ Verizon's comments, p. 2.

believe a litigated result would be superior, and the terms of the Plan are adopted.

Finally, just as we reach that decision, as the SCG urges us to do, without necessarily endorsing Staff's view of the inefficiencies said to characterize the Access Pool, we reach it as well, as Verizon urges, without any prejudgment of the need for or nature of a longer-term universal service fund that that might follow exhaustion of the Transition Fund provided for by the Plan. The Plan defers all such matters to the Fund Track provided for in its Paragraph 10 and recognizes, in Paragraph 10, that all parties reserve their rights as to the positions they will take in the Fund Track. Accordingly, we need not comment further on those matters.

The Commission orders:

1. The terms of the attached "Comprehensive Plan-Phase II" agreed to by Staff and the Small Company Group are adopted as the decision of the Commission in this proceeding.
2. This proceeding is continued.

By the Commission,

(SIGNED)

JACLYN A. BRILLING
Acting Secretary

STATE OF NEW YORK
DEPARTMENT OF PUBLIC SERVICE

Case 02-C-0595 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the New York Intrastate Access Settlement Pool, Inc. for Traffic Sensitive and Non-Traffic Sensitive Access Rates

**COMPREHENSIVE PLAN
PHASE II**

In its May 30, 2002 Order Suspending Rate Filing in this case, the Commission initiated a proceeding to address the cost recovery mechanisms and the overall operation of the New York Intrastate Access Settlement Pool, Inc. (the "Pool"). The proceeding was referred to the Office of Hearings and Alternative Dispute Resolution and a pre-hearing conference was held before Administrative Law Judge Joel A. Linsider on June 26, 2002, at which time a two-phase process was instituted. Phase I, which addressed the Pool's May 1, 2002 tariff filing, has been concluded. Phase II, which is progressing, has been addressing issues associated with access rate design and cost recovery for the Pool companies.

Through the Phase II collaborative process, the Small Company Group member companies (the "SCG Members"), which include all Pool members plus Taconic Telephone Company, and the Department of Public Service Staff ("Staff") (collectively the "Signatories") have agreed to a Comprehensive Plan (the "Plan") to phase out the Pool, as detailed below. The Plan represents a compromise of positions between the Signatories hereto and is based, in part, on an acknowledgement made by parties within the collaborative that have elected not to sign this document (the "Non-Signatories") that the Plan sufficiently addresses the Non-Signatories' collective concerns. As such, each of the SCG Members have agreed to this Plan as an integrated whole and without waiving or prejudicing any positions each has taken previously, or may take in the future, in any judicial, legislative, regulatory or other public forum addressing any matters, including matters specifically related to, or other types of arrangements prescribed in, this Plan. Moreover, the Signatories have agreed and therefore request that the Commission approve the Plan as an integrated whole.

Recognizing that the phase-out of the existing pooling arrangements as described herein creates additional pressures upon Pool members' local service rates, the Plan creates a self-funded Transition Fund, as that mechanism is described more fully herein. The SCG Members and Staff, as well as other Non-Signatories, also agree that the Commission should consider other funding/recovery issues raised by the parties in a separate track. Agreeing to the Plan, or not opposing it, will not foreclose the parties from presenting their respective positions on the issues to be addressed in the next proposed track of this proceeding. Upon approval of the Plan by the Commission, the terms and conditions of the Plan shall be implemented and applied by all parties in the

filing, review and recommended resolution of all rate cases and tariff filings for SCG Members.

1) Term of Plan

The term of the Plan will be four years commencing on January 1, 2004. In Year One, contributions to the Pool and receipts from the Pool will be frozen at 2002 levels, as described in paragraph 2.b below. In Year Two, Three and Four, contributions and receipts will be reduced such that at the beginning of Year Five all contributions and receipts will be zero. Reductions will follow the schedule shown in Attachment A. The reductions will be accomplished in monthly installments of the annual Pool contributions as shown in Attachment B.

2) Pooling Elimination

a) As of the implementation of the Plan (i.e., implementation of the rate changes described in paragraphs 3 and 4, below), the pooling arrangements associated with the Pool will be eliminated. However, the current Pool administrator shall assist the implementation of the Plan by collecting and distributing the remaining contributions.

b) At the beginning of the Plan, all contributions to the Pool will be frozen at the absolute dollar amount received by each Pool recipient based on the percentage of the total contribution it received. Recipients and contributors are identified in Attachment C. The frozen contributions and amounts received will be based on the latest true-up of 2002 Pool data available. This data may be adjusted at the inception of the Plan for Commission decisions that would affect the Pool distributions up to the date of the Commission Order approving this Plan. Any issue arising from a company utilizing average schedules for its interstate recovery shall be addressed on a company-specific basis. Once set, the frozen contribution and recipient amounts will remain unchanged during the phase-out of contributions. During each year of the Plan, contributors will reduce their contributions by a predetermined monthly amount pursuant to the schedule in Attachment B, and make corresponding access rate reductions, as shown on Attachment A and described in paragraph 3 below. Current non-pooling contributors that have less than four years until their contributions reach zero shall continue their scheduled phase-out.¹ Non-pooling contributors that have four or more years until their contributions reach zero will adopt the four-year phase-down of contributions pursuant to Attachment B.² (i.e., Any contributions originally scheduled to be made after Plan Year 4 will be ratably spread over Plan Years 2 through 4.)

¹ Alltel, Citizens Telecommunications of New York, Highland, Taconic and Warwick Valley are non-pool members currently phasing out contributions/receipts in compliance with Opinion and Order 92-13 issued May 29, 1992.

² Ausable Valley, Ogden, Seneca-Gorham, and Sylvan Lake are non-pool members currently phasing out contributions in compliance with an Order issued December 4, 1998 in Cases 94-C-0095 and 28425. Commission approval of the Plan would modify this order.

3) Access Rate Design

a) Pool Contributors

The Plan requires contributors to the Pool to reduce intrastate access charges (Non-Traffic Sensitive, Traffic Sensitive, and Billing and Collection) in conjunction with the phase-out of contributions. The level of contribution which is subject to access charge reductions shall be offset by contributions to the transition fund discussed in paragraph 5 below and Extended Area Service (EAS) adjustments discussed in paragraph 9 below. The intrastate access rate reduction for contributors shall also be offset by the changes in access revenue (capped at the contribution level of that given Plan year), due to a change in access usage in the prior plan year and will be calculated and filed with the Commission three (3) months prior to the beginning of the next plan year. In each Plan year, that calculation will be based on the access revenue and usage during the most recent 12 month period for which data is available. The change in access revenue shall be computed by the application of the current rate to the difference in the usage in the most recent 12 months as compared to the previous 12 months.

Contributors who want to apply some or all of their contributions toward a perceived return shortfall will be required to file a rate case. During such rate case review, switched access rates could be reduced in addition to addressing the revenue requirement needs of the company. Any additional contribution reductions remaining after the interstate rate floor is reached (that rate floor being established in paragraph 3.c, below) would be addressed on a company-specific basis. As a result of the above, the impact of the phase-out is intended to be revenue neutral for the contributing companies.

Similarly, if any additional contribution reductions remain for a contributor after the interstate rate floor is reached (as established in paragraph 3.c. below), and that contributor is not in for a rate case, such additional contribution shall, in the absence of a mutually agreed upon and Commission-approved alternative disposition, be placed in a deferral account.

b) Pool Recipients

A Pool recipient may recover its respective loss in contribution on a yearly basis through a full rate review, in the form of either a mini or major rate case, to establish the allowable level of costs upon which the company's local service rates will be set.

The amount of any additional access rate reductions for recipients will be determined on a company-specific basis. The parties agree that an access rate reduction should not occasion a need for external funding.

c) Access Rate Level

As a result of any reduction in a Pool member contribution or a rate case determination provided for by this Plan, the company's composite intrastate switched access rate should not be set below that company's composite interstate switched access

rate and should not be set above the Pool member's composite intrastate switched access rate at the inception of the Plan. The Signatories' goal is to not have higher intrastate switched access rates than those currently in place for members of the Pool.

4) Rate Filings

During the phase out of the Pool, any company may file for rate relief via a rate case, subject to the standard rate case analysis. Such filing, and the Staff's review and recommendation, would be consistent with the terms and conditions of this Plan.

5) Transition Funding and Future Funding Arrangements

a) A Transition Fund will be created from a portion of the contribution phase-down as shown in Attachment A. The Transition Fund may be utilized by the Commission at the time a rate case is decided if, after considering all the company specific factors and characteristics of the service territory, it deems local service rates (not to exceed the benchmark provided for in paragraph 6) and other charges are insufficient to meet the company's intrastate revenue requirement and allow the company to continue providing reliable service at just and reasonable rates.

b) All issues relating to the appropriateness and details of funding/recovery beyond the Transition Fund will be deferred to the Fund Track described in paragraph 10.

6) Benchmark Local Rate

Until otherwise determined in the bifurcated Fund Track described in paragraph 10, the "benchmark" local rate for the companies subject to this Plan, for rate-making purposes, should be equal to the comparable Verizon NY Inc. (Verizon) local rate group. Consistent with prior Commission orders, the Signatories' goal is to not have local service rates that exceed the comparable Verizon rate for the companies that are subject to the Plan.

7) Eligibility for Transition Fund

Only the companies that are currently members of the Pool are eligible to receive disbursements from the Transition Fund.

8) Administration of Transition Fund

a) The Transition Fund will be administered by the current Pool Administrator who will be compensated by charging all Pool members based on their relative number of access lines.

b) Until the Commission orders Transition Funds to be disbursed, the Transition Funds shall be deposited in a separate account in a responsible banking institution, or institutions, and accrue interest at the current market rate.

9) Treatment of Existing EAS Arrangements

EAS Settlements, paid by Verizon to both Pool and non-Pool members, shall be phased out consistent with the term of the Plan (i.e., 25% per year starting in Year 2). Any pool contributor currently receiving EAS Settlements from Verizon, as identified in Attachment C hereto, shall offset its annual access reduction by the amount of its annual EAS Settlement reduction. Pool companies, identified in Attachment C, may offset EAS settlement reductions by filing a mini or major rate case to recover EAS losses through local service rate increases.

10) Bifurcated Fund Track

a) A separate Fund Track will be established to address all issues associated with the need for, establishment of, administration of, and recovery of disbursements from any funding arrangement designed to replace the Transition Fund described herein. All parties fully reserve their rights as to the positions they will take in such Fund Track.

b) The issues to be addressed in this Fund Track include, but are not limited to, the following:

1. Should a fund be established?
2. If a fund is established:
 - a) What are the purposes of the fund?
 - b) Who is eligible for the fund? (e.g., pool companies only, non-pool LECs, CLECs, wireless companies, etc.).
 - c) What are the eligibility criteria for competitive companies? (e.g., Federal ETC guidelines and/or other criteria).
 - d) Who would contribute to the fund? (e.g., wireline companies only, wireline and wireless companies).
 - e) How should the contribution levels be calculated? (e.g., TAF formula or another modified approach).
 - f) Who should administer the fund? (e.g., TAF or other entity).
 - g) Should the fund be periodically re-evaluated or sunset after a number of years?
 - h) Should the fund be capped? If so, at what level?
3. Should a benchmark rate be established? If so, at what rate level? (e.g., Verizon comparable rate, some percentage above the Verizon rate, some percentage below the Verizon rate or some other method for determining the rate level).

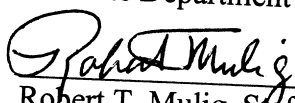
c) Fund Track discussions would commence as a consequence of an administrative law judge ruling, which determines that the monies within the Transition Fund may be exhausted within 18 months. Any party may make an application for such ruling based on, but not limited to, a forecast using current rate case filings and/or disbursements from the Transition Fund.

Nothing in this Plan shall be construed to limit the Commission's authority to address rates and cost recovery in accordance with the Public Service Law.

Respectfully submitted,

New York State Department of Public Service

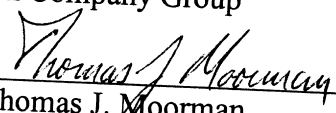
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By: 
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Its Attorney

Date: 10/22/03

ATTACHMENT A
Mechanics of Pool Phase-Out and Creation of Transition Fund

- NOTE: All percentages are applied to the frozen 2002 levels. For purposes of this example, the start of this plan would be January 1, 2004
- Year 1: (1/1/04) Contributions frozen at 100% 2002 levels, as adjusted
- Year 2: (1/1/05) Recipients receive 75% of the frozen 2002 level of contribution
Contributors reduce contributions by 25%
 - 15% is offset by access charge reductions
 - 10% is set aside for the Transition Fund
- Year 3: (1/1/06) Recipients receive 50% of the frozen 2002 level of contribution
Contributors reduce contributions by an additional 25%; 50% total reduction
 - 40% is offset by access charge reductions
 - 10% is set aside for the Transition Fund
- Year 4: (1/1/07) Recipients receive 25% of the frozen 2002 level of contribution
Contributors reduce contributions by an additional 25%; 75% total reduction
 - 65% is offset by access charge reductions
 - 10% is set aside for the Transition Fund
- Year 5: (1/1/08) Recipients receive 0 contribution
Contributors reduce contributions to 0
No additional input to the Transition Fund
 - 100% is offset by access charge reductions
 - 0% is set aside for the Transition Fund

The information in the table below is for illustration purposes only and is based upon latest available end-of-year 2002 data adjusted for Commission Orders in Township, Ontario, Trumansburg, Port Byron, Chazy & Westport, and Crown Point rate cases as well as a proposed settlement in the Champlain case. It is subject to further adjustment for decisions that would affect Access Pool distributions. No additional Access Pool true-ups will be made after the date of the Commission Order approving this Agreement.

Plan Year Start Date	(A)	(B)		(C)	(D)		(E)	(F)	
	\$ Available from Pool Contributions (prior year contribution - prior year access reductions)	(1)	(2)	\$ Available for distribution to fund or access charge reduction (A - B1)	(1)	(2)	Incremental \$ to Access Charge Reductions (C-D1)	(1)	(2)
		\$ to Recipients	% of Frozen 2002 Levels		\$ to Transition Fund	% of Frozen 2002 Levels		Cumulative \$ to Access Charge Reductions	% of Frozen 2002 Levels
1/1/04	\$ 2,824,566	\$ 2,824,566	100%	\$ -	\$ -	0%	\$ -	-	0%
1/1/05	\$ 2,824,566	\$ 2,118,425	75%	\$ 706,142	\$ 282,457	10%	\$ 423,685	423,685	15%
1/1/06	\$ 2,400,881	\$ 1,412,283	50%	\$ 988,598	\$ 282,457	10%	\$ 706,142	1,129,826	40%
1/1/07	\$ 1,694,740	\$ 706,142	25%	\$ 988,598	\$ 282,457	10%	\$ 706,142	1,835,968	65%
1/1/08	\$ 988,598	\$ -	0%	\$ 988,598	\$ -	0%	\$ 988,598	2,824,566	100%
TOTAL:	\$ 10,733,351	\$ 7,061,415		\$ 3,671,936	\$ 847,370		\$ 2,824,566		

ATTACHMENT B
Contribution Phase Out Plan

The information on this attachment is for illustration purposes only and is based upon latest available end-of-year 2002 data adjusted for Commission Orders in Township, Ontario, Trumansburg, Port Byron, Chazy & Westport, and Crown Point rate cases as well as a proposed settlement in the Champlain case. It is subject to further adjustment for Commission decisions that would affect Access Pool distributions. No additional Access Pool true-ups will be made after the date of the Commission Order approving this Agreement.

<u>Year</u>	<u>Month</u>	<u>Percent</u>	<u>Pool Contributions</u>		<u>Non-pool Contributions**</u>	
			<u>Monthly Contribution</u>	<u>Annual Contribution</u>	<u>Monthly Contribution</u>	<u>Annual Contribution</u>
1*	1 thru 12	100%	\$ 235,381	\$ 2,824,566	\$ 98,810	\$ 1,185,724
2	13 thru 24	75%	\$ 176,535	\$ 2,118,425	\$ 77,965	\$ 935,579
3	25 thru 36	50%	\$ 117,690	\$ 1,412,283	\$ 53,130	\$ 637,558
4	37 thru 48	25%	\$ 58,845	\$ 706,142	\$ 30,968	\$ 371,613
5	49 and on	0%	\$ -	\$ -	\$ -	\$ -

* Starts January 1, 2004

** Non-pool contributions include TS contributions that were originally scheduled to be made in 2008 are spread over years 2 through 4 for Ausable Valley, Ogden, Seneca Gorham, and Sylvan Lake in the following amounts.

<u>Company</u>	<u>2008 TS Contribution</u>	<u>Spread Over Plan Years</u>		
		<u>2</u>	<u>3</u>	<u>4</u>
Ausable Valley	\$ 18,564	\$ 6,188	\$ 6,188	\$ 6,188
Ogden	\$ 24,113	\$ 8,038	\$ 8,038	\$ 8,037
Seneca Gorham	\$ 46,138	\$ 15,379	\$ 15,379	\$ 15,380
Sylvan Lake	\$ 54,268	\$ 18,089	\$ 18,089	\$ 18,090

ATTACHMENT C
2002 POOL RECIPIENTS AND CONTRIBUTORS

Recipients

Armstrong
Chazy & Westport (*EAS)
Citizens of Hammond
Crown Point
Dunkirk & Fredonia
Delhi
Empire
Germantown
Hancock
Margaretville
Nicholville
Newport (*EAS)
Oneida County (*EAS)
Pattersonville (*EAS)
State

Non-Pool Member Recipient

Citizens
Taconic

Contributors

Berkshire (*EAS)
Cassadaga
Champlain
Chautauqua & Erie
Deposit
Edwards
Fishers Island
Middleburgh
Ontario
Oriskany
Port Byron (*EAS)
Township
Trumansburg
Vernon (*EAS)

Non-Pool Member Contributor

Alltel
Frontier of Ausable Valley
Frontier of New York (Highland)
Ogden
Frontier of Seneca-Gorham
Frontier of Sylvan Lake (*EAS)
Warwick