

PA PUC V. COMMONWEALTH TELEPHONE COMPANY
DOCKET NO. I-00920020

OCA CROSS EXAMINATION EXHIBIT NO. 7

DATE ENTERED: 7/2/93

1/10/93

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DOCKETED

JUL 16 1993

RECORDED
JUL 19 1993
PUC
REG. SEC. ADJ. DIV.

**DOCUMENT
FOLDER**

RESPONSE OF COMMONWEALTH TELEPHONE COMPANY
TO INTERROGATORIES OF THE OFFICE OF TRIAL STAFF, SET I
PA PUC V. CTCO
PA PUC DOCKET NO. I-00920020

OTS-RE-5. Provide a copy of CTC's affiliated interest contract. If this contract is on file with the Pa. PUC provide a copy of the Commission's order wherein it was recognized.

ANSWER: There are more than one affiliated interest agreement. Attached are several agreements and a sheet identifying the PA PUC docket number where relevant PA PUC Orders would be located.

PREPARED BY: NORMAN JAMES KENNARD

COMMONWEALTH TELEPHONE COMPANY AFFILIATED INTEREST AGREEMENTS

Affiliate Company	Docket Number
Whiteman Tower, Inc.	G-890169
C-TEC Corporation	G-890183
Sordoni Construction Services, Inc.	G-900191
TEC-AIR	G-900214
Commonwealth Long Distance Company	G-900236
C-TEC Cable Systems, Inc.	G-910257
Cellular Plus, Inc.	G-910263
Commonwealth Communications, Inc.	G-00920315

SERVICES AGREEMENT

THIS IS AN AGREEMENT between Commonwealth Telephone Company ("CTCo") and C-TEC Corporation, formerly Commonwealth Telephone Enterprises, Inc., a Pennsylvania corporation ("C-TEC"). CTCo is a wholly-owned subsidiary of C-TEC.

BACKGROUND

A. CTCo is an operating public utility which provides local exchange services within the Commonwealth of Pennsylvania to the Counties of Berks, Bradford, Bucks, Carbon, Chester, Columbia, Dauphin, Lackawanna, Lancaster, Lehigh, Luzerne, Lycoming, Monroe, Northampton, Schuylkill, Sullivan, Susquehanna, Tioga, Wyoming, and York.

B. C-TEC is organized into five operating groups: The Telephone Group, the Cable Television Group, the Communications Services Group, the Mobile Services Group, and the Information Services Group (individually, a "Group").

C. In order to maximize efficiency, avoid duplicative staff, and provide the greatest possible expertise and best facilities in a cost effective manner, C-TEC has undertaken to provide certain services and functions, as hereinafter more particularly described, on behalf of its subsidiaries, including CTCo. In addition, CTCo provides products and/or services of a type which may be desired by C-TEC. This Agreement sets forth the services which may be performed by the parties hereto for each other, and the terms and conditions pursuant to which such services are to be provided.

D. This Agreement is intended to supersede certain Agreements between the parties which are presently on file with the Pennsylvania Public Utility Commission ("PUC") and the Rural Electrification Administration ("REA"). Copies of said agreements are attached as Exhibits A through C hereto.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, and intending to be legally bound hereby, the parties hereby agree as follows:

1. Services to be Provided by C-TEC.

1.1 Services: C-TEC will provide qualified employees to perform services for or on behalf of CTCo, when and as needed by CTCo, including without limitation the following services:

1.1.1 Executive Management: Manage or assist in the management of CTCo in order to promote the efficient, economical and professional operation of CTCo;

1.1.2 Human Resources: Provide hiring and evaluation functions and employee record keeping, review and administer salary, benefit and pension plans, negotiate benefit and labor contracts, arbitrate labor disputes, coordinate union relations, employee information, communication and morale functions, provide safety and travel policy development and enforcement, prepare practices and procedures, provide and coordinate employee training and information, and advise regarding and coordinate compliance with federal, state and local regulatory requirements affecting personnel matters and employee benefits;

1.1.3 Finance: Provide financial analyses and reports, determine capital and financing requirements, arrange for required financial resources through direct intercompany loans or third party loans, invest cash reserves and maintain banking relationships;

1.1.4 Accounting and Auditing: Establish and review existing accounting methods, procedures and personnel, prepare or assist in preparation of budgets, financial statements and reports, assist independent auditors, provide internal audits and financial controls, retain and coordinate with independent public accountants when necessary or advisable;

1.1.5 Taxes: Preparation of state, federal and local tax returns, advise and assist as to compliance with tax laws, regulations and decisions, assist and coordinate independent tax counsel and appear before tax authorities;

1.1.6 Marketing, Advertising and Public Relations: Prepare or assist in the preparation of market analyses, consumer surveys, market research and product/services information, prepare advertising materials, arrange advertising contracts, schedules and media purchasing, prepare news releases, and arrange media interviews.

1.1.7 Planning: Provide strategic planning analyses, develop organization and strategic plans, perform acquisition analysis and negotiation, and assist in product/services development;

1.1.8 Insurance: Arrange for insurance coverage, prepare and administer insurance claims and maintain insurance records;

1.1.9 Purchasing: Coordinate purchasing functions;

1.1.10 Legal: Provide legal advice and assistance, coordinate with outside counsel and advise as to legal and regulatory issues and requirements;

1.1.11 Personal Property: Property, including office furniture, equipment and vehicles, owned or leased by C-TEC and not otherwise committed may be used by CTCo on an as-available basis. C-TEC will provide or assist in the maintenance of such property and of property owned by CTCo;

1.1.12 Data Processing: Perform data processing, on-line and batch programs, for CTCo customer service functions, accounting, and all other aspects of the telephone company, as required. C-TEC will also provide and maintain computer systems hardware.

1.1.13 Other Services: Provide such other services as may be requested from time to time by CTCo and which C-TEC is capable of performing in a more efficient and cost effective manner than CTCo.

1.2 Cost of Services: The cost of services to be provided by C-TEC under this Agreement and payment therefor shall be as follows:

1.2.1 Direct Charges: The following categories of charges shall be billed directly to CTCo:

1.2.1.1 Expenses: All direct, out-of-pocket costs and expenses attributable to services or materials provided hereunder shall be billed directly.

1.2.1.2 Personnel: Employees of C-TEC (except for executive management, their secretarial staff and other employees whose work is determined not to be susceptible to direct time chargeback) shall maintain daily time records to document services provided to CTCo. Each employee's time so expended shall be charged as follows:

(a) For all regular hours worked by nonunion, salaried employees, an amount equal to the employee's basic hourly rate plus an amount determined by applying to the basic hourly rate a factor to cover loadings for FICA, State Unemployment Compensation, Federal Unemployment Compensation, Workers Compensation Insurance, Public Liability Insurance and Blanket Catastrophe Insurance (where

appropriate), Blue Cross/Blue Shield, Major Medical, Group Life Program, Long-Term Disability Insurance, Employee Dental Program, qualified employee benefit plans (i.e., pension, 401(k) and C-FLEX), the costs of nonproductive time (i.e. holidays, vacation days, sick time, etc.), depreciation on or lease expenses associated with building, office furniture and equipment, house services, utilities, office supplies, and out-of-pocket expenses (i.e., dues, subscriptions, tuition, etc.). For purposes of this Agreement, this amount shall be the employee's "Loaded Labor Rate." The Loaded Labor Rate for each employee shall be established by C-TEC and is subject to periodic change without notice. Loaded Labor Rates shall be made available to CTCo upon request.

(b) For all overtime hours worked by non-salaried employees, an amount equal to the Loaded Labor Rate, which shall include additional payroll and benefit costs due to overtime, multiplied by the number of overtime hours.

(c) For all salaried employees, Loaded Labor Rates shall be adjusted by a factor for unpaid overtime hours.

1.2.1.3 Determination of Equipment Costs: C-TEC costs and expenses will also include appropriate charges for the use and operation of the equipment utilized to perform services for CTCo.

(a) Equipment charges will be determined as follows: C-TEC shall maintain a daily record of the hours that the equipment is used to provide services to CTCo. The hours of usage will then be multiplied by an appropriate factor to cover equipment leasing costs or monthly depreciation expense, as the case may be, as well as appropriate employee costs and certain other expenses related to the operation of the equipment.

1.2.1.4 Personal Property: Rates for usage of personal property shall be established based upon the expense of acquisition, operation, and maintenance. Any other

services susceptible to direct chargeback shall be billed at the full cost of providing such services.

1.2.2 Allocated Charges (also known as "Management Fees"): All remaining costs of providing services hereunder, including interest expense, which are not Direct Charges as hereinabove provided shall be allocated among each Group. The allocable share of such costs to be paid by each Group, including the Telephone Group, shall be determined by multiplying the residual cost (total cost less Direct Charges) of providing the services by the average proportionate share of the Group. Proportionate shares will be determined by applying the following equally-weighted factors to the total of all Groups receiving the services: (i) operating expenses, (ii) full-time equivalent employees, and (iii) gross assets. Each such Group will respectively charge their divisions, if any for such allocated costs, based on such factors as each deems appropriate.

1.2.3 Books and Records: C-TEC agrees to maintain and make available to CTCo for inspection all books, records, bills, accounts and other documents which describe or support the costs billed pursuant hereto.

2. Products and/or Services Provided by CTCo to C-TEC . CTCo may, but shall not be obliged to provide to C-TEC such products and/or services as CTCo provides to third parties in the ordinary course of its business:

2.1 Services: CTCo will provide qualified employees to perform services for and on behalf of C-TEC, when and as needed by C-TEC. CTCo will provide real and personal property, including without limitation, office space, office equipment, and vehicles to C-TEC as needed and on an as available basis. CTCo will provide or assist in the maintenance of such property and of property owned by C-TEC.

2.2 Cost of Services: The cost of services to be provided by CTCo under this Agreement shall be as set forth in subparagraphs 1.2.1.1 through 1.2.1.4 hereof, except that

(i) the Loaded Labor Rate shall exclude Public Liability Insurance, Blanket Catastrophe Insurance, and tuition, and shall include technical training, and

(ii) CTCo shall be permitted to earn its authorized rate of return on real and personal property, as currently authorized or established by the PUC. This

rate of return shall be the rate of return on CTCO's rate base.

3. Payment: Unless subject to applicable tariff or otherwise agreed in writing or as authorized by the provisions of this paragraph 3, as soon as practicable after the last day of each month, any party providing products and/or services to any other party hereunder shall bill such party for the cost of such products and/or services as set forth in the categories of expense described in paragraphs 1.2 and 2.2 hereof. Bills shall be paid within 30 days of receipt. However, estimated Allocated Charges or Management Fees for the coming month shall be billed on the first business day of that month, and payment for same will be due within 10 days of date of billing.

4. Miscellaneous.

4.1 Effective Date: This Agreement shall be effective as of January 1, 1990, subject to approval by the PUC. If, at the end of 30 days after the filing of this Agreement with the PUC, no Order of Rejection has been entered, this Agreement shall be deemed, in fact and law, to have been approved by the PUC pursuant to 66 Pa. C.S.A. 2102(b). Once approved, this Agreement shall continue in full force and effect until terminated by the parties, pursuant to the provisions of paragraph 4.2 following.

4.2 Modification; Termination, Severance of Parties: This Agreement may be modified or changed only by written amendment signed by both parties, which amendment shall be effective upon PUC approval. Either party may terminate its obligations hereunder upon ninety (90) days written notice to the other. Each party shall remain liable to the other for all unpaid costs for services provided for or on its behalf, to the effective date of termination. Additionally, CTCO agrees to provide written notice of termination to the PUC within 30 days of the effective date of same.

5. REA Approval of Agreement; Termination: In addition to the required approvals referred to in subparagraphs 4.1 and 4.2 hereof, the effectiveness of this Agreement shall be contingent upon written approval by the Administrator of the REA ("Administrator"). The parties agree to terminate this Agreement when requested to do so by the Administrator in accordance with the provisions of subparagraph 4.2 above.

5.1 Approval of Amendments; Rescission: In consideration of the approval of this Agreement by the Administrator, the parties agree that they will not enter into any amendment or rescission of this Agreement or of any provision thereof unless such amendment or rescission shall have been approved in writing by the Administrator, and wherever this Agreement provides for an agreement between the

parties, such agreement shall be subject to the approval of the Administrator.

5.2 Default: The parties hereto agree that any default by any of the parties in performing this Agreement may be considered by the Administrator to be an event of default" under the applicable party's Mortgage (deed of trust).

5.3 Successors and Assigns: Neither of the parties shall have the right to assign this Agreement, except to the United States of America, without the consent in writing of the other party and of the Administrator. Upon consent being obtained, this Agreement shall be binding upon and inure to the benefit of the successors and assigns of the parties hereto.

5.4 Parties' Rights Subordinate to Rights of USA: The rights of the parties under this Agreement shall be subject and subordinate to the rights of the United States of America under (i) loan contract and any other agreements which may thereafter be entered into between CTCo and the United States of America with respect to loans, and (ii) any mortgage (deed of trust) and any amendments or supplements thereto heretofore or hereafter made by CTCo to the United States of America (or a trustee) for the purpose of securing a loan or loans.

5.5 Rights and Benefits Accrue to Benefit of USA: All of the rights herein conferred upon the parties to this Agreement and every promise herein made for their benefit shall, in addition to the rights herein directly conferred upon the United States of America and every promise made for its benefit, accrue also to the benefit of the United States of America and be enforceable by the Administrator.

6. Retention of Records:


6.1 By C-TEC: C-TEC will maintain accurate information and records relative all amounts billable to and payments made by CTCo hereunder, in accordance with generally accepted accounting practices. C-TEC shall retain such records for Services covered by this Agreement for a period of three (3) years from the date of CTCo payment.

6.2 Inspection of Records: Upon request of CTCo, C-TEC will make the information and records required by paragraph 6.1 hereof available to CTCo for inspection. Further, C-TEC shall furnish to CTCo all reasonable information required by CTCo, or any government authorities having jurisdiction over CTCo with respect to such sales.


7. Prior Agreements: All existing agreements between C-TEC and CTCo for the performance of services covered by this agreement are by mutual consent hereby abrogated and superseded by this Agreement.

IN WITNESS WHEREOF, C-TEC and CTCo have caused this Agreement to be executed as of the 30th day of November, 1989.


(Seal)
Attest:


Raymond B. Ostroski
Secretary

C-TEC CORPORATION

BY: 
William E. Moyer
Executive Vice President

(Seal)
Attest:


Raymond B. Ostroski
Secretary

COMMONWEALTH TELEPHONE COMPANY

BY: 
Jack H. Thomas
Executive Vice President

CERTIFICATE

I, Raymond B. Ostroski, Secretary of Commonwealth Telephone Company (the "Company") certify that attached hereto is a true and correct copy of a Service Agreement between the Company and C-TEC Corporation, which has been duly adopted by the Board of Directors of the Company on November 30, 1989.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed seal of the Company this 30th day of November, 1989.


Raymond B. Ostroski,
Secretary

(Corporate Seal)

CERTIFICATE

I, Raymond B. Ostroski, Secretary of C-TEC Corporation (the "Company") hereby certify that attached hereto is a true and correct copy of a Service Agreement between the Company and Commonwealth Telephone Company, which has been duly adopted by the Board of Directors of the Company on November 30, 1989.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed seal of the Company this 30th day of November, 1989.


Raymond B. Ostroski
Secretary

(Corporate Seal)

EXHIBIT A

Agreement between Commonwealth Telephone Company
and Commonwealth Telephone Enterprises, Inc.,
dated October 16, 1980.

PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17120

Public Meeting held December 18, 1980
Harrisburg, PA 17120

COMMISSIONERS PRESENT:

Susan M. Shanaman, Chairman

James H. Cawley

Linda C. Taliaferro

Affiliated Interest Agreement between Commonwealth
Telephone Enterprises, Inc. and Commonwealth
Telephone Company by which the former will assist
the latter in management and offices services.

G-80100109

O R D E R

BY THE COMMISSION:

On October 31, 1980, Commonwealth Telephone Company filed this petition seeking Commission approval of an affiliated interest agreement between Commonwealth Telephone Company and Commonwealth Telephone Enterprises, Inc. the Parent company. On November 18, 1980, the statutory consideration period was voluntarily extended until December 18, 1980.

Under the proposed affiliated interest agreement, Commonwealth Telephone Company will obtain executive, financial and related services from Commonwealth Telephone Enterprises, Inc. and Commonwealth Telephone Enterprises Inc. will lease certain office space from Commonwealth Telephone Company as well as obtaining accounting, public relations and other miscellaneous services.

The Commission has examined this affiliated interest agreement between Commonwealth Telephone Enterprises, Inc. and Commonwealth Telephone Company and determines it is reasonable and in the public interest; THEREFORE,

IT IS ORDERED:

1. That Affiliated Interest Agreement between Commonwealth Telephone Enterprises, Inc. and Commonwealth Telephone Company, by which the former will assist the latter in management and offices services, is hereby approved.

2. That Commonwealth Telephone Company file with this Commission, within 60 days thereafter, a detailed list of the total actual expenses incurred in obtaining Commission approval and, throughout the life of the Agreement, file annual statements showing (a) the extent of the transactions between Commonwealth Telephone Enterprises, Inc. and Commonwealth Telephone Company and (b) the specific receipts and disbursements resulting therefrom.

BY THE COMMISSION


William P. Thierfelder
Secretary

ORDER ADOPTED: December 18, 1980

ORDER ENTERED: December 18, 1980

AGREEMENT

This is an Agreement between Commonwealth Telephone Enterprises, Inc., a Pennsylvania corporation ("CTE") and Commonwealth Telephone Company, a Pennsylvania corporation ("CTCo.").

Background

CTCo. is an operating public utility providing communications services, principally local and long distance telephone service, to suburban and rural communities in Pennsylvania. All of the outstanding common stock of CTCo. is owned by CTE. CTCo. desires to obtain certain executive, financial and related services from CTE. CTE desires to lease certain space from CTCo. and to obtain accounting, public relations and other miscellaneous services from CTCo. The parties agree to provide such services to each other in accordance with the terms of this Agreement.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, CTE and CTCo. agree as follows:

1. Executive Officers.

(a) CTE will, to the extent requested by CTCo., (i) make its executive officers available to serve as executive officers of CTCo.; (ii) assist and advise CTCo. in respect of corporate, financial, operating, regulatory and other matters; (iii) keep informed in regard to the operation, maintenance and financial condition of, and matters relating to, CTCo.; and (iv) take such steps and adopt such measures as will tend to promote the efficient and economical operation of CTCo.

(b) CTCo. will pay all costs and expenses which CTE incurs in connection with providing the aforementioned services to CTCo.

(c) CTE's cost of providing these services will be determined monthly as follows:

(i) The officers of CTE, who are also officers of CTCo., will keep a daily record of their hours worked for CTCo. and the general nature of the work performed for

CTCo., where practicable. Secretaries to the officers of CTE, who are also officers of CTCo., will not keep daily records of the hours worked for CTCo. In lieu thereof, there will be charged to CTCo. for each such secretary the same number of hours that were charged to CTCo. by the officer for whom that person is secretary.

(ii) When an employee of CTE, other than an officer of CTE or his or her secretary whose time is covered by subparagraph 1(c)(i) hereof, does work for CTCo., that employee will keep a daily record of the hours worked for CTCo. and the general nature of the work performed for CTCo., where practicable.

(iii) The hours charged on the daily records to CTCo. by each officer and employee of CTE and the hours for the secretaries will be multiplied by the respective employee's loaded labor rate, as defined in subparagraph 1(d), and then totaled to determine CTE's cost of providing services to CTCo. for the month under consideration.

(d) For purposes of this Agreement, an employee's loaded labor rate shall be an employee's basic hourly rate plus an amount determined by applying to the basic hourly rate, a factor to cover loadings for FICA; State Unemployment Compensation; Federal Unemployment Compensation; Workers Compensation Insurance; Public Liability Insurance; Blanket Catastrophy Insurance; Blue Cross/Blue Shield; Major Medical; Group Life Program; Long-Term Disability Insurance; Employee Dental Program; Pension Plan; non-productive employee costs; depreciation on or lease expenses associated with, building, office furniture and equipment; house services, utilities and office supplies.

For 1980, this factor will be 50 percent. On an annual basis, the factor will be recomputed and the new factor will be applied for the following year.

2. Accounting. CTCo.'s Accounting Department will prepare financial statements for CTE, reports to the Securities and Exchange Commission, and special reports and budgets. CTE will pay to CTCo. at the quarterly rate of \$2,000 for providing such services. If CTE requests CTCo. to prepare any special studies which

require the services of persons in CTCO.'s Accounting Department, a special record of the time spent on such special studies will be maintained and CTE will pay CTCO.'s costs of providing such services.

3. Materials and Supplies. If CTCO. orders any materials and supplies for CTE or if CTE uses any materials and supplies owned by CTCO., CTE will pay to CTCO. the costs of all said materials and supplies.

4. Office Space. If officers or other personnel of CTE use office space owned or leased by CTCO., CTE will pay to CTCO. the fair rental value of any space so used.

5. Personnel; Public Relations; and Other Miscellaneous Services. The personnel of CTCO. may, on occasion, provide or assist CTE in matters involving personnel, public relations, and other general services. CTE will pay to CTCO. at the quarterly rate of \$500 for any and all such services which it may receive, other than special projects which shall be governed by the terms of paragraph 6.

6. Special Projects. If any personnel of CTCO. perform special projects for CTE which are not otherwise covered by the terms of this Agreement, the employees of CTCO. performing such special projects for CTE shall keep a daily record of the hours spent for CTE, and the general nature of the work performed for CTE, where practicable. Quarterly, CTE will pay the costs to CTCO. of providing such services. Such costs will be determined by multiplying the hours worked by each CTCO. employee times that employee's loaded labor rate which shall be determined using the methodology set forth in subparagraph 1(d).

7. Reporting. CTE and CTCO. will take the appropriate steps to cause their officers and employees to keep accurate records of the time spent providing the services set forth in this Agreement.

8. Billing and Payments. CTE will bill CTCO. and CTCO. will bill CTE each month for services provided pursuant to the terms of this Agreement. CTE and CTCO. will pay their respective bills for services provided pursuant to the terms of this Agreement within a reasonable time after receipt thereof.

9. Miscellaneous.

(a) This Agreement shall be governed by the laws of the Commonwealth of Pennsylvania.

(b) In consideration of the approval of this Agreement by the Administrator of the Rural Electrification Administration

("Administrator"), the parties hereto agree that they will not enter into any amendment or rescission of this Agreement or of any provision thereof unless such amendment or rescission shall have been approved in writing by the Administrator.

(c) This Agreement shall become effective only upon approval thereof in writing by the Administrator and shall, from such effective date, continue in force until terminated by either party's giving six (6) months notice in writing of its desire to terminate this Agreement. The parties hereto agree to terminate this Agreement when requested to do so by the Administrator.

(d) Neither party shall have the right to assign this Agreement, except to the United States of America, without the consent in writing of the other party and of the Administrator. At the request of the Administrator this Agreement shall be assigned by CTCo. to the United States of America as additional security under any mortgage (deed of trust) and any amendments or supplements thereto heretofore or hereafter made by CTCo. to the United States of America (or a trustee) securing a loan or loans made to it by the United States of America.

(e) CTCo. and the Administrator, through authorized representatives, shall at all times during reasonable business hours have access to and the right to inspect and make copies of any or all books, records, and accounts, invoices, contracts, payrolls, canceled checks and other documents and papers of every kind which relate to the services performed hereunder for the purpose of verification of costs and procedures.

IN WITNESS WHEREOF AND INTENDING TO BE LEGALLY BOUND, the parties hereto have executed this Agreement this 16th day of October, 1980.

[Seal]

COMMONWEALTH TELEPHONE ENTERPRISES, INC.

Attest:

Raymond C. Parsons
SECRETARY

By [Signature]
PRESIDENT

[Seal]

COMMONWEALTH TELEPHONE COMPANY

Attest:

Raymond C. Parsons
SECRETARY

By [Signature]
PRESIDENT

SERVICES AGREEMENT

THIS IS A SERVICES AGREEMENT between COMMONWEALTH TELEPHONE COMPANY, a Pennsylvania corporation ("CTCo") and TEC Air INCORPORATED, ("TEC AIR"). Both corporations are wholly-owned subsidiaries of C-TEC CORPORATION, ("C-TEC").

BACKGROUND

A. CTCo is an operating public utility which provides local exchange services within the Commonwealth of Pennsylvania to the Counties of Berks, Bradford, Bucks, Carbon, Chester, Columbia, Dauphin, Lackawanna, Lancaster, Lehigh, Luzerne, Lycoming, Monroe, Northampton, Schuylkill, Sullivan, Susquehanna, Tioga, Wyoming, and York.

B. TEC AIR primarily provides air transportation services to C-TEC and its subsidiaries for employees traveling on company business.

C. CTCo desires to acquire air transportation services which TEC AIR is in a position to provide. This Agreement sets forth terms and conditions pursuant to which such services shall be provided.

D. An original account of this Agreement is filed with the Pennsylvania Public Utility Commission ("PUC") and the Rural Electrification Administration ("REA").

NOW, THEREFORE, in consideration of the mutual agreements herein contained, and intending to be legally bound hereby, the parties hereby agree as follows:

1. Services Acquired by CTCo from TEC AIR. CTCo may, but shall not be obligated to acquire air transportation services as provided by TEC AIR in the ordinary course of its business:

1.1 Services: TEC AIR will provide qualified employees, including but not limited to a Chief Pilot and a Co-pilot, and equipment, specifically an aircraft and associated safety equipment, to perform services for CTCo under the following conditions:

1.1.1 Availability: TEC AIR's aircraft is available to all employees traveling on company business, dependent on the availability and cost effective use. All requests for use must be coordinated through the C-TEC Administrative Service department which will assist the employee

in determining the feasibility of corporate air travel as compared to commercial flight. Usage will not normally exceed 1,200 miles (one-way).

1.1.2 Executive Travel: Generally, no more than four corporate officers or group executive Vice Presidents shall travel on the aircraft at any one time.

1.1.3 Chief Pilot: The Chief Pilot shall have full authority and responsibility for the operation of the aircraft. This responsibility encompasses when and if the plane will fly, the route to be taken, the number of passengers, and the quantity of luggage.

1.2 Cost of Services: The cost of services to be provided by TEC AIR under this Agreement and payment therefore shall be as follows:

1.2.1 Direct Charges: The following categories of charges shall be billed directly to CTCO:

1.2.1.1 Expenses: All direct out-of-pocket costs and expenses attributable to services or materials provided hereunder shall be billed directly.

1.2.2 Books and Records: TEC AIR agrees to maintain and make available to CTCO for inspection all books, records, bills, accounts and other documents which describe or support the costs billed pursuant hereto.

2. Payment: Unless subject to applicable tariff or otherwise agreed in writing or as authorized by the provisions of this paragraph 2, as soon as practicable after the last day of each month, TEC AIR shall bill CTCO the costs of expenses as described under paragraph 1.2 hereof. Payment will be due within thirty (30) days of receipt.

3. Miscellaneous.

3.1 Effective Date: This Agreement shall be effective as of June 1, 1990 subject to approval by the PUC. If, at the end of thirty (30) days after filing of this Agreement with the PUC, no Order of Rejection has been entered, this Agreement shall be deemed, in fact and law, to have been approved by the PUC pursuant to 66 PA C.S.A. 2101(b). Once approved, this Agreement shall continue in full force and effect until terminated by the parties, pursuant to the provisions of paragraph 3.2 following.

3.2 Modification, Termination, Severance of Parties: This Agreement may be modified or changed only by written amendment signed by both parties, which amendment shall be effective upon PUC approval. Either party may terminate its obligations hereunder upon ninety (90) days written notice to the other. Each party shall remain liable to the other for all unpaid costs for services provided for or on its behalf, to the effective date of termination. Additionally, CTCo agrees to provide written notice of termination to the PUC within thirty (30) days of the effective date of same.

4. REA Approval of Agreement; Termination: In addition to the required approvals referred to in subparagraphs 3.1 and 3.2 hereof, the effectiveness of this Agreement shall be contingent upon written approval by the Administrator of the REA ("Administrator"). The parties agree to terminate this Agreement when requested to do so by the Administrator in accordance with the provisions of subparagraph 3.2 above.

4.1 Approval of Amendments; Rescission: In consideration of the approval of this Agreement by the Administrator, the parties agree that they will not enter into any amendment or rescission of this Agreement or of any provision thereof unless such amendment or rescission shall have been approved in writing by the Administrator, and wherever this Agreement provides for an agreement between the parties, such agreement shall be subject to the approval of the Administrator.

4.2 Default: The parties hereto agree that any default by any of the parties in performing this Agreement may be considered by the Administrator to be an event of default under the applicable party's Mortgage (deed of trust).

4.3 Successors and Assigns: Neither of the parties shall have the right to assign this Agreement, except to the United States of America, without the consent in writing of the other party and of the Administrator. Upon consent being obtained, this Agreement shall be binding upon and inure to the benefit of the successors and assigns of the parties hereto.

4.4 Parties' Rights Subordinate to Rights of USA: The rights of the parties under this Agreement shall be subject and subordinate to the rights of the United States of America under (i) loan contract and any other agreements which may thereafter be entered into between CTCo and the United States of America with respect to loans, and (ii) any mortgage (deed of trust) and any amendments or supplements thereto heretofore or hereafter made by CTCo to the United

States of America (or a trustee) for the purpose of securing a loan or loans.

4.5 Rights and Benefits Accrue to Benefit of USA: All of the rights herein conferred upon the parties to this Agreement and every promise herein made for their benefit shall, in addition to the rights herein directly conferred upon the United States of America and every promise made for its benefit, accrue also to the benefit of the United States of America and be enforceable by the Administrator.

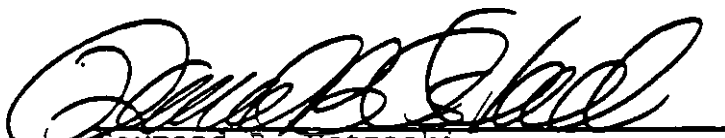
5. Retention of Records:

5.1 By TEC AIR: TEC AIR will maintain accurate information and records relative all amounts billable to and payments made by CTCo hereunder, in accordance with generally accepted accounting practices. TEC AIR shall retain such records for services covered by this Agreement for a period of three (3) years from the date payment by CTCo.

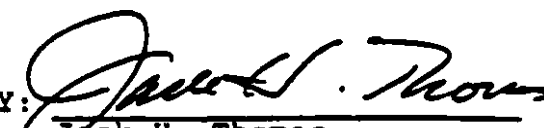
5.2 Inspection of Records: Upon request of CTCo, TEC AIR will make the information and records required by paragraph 5.1 hereof available to CTCo for inspection. Further, TEC AIR shall furnish to CTCo all reasonable information required by CTCo, or any government authorities having jurisdiction over CTCo with respect to such sales.

IN WITNESS WHEREOF, CTCo and TEC AIR have caused this Agreement to be executed as of the 26th day of April, 1990.

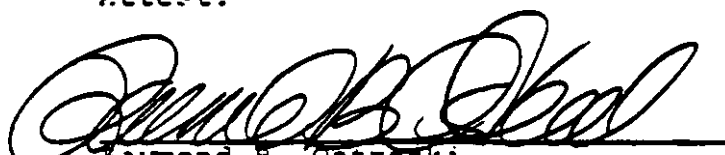
(Seal)
Attest:


Raymond B. Ostroski
Secretary

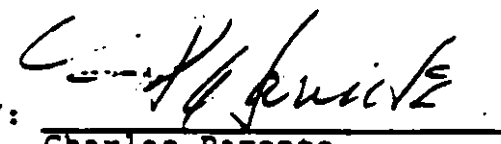
COMMONWEALTH TELEPHONE COMPANY

BY: 
Jack H. Thomas
Executive Vice President

(Seal)
Attest:


Raymond E. Ostroski
Secretary

TEC AIR, INCORPORATED

BY: 
Charles Parente
President

CERTIFICATE

I, Raymond B. Ostroski, Secretary of COMMONWEALTH TELEPHONE COMPANY, ("the Company"), hereby certify that attached hereto is a true and correct copy of a Services Agreement between the Company and TEC AIR INCORPORATED, which has been duly adopted by the Board of Directors of the Company on April 26., 1990.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed seal of the Company this 26th day of April, 1990.


Raymond B. Ostroski, Secretary

(Corporate Seal)

CERTIFICATE

I, Raymond B. Ostroski, TEC AIR, INCORPORATED, ("the Company"), hereby certify that attached hereto is a true and correct copy of a Services Agreement between the Company and COMMONWEALTH TELEPHONE COMPANY, which has been duly adopted by the Board of Directors of the Company on April 26,, 1990.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed seal of the Company this 26th day of April, 1990.


Raymond B. Ostroski, Secretary

(Corporate Seal)

AFFILIATED INTEREST AGREEMENT
between
COMMONWEALTH TELEPHONE COMPANY
and
COMMONWEALTH COMMUNICATIONS, INC.

This is an Affiliated Interest Agreement ("Agreement"), made as of the 23rd day of July, 1992, by and between COMMONWEALTH TELEPHONE COMPANY ("CTCo"), a Pennsylvania corporation and COMMONWEALTH COMMUNICATIONS, INC. ("CCI"), a Pennsylvania corporation, formerly Commonwealth Telephone Technologies Corporation, formerly Communications Technology and Services Corporation. Both CTCo and CCI are wholly owned subsidiaries of C-TEC Corporation.

BACKGROUND

A. CTCo is an operating local exchange carrier providing communications services, principally local exchange services, within the Commonwealth of Pennsylvania to the Counties of Berks, Bradford, Bucks, Carbon, Chester, Columbia, Dauphin, Lackawanna, Lancaster, Lehigh, Luzerne, Lycoming, Monroe, Northampton, Schuylkill, Sullivan, Susquehanna, Tioga, Wyoming, and York. CTCo was incorporated in Pennsylvania on September 27, 1950.

B. CCI, which may be considered an affiliate of CTCo pursuant to 66 PA C.S.A. 2101, provides business telecommunications, installation, repair and maintenance of same, facilities and network management, and engineering and consulting services throughout the United States, Canada, and abroad. CCI was originally incorporated in Pennsylvania on May 18, 1978 under the name of Communications Technology and Services Corporation. The name was changed on July 9, 1979 to Commonwealth Telephone Technologies Corporation. A second name change occurred on June 13, 1984 to Commonwealth Communications, Inc.

C. C-TEC was incorporated in Pennsylvania on March 2, 1979 under the name of Commonwealth Telephone Enterprises, Inc. The name was changed to C-TEC Corporation on April 24, 1986.

D. In an effort to achieve maximum efficiency, avoid duplicate staff, and yield the greatest possible expertise in a cost effective manner, CTCo contracts CCI to perform certain

services and functions for and on behalf of CTCo. In addition, CTCo produces services and functions of a type which may be desired by CCI. This Agreement sets forth the services and functions which may be performed or purchased by the parties for each other, and the terms and conditions pursuant to which such services and functions are to be provided.

E. This Agreement supersedes certain agreements currently on file with the Pennsylvania Public Utility Commission ("PUC") and the Rural Electrification Administration ("REA"), listed here and attached as Exhibit A and Exhibit B, hereto:

- (i) Agreement between Commonwealth Telephone Company and Communications Technology and Services Corporation, dated April 1, 1979
PUC Docket No. G-79030060

- (ii) Agreement between Commonwealth Telephone Company and Commonwealth Telephone Technologies Corporation, dated October 16, 1980
PUC Docket No. G-80100111

NOW, THEREFORE, in consideration of the mutual agreements herein contained, and intending to be legally bound hereby, the parties hereby agree as follows:

1. Services and Functions Provided by CTCo to CCI.
CTCo may, but shall not be obliged, provide to CCI such services and functions as CTCo provides to third parties in the ordinary course of its business:

1.1 Services and Functions: CTCo will provide qualified employees to perform services for and on behalf of CCI, including without limitation, central office, splicing, outside plant functions, and such other services related to telephone systems. CTCo will provide real and personal property, including without limitation, office space, office equipment, and vehicles to CCI as needed and on an as available basis.

1.1.1 Other Services: CTCo may provide such other services as may be requested from time to time by CCI and which CTCo is capable of performing.

1.2 No Detrimental Services: CTCo shall be under no obligation to provide to CCI any facilities, employees, or other resources, or services that may be detrimental to the operation of CTCo.

2. Cost of CTCo Services. The cost of services and functions provided by CTCo under this Agreement and payment therefore shall be as follows:

2.1 Direct Charges: The following categories of charges shall be billed directly to CCI:

2.1.1 Expenses: All direct, out-of-pocket costs and expenses attributable to services or materials provided hereunder shall be billed directly.

2.1.2 Personnel: Employees of CTCo shall maintain daily time records to document services provided to CCI. Each employee's time so expended shall be charged as follows:

(a) For all regular hours worked by employees, an amount equal to the employee's basic hourly rate plus an amount determined by applying to the basic hourly rate a factor to cover loadings for FICA, State Unemployment Compensation, Federal Unemployment Compensation, Workers Compensation Insurance, Medical Benefits, Major Medical, Group Life Program, Long-Term Disability Insurance, Employee Dental Program, qualified employee benefit plans, the costs of nonproductive time (i.e. holidays, vacation days, sick time, etc.), depreciation on or lease expenses associated with building, office furniture and equipment, house services, utilities, office supplies, and out-of-pocket expenses (i.e., dues, subscriptions, etc.) and technical training. For purposes of this Agreement, this amount shall be the employee's "Loaded Labor Rate." The Loaded Labor Rate for each employee is subject to periodic change without notice. Loaded Labor Rates shall be made available to CCI upon request.

(b) For all overtime hours worked by non-salaried employees, an amount equal to the Loaded Labor Rate, which shall include additional payroll and benefit costs due to overtime, multiplied by the number of overtime hours.

(c) For all salaried employees, Loaded Labor Rates shall be adjusted by a factor for unpaid overtime hours.

2.1.3 Determination of Equipment Costs: CTCo costs and expenses will also include appropriate charges for the use and operation of the equipment utilized to perform services for CCI.

(a) Equipment charges will be determined as follows: CTCO shall maintain a daily record of the hours that the equipment is used to provide services to CCI. The hours of usage will then be multiplied by an appropriate factor to cover equipment leasing costs or monthly depreciation expense, as the case may be, as well as appropriate employee costs and certain other expenses related to the operation of the equipment.

2.1.4 Personal Property: Rates for usage of personal property shall be established based upon the expense of acquisition, operation, and maintenance. Any other services susceptible to direct chargeback shall be billed at the full cost of providing such services.

2.1.5 Profit Margin: In addition to the Direct Charges as defined in paragraph 2.1 aforementioned, CTCO has the right to establish an appropriate margin for services rendered from time-to-time.

2.1.6 Rate of Return: CTCO shall be permitted to earn its authorized rate of return on real or personal property, as currently authorized or established by the PUC on CTCO's rate base.

3. Services and Functions Provided by CCI to CTCO. CCI will provide qualified employees to perform services and functions for and on behalf of CTCO, including without limitation, administrative services, data analysis, splicing, central office, and outside plant functions, and other such services related to communications systems as needed and on an as available basis.

4. Cost of CCI Services and Functions. The cost of services and functions to be provided by CCI under this Agreement shall be computed according to the methodology set forth in paragraph 2, including all subparagraphs, hereof.

5. Payment. Unless subject to applicable tariff or otherwise agreed to in writing or as authorized by the provisions of this paragraph 5, as soon as practicable after the last day of each month, each party shall bill the other for the cost of services and functions described in this Agreement. Bills shall be paid within 30 days of receipt.

6. No Obligations to Provide or Obtain Services and Functions. Neither party is obligated to conduct business exclusively with the other; i.e. each party is at liberty to

provide such services and functions to other customers and each party may continue to obtain such services and functions from other vendors.

7. Retention of Records.

7.1 Accurate Records: Both parties will maintain accurate information and records relative to all amounts billable to and payments made by the other party hereunder, in accordance with generally accepted accounting practices for a period of three (3) years from the date of payment.

7.2 Inspection of Records: Upon request, each party will make the information and records required by paragraph 7.1 hereof available to the other party for inspection. Further, each party shall furnish to the other party all reasonable information required by the other party, or any government authorities having jurisdiction thereof with respect to such transactions. Each party hereby agrees that it will make no disclosure of confidential information under this paragraph 7.2 without prior written consent of the other party.

8. Miscellaneous.

8.1 Effective Date: This Agreement shall be effective as of July 23, 1992, subject to approval by the PUC. If, at the end of 30 days after the filing of this Agreement with the PUC, no Order of Rejection has been entered, this Agreement shall be deemed, in fact and law, to have been approved by the PUC pursuant to 66 Pa. C.S.A. 2102(b). Once approved, this Agreement shall continue in full force and effect until terminated or modified by the parties, pursuant to the provisions of paragraph 8.2 hereof.

8.2 Modification; Termination, Severance of Parties: This Agreement may be modified or changed only by written amendment signed by both parties, which amendment shall be effective upon PUC approval. Either party may terminate its obligations hereunder upon ninety (90) days written notice to the other. In the event of termination, each party shall remain liable to the other party for all unpaid costs for services or facilities provided, to the effective date of termination. Additionally, CTCo agrees to provide written notice of termination to the PUC within 30 days of the effective date of same.

9. REA Approval of Agreement; Termination. In addition to the required approvals referred to in paragraphs 8.1 and 8.2 hereof, the effectiveness of this Agreement shall be contingent

upon written approval by the Administrator of the REA ("Administrator"). The parties agree to terminate this Agreement when requested to do so by the Administrator in accordance with the provisions of paragraph 8.2 above.

9.1 Approval of Amendments; Rescission: In consideration of the approval of this Agreement by the Administrator, the parties agree that they will not enter into any amendment or rescission of this Agreement or of any provision thereof unless such amendment or rescission shall have been approved in writing by the Administrator, and wherever this Agreement provides for an agreement between the parties, such agreement shall be subject to the approval of the Administrator.

9.2 Default: The parties hereto agree that any default by any of the parties in performing this Agreement may be considered by the Administrator to be an "event of default" under the applicable party's Mortgage (deed of trust).

9.3 Successors and Assigns: Neither of the parties shall have the right to assign this Agreement, except to the United States of America, without the consent in writing of the other party and of the Administrator. Upon consent being obtained, this Agreement shall be binding upon and inure to the benefit of the successors and assigns of the parties hereto.

9.4 Parties' Rights Subordinate to Rights of USA: The rights of the parties under this Agreement shall be subject and subordinate to the rights of the United States of America under (i) loan contract and any other agreements which may thereafter be entered into between CTCo and the United States of America with respect to loans, and (ii) any mortgage (deed of trust) and any amendments or supplements thereto heretofore or hereafter made by CTCo to the United States of America (or a trustee) for the purpose of securing a loan or loans.

9.5 Rights and Benefits Accrue to Benefit of USA: All of the rights herein conferred upon the parties to this Agreement and every promise herein made for their benefit shall, in addition to the rights herein directly conferred upon the United States of America and every promise made for its benefit, accrue also to the benefit of the United States of America and be enforceable by the Administrator.

10. Governing Law. This Agreement shall be governed, construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania.

11. Assignment. This Agreement shall inure to the benefit of the successors and assigns of the parties.

12. Required Provisions. Any provisions required to be included in a contract of this type by any applicable and valid federal, state or local law, ordinance, rule or regulation shall be deemed to be incorporated herein.

13. Entire Agreement. This contract contains the entire agreement between the parties relating to the subject matter hereof. No terms of conditions other than those stated herein, and no agreement or understanding, oral or written, in any way purporting to modify the terms and conditions of this Agreement, shall be binding on any party unless hereafter made in writing signed by an authorized representative of each party.

14. PUC Approval. This Agreement is subject to the approval of the PUC.

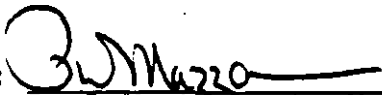
IN WITNESS WHEREOF, CTCo and CCI have caused this Agreement to be executed as of the 23rd day of July, 1992.

(Seal)
Attest:

COMMONWEALTH TELEPHONE COMPANY



Thelma J. Marshall
Assistant Secretary

BY: 

Paul W. Mazza
Executive Vice President

(Seal)
Attest:

COMMONWEALTH COMMUNICATIONS, INC.



Thelma J. Marshall
Assistant Secretary

BY: 

John C. Balan
Executive Vice President

CERTIFICATE

I, Thelma J. Marshall, Assistant Secretary of Commonwealth Telephone Company, ("the Company"), hereby certify that attached hereto is a true and correct copy of an Affiliated Interest Agreement between the Company and Commonwealth Communications, Inc., which has been duly adopted by the Board of Directors of the Company on July 23, 1992.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed seal of the Company this 23rd day of July, 1992.


Thelma J. Marshall, Assistant Secretary

(Corporate Seal)

CERTIFICATE

I, Thelma J. Marshall, Commonwealth Communications, Inc., ("the Company"), hereby certify that attached hereto is a true and correct copy of an Affiliated Interest Agreement between the Company and Commonwealth Telephone Company, which has been duly adopted by the Board of Directors of the Company on July 23, 1992.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed seal of the Company this 23rd day of July, 1992.


Thelma J. Marshall, Assistant Secretary

(Corporate Seal)

EXHIBIT A

Affiliated Interest Agreement
between
Commonwealth Telephone Company
and
Communications Technology and Services Corporation
dated April 1, 1979

Approved by the Pennsylvania Public Utility Commission
on April 22, 1979
at Docket No. G-79030060

Commonwealth Telephone Company was
incorporated in the state of Pennsylvania on
September 27, 1950.

Communications Technology and Services
Corporation was incorporated in the state of
Pennsylvania on May 18, 1978. The name was
changed to Commonwealth Telephone Technologies
Corporation on July 9, 1979. The name was
changed again on June 13, 1984 to Commonwealth
Communications, Inc.

MANAGEMENT SERVICES AGREEMENT
between
Commonwealth Telephone Company
and
Communications Technology and Services Corporation

This is an Agreement dated as of April 1, 1979 between COMMONWEALTH TELEPHONE COMPANY, a Pennsylvania corporation ("CTCO.") and COMMUNICATIONS TECHNOLOGY AND SERVICES CORPORATION, a Pennsylvania corporation ("CTSC").

Background

CTCo. is an operating public utility providing communications services, principally local and long distance telephone service, to suburban and rural communities in Pennsylvania. CTSC is a wholly-owned subsidiary of CTCo. which is engaged primarily in the business of providing technical, management, engineering, accounting, and related services, to companies in the communications industry and providing communications consulting services to other companies. The officers and employees of CTCo. are experienced in the conduct, management, financing, accounting, engineering and operation of the telephone business and of telephone property and are qualified to be of substantial assistance to CTSC through the services to be performed under this Agreement. Because of the experience of CTCo.'s personnel, CTCo. can provide to CTSC administrative and technical services of superior quality at reasonable cost. The purpose of this Agreement is to set forth the services CTCo. can provide for CTSC and to provide a method

of determining cost to make sure that CTCO. is reimbursed in full for the costs of providing such services to CTSC.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, CTCO. and CTSC agree as follows:

1. To the extent requested by CTSC, CTCO. will
 - (a) provide CTSC with its executive officers,
 - (b) assist and advise CTSC with respect to corporate, legal, accounting, financial, tax, operating, organizational, marketing, insurance and related administrative matters, and
 - (c) make its employees available to assist CTSC in providing technical, management, engineering and accounting services to CTSC's customers.

2. (a) CTSC will reimburse CTCO. for the cost of providing these services as follows:
 - (i) The officers of CTCO., who are designated and elected officers of CTSC, will keep a daily record of their hours worked and will indicate the hours worked for CTCO. and CTSC, and the general nature of the work performed for CTSC, where practicable.
 - (ii) When an employee of CTCO., other than an officer of CTCO. whose time is covered by subparagraph 2(a)(i) hereof, does work for CTSC, that employee shall keep, on the days the employee does work for CTCO. and CTSC, a daily record of the hours worked for CTCO. and CTSC, and the general nature of the work performed for CTSC, where practicable.

(iii) Monthly, CTCO.'s accounts will be credited and CTSC will be charged for the cost to CTCO. of the work performed by CTCO. officers and employees for CTSC. The amount of the credit to CTCO.'s accounts and the amount charged to CTSC for each officer and employee will be determined by multiplying the hours worked by each CTCO. employee for CTSC times that officer or employee's loaded labor rate.

(b) For purposes of this Agreement, an employee's loaded labor rate shall be an employee's basic hourly rate (exclusive of bonus and incentive compensation) plus an amount determined by applying to the basic hourly rate, a factor to cover loadings for FICA, State Unemployment Compensation, Federal Unemployment Compensation, Workers Compensation Insurance, Public Liability Insurance, Blanket Catastrophy Insurance, Blue Cross/Blue Shield, Major Medical, Group Life Insurance, Long-term Disability Insurance, Employee Dental Program, Pension Plan, non-productive employee costs, depreciation on, and lease expenses associated with, buildings, office furniture and equipment, data processing equipment, house services, utilities and office supplies.

For 1979, this factor will be 57 percent. On an annual basis, the factor will be recomputed and the new factor will be applied for the following year.

(c) In addition, CTCO.'s accounts will be credited and CTSC will be charged on a monthly basis for all out-of-pocket expenses and motor vehicle expenses incurred by CTCO. on CTSC's behalf.

(d) CTCO. will take the appropriate steps to cause its hourly and salaried employees to keep accurate records of the time spent providing services to CTSC.

3. CTCO. may on occasion order materials and supplies for CTSC in which case CTSC will be responsible for paying all costs of said materials and supplies. If CTSC does not make payment for such materials and supplies directly to the suppliers, CTCO.'s accounts will be credited and CTSC will be charged on a monthly basis for the costs of supplies and materials CTCO. has paid for on CTSC's behalf.
4. This Agreement shall be effective as of April 1, 1979 and shall continue in force and effect until terminated by either of the parties upon ninety (90) days notice in writing.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed in their respective corporate names by their duly authorized officers and their corporate seals to be hereunto affixed and attested to be their corporate secretaries, all as of the day, month and year first above written.

(Seal)

Attest:

Joseph M. Dool

COMMUNICATIONS TECHNOLOGY
AND SERVICES CORPORATION

By

D. P. [Signature]
Vice President

(Seal)

Attest:

R. L. Parsons

COMMONWEALTH TELEPHONE COMPANY

By

W. L. [Signature]
President

PA PUC V. COMMONWEALTH TELEPHONE COMPANY
DOCKET NO. I-00920020

OCA CROSS EXAMINATION EXHIBIT NO. 8

DATE ENTERED: 7/2/93

1/kg *jar*

**DOCUMENT
FOLDER**

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P.O. CONTROL DIV.

DOCKETED
JUL 16 1993

RESPONSE OF COMMONWEALTH TELEPHONE COMPANY
TO INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE, SET XV
PA PUC V. CTCO
PA PUC DOCKET NO. I-00920020

22. Please explain the reason for the annual variance in regulated advertising as presented on the response to OCA Set I, Question 15.

ANSWER: Said annual variance is the result of fluctuations in advertising expenditures during these periods.

PREPARED BY: DON CAWLEY

PA PUC V. COMMONWEALTH TELEPHONE COMPANY
DOCKET NO. I-00920020

OCA CROSS EXAMINATION EXHIBIT NO. 9

DATE ENTERED: 7/2/93

1/6/93

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INFO. CONTROL DIV.

**DOCUMENT
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RESPONSE OF COMMONWEALTH TELEPHONE COMPANY
TO INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE, SET XII
PA PUC V. CTCO
PA PUC DOCKET NO. I-00920020

5. Please provide the detailed review of the affiliate transaction of CTCO discussed by CTCO witness Mazza in CTCO's Statement No. 4, page 9, lines 19-25. Please provide this material for 1989, 1990, 1991, 1992 and 1993 if available.

ANSWER: See Exhibit OCA Set XII, Question 5

PREPARED BY: DON CAWLEY

DCA Set XII
QUESTION #5

INTERNAL AUDIT REPORT

1989 C-TEC AFFILIATE TRANSACTIONS AUDIT

June , 1991

INTRODUCTION

C-TEC's Internal Audit Department performed an audit of C-TEC's affiliate transactions. The primary purpose was to determine if C-TEC's charges to its subsidiary companies were accurate, based on reasonable methods and in compliance with the Affiliate Agreement filed with the PA. PUC. This audit complies with the PUC recommendation that the Internal Audit Department should conduct a detailed review of the affiliate transactions of CTCo and satisfies the PUC's recommendation for a pro-active Audit Committee with respect to affiliate charges.

The audit included:

- An analysis of expenses retained by C-TEC,
- A analysis of direct charges from C-TEC to its affiliates,
- A review of exception time reporting,
- An examination of the labor system,
- An evaluation of the appropriateness of the chargeback methodologies used for all direct and residual costs charged to the various affiliates, and
- A follow-up on previous years recommendations.

In our opinion, except for FMIS Development charges, the charges in the accompanying Statement of Combined Charges to Affiliates (Exhibit 1) are fairly presented, in all material respects, in conformity with C-TEC's allocation methodology. Because of a lack of documentation, we were unable to conclude on the reasonableness of the FMIS charges allocated to the various subsidiaries.

BACKGROUND

Since its inception, C-TEC has charged its subsidiaries for the cost of maintaining and providing certain services. The current chargeback system can be segregated into three components:

- Direct Labor Charges
- Residual C-TEC Staff Charges
- Non-Labor Direct Charges

DIRECT LABOR CHARGES

Direct labor charges are based on time sheets. All C-TEC employees with the exception of C-TEC's executives and their secretaries are required to submit a time sheet to Corporate Accounting each week when they perform work for a subsidiary. The time sheets indicate the amount of hours, the activities performed and the company for which the activity was performed.

At the end of each month, the time sheet data is entered into an in-house developed automated system. The system prices out the labor hours utilizing payroll rates transferred to the system electronically from the Genesys Payroll System and a predetermined labor loading factor.

At month end, a series of reports are obtained from the system. The journal entry and intercompany bills are prepared from these reports. The reports are provided to each C-TEC responsibility center and to the applicable affiliate as back-up to the intercompany bill. The applicable intercompany accounts receivable is charged and the contra-expense account ("Management Fees Rebilled") for each applicable C-TEC responsibility center is credited. The direct labor charges are billed one month in arrears.

Beginning in September 1989 the FMIS Labor System replaced the previously developed in-house system. The functioning of the FMIS system yields similar reports as the previous system.

RESIDUAL C-TEC STAFF CHARGES

Residual staff charges are the total expenses incurred by C-TEC's various responsibility centers less expenses directly billed to the various affiliates. These charges are allocated to the affiliates based on an equally weighted average factor composed of the applicable affiliate's proportionate share to the total of the following three items:

- Expenses = Operating expenses - depreciation and amortization
- Assets = Total assets + accumulated depreciation - Net intangibles
- Full time equivalent employees

Residual charges are based on budget each month and then "trued-up" to actual in the next succeeding month, except for January which is based entirely on budgeted expenses and December which is based on December's actual expenses. Thus, February through November's residual charges are calculated for each responsibility center as follows:

- Current month's budgeted expenses less direct charges budgeted for that month

PLUS

- Prior month's actual expenses less prior months direct charges billed

MINUS

- Prior month's budgeted residual amounts.

The calculation of the residual amounts and the allocation of the amounts to the various affiliates is performed automatically by the FMIS system. In order to properly calculate the residual amounts the system requires that the direct charges be calculated first. After the direct charges are calculated, the system calculates the residual charges by responsibility center for each affiliate. At month end, an intercompany bill along with the supporting documentation is provided to each affiliate. The applicable intercompany accounts receivable is charged and the contra-expense account ("Management Fees Rebilled") is credited. In 1990, the contra-expense account was replaced by revenue accounts.

NON-LABOR DIRECT CHARGES

Non-labor direct charges included various other expenses incurred and paid for by C-TEC which are not expenses relative to C-TEC's performance of services to the affiliates but are directly chargeable to the affiliates or directly allocable to the affiliates. For example, all health insurance invoices are paid by C-TEC. C-TEC bills each affiliate for the cost of the insurance based on the actual specific employee cost. Thus CTCo is billed by C-TEC for the actual cost C-TEC incurs to acquire health insurance for CTCo employees. It should be noted that health insurance cost for C-TEC staff employees is a cost of providing services to C-TEC's affiliates and is recovered through the chargeback system.

The following table indicates the more significant non-labor direct expense items and the method of allocation.

TABLE 1

NON-LABOR DIRECT CHARGES

<u>EXPENSE</u>	<u>ALLOCATION METHOD</u>
Medical & Dental Insurance	Specific Employee Identification
Group Life Insurance	Specific Employee Identification
Long-Term Disability Insurance	Specific Employee Identification
401-K Contributions	Specific Employee Identification
Professional Liability Insurance	Specific Employee Identification
Property Insurance	Specific Covered Affiliates Property Values
General & Umbrella Liability Insurance	Specific Covered Affiliates Payroll Amounts
Worker's Compensation Insurance	Specific Covered Affiliates Payroll Amounts
Engineering Liability	Specific Covered Affiliates Sales Amounts
Other Insurances	Specific Covered Affiliates Applicable Basis
Fleet Insurance	Specific Covered Number of Vehicles
Management Physicals	Specific Employee Identification
External Audit & Tax Fees	Estimated Hours of Service Provided to Specific Affiliate
Travel Expenses	Specific Employee Identification
Relocation Expenses	Specific Employee Identification
Advertising Expenses	Specific Affiliate Provided Service
Temporary Help	Specific Affiliate Provided Service
Inside Training	Specific Employee Provided Training (Hours x Training Rate)
Stock Appreciation Rights	Specific Affiliate Executive Identification
Occupancy (Including Estimated Utilities, Etc.)	Specific Affiliate Square Footage (Sq. Ft. x Occupancy Rate)
Pension (Income) Expense	Specific Affiliate Eligible Employees.
Interest Expense (Income)	Average Monthly C-TEC Interest Rate x Specific Affiliates Average Daily Note Payable/Receivable to/from C-TEC

DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

RECOMMENDATION

1. Revise the current accounting procedure to thoroughly document the affiliate charges system. The procedure should address:
 - Automated residual calculation
 - Loaded labor rate calculation
 - Updating of residual factors and loaded labor rate
 - Periodic true-ups of the estimates used in calculating the various allocating factors.
 - Insurance billings
 - Other non-labor direct expenses

DISPOSITION

The accounting procedure to document the affiliate chargeback system was updated in 1990. The updated procedure does not address all of the above items. The procedure will be updated and made complete in the third quarter of 1991.

RECOMMENDATION

2. Consider revising the direct chargeback system to include all applicable staff group expenses in the loaded labor rate

DISPOSITION

Starting in 1989, executive salaries were excluded from the labor loading calculation. However from January through August of 1989, labor was only being loaded at 33% which did not include occupancy, G&A, or non-productive time expense. Beginning in September of 1989, the load increased to 70% which included all of the applicable expenses. In 1990, the loaded labor rate included all applicable staff group expenses.

RECOMMENDATION

3.
 - a) Strengthen the practices used to ensure that all applicable individuals file time sheets.
 - b) Establish practices to ensure that all time input into the direct chargeback system is appropriately priced.
 - c) Clarify the policy on which employee's time sheets need to be approved by their immediate supervisors.

DISPOSITION

Concerning the appropriate pricing of labor, the test results were unfavorable. The old labor system was in effect from January through August of 1989. The loading rate was 33%, an amount non-inclusive of all appropriate expenses. Beginning in September, C-TEC went up on the FMIS Labor System with a 70% loading factor. However, Internal Audit found that the FMIS System was not properly calculating all employees loaded labor rates. C-TEC's Accounting Department was aware of the miscalculations in August and requested the appropriate changes. However, Internal Audit's testing was conducted on November time sheets. Apparently the system was not corrected during the period August through November.

Although the clerk who inputs time sheets was never instructed to check for supervisory approval on time sheets, Internal Audit found very few cases where a time sheet was not signed by the immediate supervisor. However, Internal Audit did find that managers and some supervisors approve their own time sheets. Because of the inconsistency in the approvals, it seems as though the policy needs to be further clarified to all parties involved.

MANAGEMENT RESPONSE.

Currently an internal memo is being drafted and when finished will be forwarded to all C-TEC staff group managers re-addressing the direct chargeback system.

This memo will stress that it's the responsibility of each staff group manager to insure all applicable individuals file time sheets in his/her department.

Currently, the ratings are checked on an annual basis subsequent to new ratings being loaded into the system.

Although the audit test results were unfavorable concerning the appropriate pricing of labor in August through November of 1989, accounting checked the reports monthly for miscalculations and made manual journal entries for the correct amounts.

Although the programming problem which caused the rating error was corrected in January of 1991, C-TEC accounting will test sample the ratings on a quarterly basis.

Effective immediately, all non-exempt employees time sheets will require their immediate supervisors signatures. Exempt employees can sign their own time sheets. This policy can be modified by the individual department heads.

RECOMMENDATION

4. Require that the review of the direct chargeback system input by the person other than the inputter be evidenced in writing.

DISPOSITION

Labor reports are being reviewed and effective May 1990 the review is evidenced in writing.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

5. Reports of Intercompany Transactions are not being kept.

In order to begin an audit of C-TEC's Affiliate Transactions, it was necessary to first summarize all such transactions. Internal Audit did this by analyzing and summarizing C-TEC's intercompany receivable and payable accounts as shown in the 1989 general ledger. When conducting a 1989 audit of CTCo's intercompany transactions, CTCo Accounting provided Internal Audit with a summary of all transactions between CTCo and C-TEC. Therefore, Internal Audit attempted to agree the two summaries. The two did not agree and neither CTCo's nor C-TEC's Accounting Department could account for the variances.

In order to adequately track intercompany transactions, all company books should be reconciled and corrected on a quarterly basis. Without such a reconciliation, it would be difficult to comply in a timely manner with a request from PUC for such information. Further, without a reconciliation errors or duplications of transactions in some areas could go undetected and uncorrected.

RECOMMENDATION

On a quarterly basis reconcile and correct, if necessary, the intercompany transactions recorded on each company's books. Further, summarize the transactions in a manner that can be easily audited by the IRS, PUC or Internal Audit Department.

MANAGEMENT RESPONSE:

Effective with the January 1991 accounting period, a monthly detailed reconciliation of management fee revenues is performed. Also, C-TEC accounting is in the process of preparing a report which reflects all rebillings to affiliates.

In addition to the monthly reconciliation of receivable and payable balances with affiliates, C-TEC accounting also reconciles the receivable balances for insurances and benefits which are paid by check or wire transfers.

6. The three factor formula used to spread residual expenses is never true-up to actual or recalculated to determine if a material discrepancy exists between actual and budget.

Expenses that cannot be directly attributed to a subsidiary remain at C-TEC until they are billed to the subsidiaries based on the three factor formula. (See background - Residual C-TEC Staff Charges for further details.) The three factor formula is based upon budgeted numbers calculated in the previous year. (Example: 1989 budgeted numbers calculated in 1988). This formula is used throughout the entire next year. Management has decided to not true-up using actual numbers.

RECOMMENDATION

On a quarterly basis recalculate the residual spread using actual numbers and debit or credit the appropriate subsidiaries.

MANAGEMENT RESPONSE:

Starting in 1990 the three factor formula was recalculated on a semi-annual basis, however, management has decided not to true-up the residual spread and reallocate the amounts to the subsidiaries.

7. The Labor Loading is Based on Budgeting Numbers.

When the labor loading was changed to include all expenses, it was based on budgeted numbers. The load was never trued-up to the actual numbers.

On at least a quarterly basis the loading should be trued-up to actual with the new load taking effect the next month. When Internal Audit calculated the load based upon actual numbers, it equalled 59.626% as opposed to 69.596% calculated by C-TEC Accounting.

RECOMMENDATION

On at least a quarterly basis, recalculate the labor loading based on actual numbers and apply the new rate the following month.

MANAGEMENT RESPONSE:

Labor loadings will continue to be based on budgeted numbers.

Starting with the end of the second quarter of 1991, the loading rate will be tested on a quarterly basis. Any material change in the labor loading percentage will be used to determine whether the rate should be adjusted on a perspective basis.

8. Training is billed out at an unsubstantiated rate of \$25 per hour.

Presently, training is being billed at \$25 per hour with the rest of the training department's expenses being billed through the residual. By not using total department expenses, it is impossible for C-TEC as a whole to determine if outside training would or would not be more cost beneficial to the company. Because of this, C-TEC may be utilizing internal training rather than less costly external training.

When Internal Audit recalculated the training rate based on total actual department expenses, it came to \$47.55 per hour. This is almost double the rate in use.

RECOMMENDATION

On a quarterly basis determine the training rate based on total actual department expenses.

MANAGEMENT RESPONSE:

The internal training rate of \$25.00 is currently under review and will be addressed prior to the completion of the 1992 budget process.

9. No support exists for the distribution of Coopers & Lybrand bills.

In 1989 all Coopers & Lybrand bills associated with the year-end financial statement audit were directly charged to the subsidiary companies based upon the following spread:

C-TEC	- 23%
CTCo	- 49%
Cable	- 17%
ISG	- 2%
Mobile	- 2%
CSG	- 7%

Internal Audit calculated what the Coopers & Lybrand charges would be, based on actual C. & L. audit hours. The result was:

C-TEC	- 59%
CTCo	- 36%
Cable	- 5%

The C-TEC portion would then be spread to the subsidiaries based on the residual factors.

RECOMMENDATION

Allocate the Coopers & Lybrand fees based on actual audit hours applicable to the specific subsidiary with the C-TEC portion charged through the residual in the ordinary manner. Further, if a bill is for a specific subsidiary, exclude those hours and amounts from the allocation and bill the applicable subsidiary directly.

MANAGEMENT RESPONSE:

Although the support for the distribution of Coopers & Lybrand's 1989 charges was misplaced, current charges are distributed based on the budgeted audit hours provided by Coopers & Lybrand. In addition, in 1990 audit charges for separate company statements are billed directly to the applicable subsidiary.

10. The affiliate agreement between C-TEC and CTCO is not strictly adhered to.

Currently C-TEC is calculating the residual factor as shown on page 4. It includes the subtraction of net intangibles from total assets. Internal Audit agrees with C-TEC's method. Since we have had numerous recent acquisitions, all of which include goodwill, the inclusion of net intangibles would not yield a accurate distribution of residual fees.

Even though the exclusion of net intangibles appears reasonable, it is not in compliance with the PUC agreement. In order to avoid the possibility of a PUC comment concerning this, it's advisable that the agreement be altered.

RECOMMENDATION

Modify the affiliate agreement to exclude intangibles from the asset factor.

MANAGEMENT RESPONSE:

Although the affiliate agreement between C-TEC and CTCo states that the residual factor calculation should be based upon gross assets versus the current method of excluding net intangibles, management has no plans of altering and refiling this agreement with the PUC at this time.

EXHIBIT :

COMBINED CHARGES TO AFFILIATES BY PARENT CTEC

BILLING TYPE	CTCO	SOFTWARE PRODUCTS DIVISION	COMMUN. SERVICES GROUP	MOBILE SERVICES	TECH AIR	STERLING	CABLE	TOTAL
TAXES	6,536,772.00	89,461.00	235,543.00	55,134.00	0.00	13,488.00	223,408.04	7,153,806.04
DIRECT LABOR	137,331.11	31,452.40	56,975.46	68,674.11	426.96	2,591.98	99,965.56	397,417.12
STOCK APPRECIATION RIGHTS	2,185,859.18	48,085.00	270,164.00	99,323.47	0.00	0.00	395,233.68	2,908,655.33
BONUSES	54,996.00	0.00	0.00	24,000.00	0.00	0.00	33,828.00	112,824.00
DIRECT EXPENSES	473,782.53	33,285.05	54,421.59	384,393.21	54,335.69	1,147,373.48	542,244.89	2,689,836.34
RESIDUAL ALLOCATION	6,391,572.76	201,404.47	470,420.46	152,404.76	0.00	0.00	383,407.81	7,599,210.26
INSURANCES	3,709,323.62	109,438.38	656,946.77	160,685.15	0.00	0.00	615,823.05	5,252,216.87
PENSION INCOME	(559,432.75)	(7,165.12)	(72,604.20)	(4,143.00)	0.00	0.00	(20,871.12)	(664,216.14)
FMIS DEVELOPMENT CHARGES	161,238.08	9,186.62	36,746.58	9,186.62	0.00	0.00	36,746.55	253,104.23
TRAINING CHARGES	84,306.68	4,150.00	14,925.00	6,000.00	0.00	0.00	2,800.00	112,181.68
INTEREST CHARGES	0.00	29,194.98	54,762.21	85,260.21	0.00	22,951.40	1,117,403.24	1,309,572.84
OTHER CHARGES	323,428.29	6,194.90	56,800.03	28,508.66	64,502.39	0.00	212,131.61	691,565.88
TOTAL	19,499,177.50	554,687.68	1,835,100.90	1,069,427.19	119,265.04	1,186,404.86	3,642,121.31	27,906,184.48

PA PUC V. COMMONWEALTH TELEPHONE COMPANY
DOCKET NO. I-00920020

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RESPONSE OF COMMONWEALTH TELEPHONE COMPANY
TO INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE, SET VIII
PA PUC V. CTCO
PA PUC DOCKET NO. I-00920020

2. Please provide together with supporting numbers the calculation of the 3-factor allocation for the years 1989, 1990, 1991 and 1992 using actual data for each of the three factors. Instead of using budgeted numbers for the three factors, employees, expenses and gross assets, use actual data for employees, expenses and gross assets.
- a. For the years 1989, 1990, 1991 and 1992 provide together with supporting numbers the calculation of the 3-factors allocation using actual data as of the day December 31 of each year. Specifically, employees and gross assets should be spot figures and total expenses should be for the year ended December 31.
- b. For the years 1991 and 1992 provide together with supporting numbers and the calculation of the 3-factor allocation using actual data for each quarter. Specifically, provide quarterly calculations showing the spot figures for employees and gross assets for that quarter and indicating the total expenses as of the year ending that quarter.

ANSWER: a. No such analysis has been performed by the Company.
b. No such analysis has been performed by the Company.

PREPARED BY: DON CAWLEY

UPDATE TO QUESTION 6-29-93

See Exhibit OCA Set VIII, Question 2.

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C-TEC MANAGEMENT FEES
BASED ON ACTUAL 1989 DATA

	EXPENSES	ASSETS	EMPLOYEES	ALLOCATION
CTCO	47,186	353,236	754	0.6244
OTHER AFFILIATES	40,037	141,055	467	0.3756
	87,223	494,291	1,221	1

C-TEC MANAGEMENT FEES
BASED ON ACTUAL 1990 DATA

	EXPENSES	ASSETS	EMPLOYEES	ALLOCATION
CTCO	52,037	400,192	653	0.5333
OTHER AFFILIATES	71,453	195,188	637	0.4668
	123,490	595,380	1,290	1

**C-TEC MANAGEMENT FEES
 BASED ON ACTUAL 1ST QTR 1991 DATA**

	EXPENSES	ASSETS	EMPLOYEES	ALLOCATION
CTCO	52,137	408,898	655	0.5351
OTHER AFFILIATES	72,262	198,034	623	0.4649
	124,399	606,932	1,278	1

C-TEC MANAGEMENT FEES
BASED ON ACTUAL 2ND QTR 1991 DATA

	EXPENSES	ASSETS	EMPLOYEES	ALLOCATION
CTCO	52,571	405,843	656	0.5293
OTHER AFFILIATES	78,733	197,652	618	0.4708
	131,304	603,495	1,274	1

C-TEC MANAGEMENT FEES
BASED ON ACTUAL 3RD QTR 1991 DATA

	EXPENSES	ASSETS	EMPLOYEES	ALLOCATION
CTCO	53,118	435,821	628	0.5218
OTHER AFFILIATES	81,612	205,099	651	0.4782
	134,730	640,920	1,279	1

C-TEC MANAGEMENT FEES
BASED ON ACTUAL 1991 DATA

	EXPENSES	ASSETS	EMPLOYEES	ALLOCATION
CTCO	54,298	437,424	619	0.5232
OTHER AFFILIATES	84,247	205,043	627	0.4769
	138,545	642,467	1,246	1

C-TEC MANAGEMENT FEES
BASED ON ACTUAL 1ST QTR 1992 DATA

	EXPENSES	ASSETS	EMPLOYEES	ALLOCATION
CTCO	54,789	445,399	622	0.5261
OTHER AFFILIATES	85,049	202,316	625	0.4739
	139,838	647,715	1,247	1

C-TEC MANAGEMENT FEES
BASED ON ACTUAL 2ND QTR 1992 DATA

	EXPENSES	ASSETS	EMPLOYEES	ALLOCATION
CTCO	55,222	445,665	615	0.5192
OTHER AFFILIATES	86,344	209,277	648	0.4808
	141,566	654,942	1,263	1

C-TEC MANAGEMENT FEES
BASED ON ACTUAL 3RD QTR 1992 DATA

	EXPENSES	ASSETS	EMPLOYEES	ALLOCATION
CTCO	54,872	438,768	600	0.5068
OTHER AFFILIATES	90,865	218,048	661	0.4933
	145,737	656,816	1,261	1

C-TEC MANAGEMENT FEES
BASED ON ACTUAL 1992 DATA

	EXPENSES	ASSETS	EMPLOYEES	ALLOCATION
CTCO	53,722	446,511	602	0.4970
OTHER AFFILIATES	94,204	225,935	696	0.5030
	147,926	672,446	1,298	1

C-TEC MANAGEMENT FEES
BASED ON ACTUAL MAY 1993 DATA

	EXPENSES	ASSETS	EMPLOYEES	ALLOCATION
CTCO	24,627	463,033	598	0.4889
OTHER AFFILIATES	42,488	253,771	720	0.5111
	67,115	716,804	1,318	1

RESPONSE OF COMMONWEALTH TELEPHONE COMPANY
TO INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE, SET VIII
PA PUC V. CTCO
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7. For each of C-TEC's Corporate Officers indicated on the last page of its Annual Report for the years 1990, 1991 and 1992 and 1993, please indicate the amount of each officer's total compensation and the amount of that compensation that was expended to CTCO through parent management service fee allocation and indicate the CTCO accounts charged.

ANSWER: The total C-TEC Corporate Officer salaries were approximately \$3,251,000, \$7,863,000 and \$8,819,000 in 1990, 1991 and 1992, respectively. The amount of said compensation which was allocated to CTCO as parent management service fee was \$1,960,000, \$3,178,000, and \$3,668,000, in 1990, 1991 and 1992, respectively.

These costs were charged to Corporate operations executive, accounting and finance, legal and human resources accounts. Information applicable to 1993 compensation is not available.

PREPARED BY: DON CAWLEY

UPDATE TO QUESTION 6-29-93

See Exhibit OCA VIII-7 and 8

RESPONSE OF COMMONWEALTH TELEPHONE COMPANY
TO INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE, SET VIII
PA PUC V. CTCO
PA PUC DOCKET NO. I-00920020

8. Please indicate the portion and amount of parent corporate management service fees charged to CTCO's corporate executive expense that originates with the compensation of C-TEC employees for the years 1989, 1990, 1991 and 1992 and budgeted for 1993.

ANSWER: The amount of parent Corporate management service fees charged to CTCO's Corporate executive expense that originates with the compensation of C-TEC employees for the years 1989, 1990, 1991 and 1992 was approximately \$1,716,000, \$1,759,000, \$2,921,000 and \$3,392,000, respectively.

Information applicable to 1993 compensation is not available.

PREPARED BY: DON CAWLEY AND PAUL MAZZA

UPDATE TO QUESTION 6-29-93

See Exhibit OCA VIII-7 and 8

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	BASE SALARY	AUTO ALLOWANCE	TOTAL
A.J. SORDONI, III	442,000	17,000	459,000
W. B. SORDONI	225,000	17,000	242,000
C. E. PARENTE	625,000	17,000	642,000
J. H. THOMAS	220,000	10,600	230,600
J. E. BOGDAN	139,000	10,600	149,600
J.J. MENAPACE	125,000	10,600	135,600
R. B. OSTROSKI	92,000	10,600	102,600
	<u>1,868,000</u>	<u>93,400</u>	<u>1,961,400</u>
ADD: BUDGETED BONUS			2,311,080
OTHER BONUS			133,774
			<u>4,406,254</u>
CTCO ALLOCATION			50.38%
AMOUNT ALLOCATED TO CTCO THROUGH C-TEC MANAGEMENT FEES			<u>2,219,871</u>

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B. AMOUNT OF COMPENSATION OF C-TEC EMPLOYEES CHARGED TO
CTCO'S CORPORATE EXECUTIVE EXPENSE

	%	AMOUNT CHARGED TO CTCO	SALARIES, WAGES 1990	BONUSES 1990	SALARIES WAGES BONUSES 1992
1989	72.14%	1,715,779	258,891	1,033,881	145,831
1990	53.11%	1,758,810	1,281,668	1,543,600	236,389
1991	54.84%	2,920,948	1,187,067	2,908,112	227,249
1992	52.78%	3,092,472	1,095,340	4,558,234	248,433
BUDGETED 1993	50.38%	1,056,353	1,019,410	2,311,080	252,714
		11,744,368	4,972,176	14,242,907	1,110,596

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RESPONSE TO OCA INTERROGATORY

C-TEC CORPORATION

BASED ON 1993 DATA

<u>Executive Officer</u>	<u>1993 Total</u>
A.J. Sordoni, III	1,251,226
W.B. Sordoni	663,161
C.E. Parente	1,734,572
J.H. Thomas	549,236

PA PUC V. COMMONWEALTH TELEPHONE COMPANY
DOCKET NO. I-00920020

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RESPONSE OF COMMONWEALTH TELEPHONE COMPANY
TO INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE, SET XII
PA PUC V. CTCO
PA PUC DOCKET NO. I-00920020

11. Company witness Mazza indicates on page 23 of his testimony that Tec-Air total operating revenues were \$909,626 and after costs and expenses, Tec-Air lost \$1. In CTCO's accounting testimony schedule DPC-3, 3 of 6, CTCO indicates that it paid \$728,165 for aircraft expense in 1992. Please explain why CTCO pays for approximately 80% of Tec-Airs total costs.

ANSWER: CTCO does not pay 80% of total Tec-Air costs. See response provided to OCA Set VI, Question 6.

UPDATE TO QUESTION

11. Please provide the explanation requested. Please include Tec-Air's total costs and expenses for 1992 and 1993.

ANSWER:	Total Operating Revenues	\$909,626
	Less: Direct Flight Revenue	(96,760)
	Allocated Management Fees	<u>812,866</u>
	CTCO @ 52.76%	<u>428,868</u>
	Plus: Parent Management Fees	<u>500,791</u>
	TOTAL COMPANY EXPENSE	<u>\$929,659</u>
		=====

PREPARED BY: DON CAWLEY and PAUL MAZZA

PA PUC V. COMMONWEALTH TELEPHONE COMPANY
DOCKET NO. I-00920020

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CORPORATION

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
APRIL 22, 1993**

The Annual Meeting of Shareholders of C-TEC Corporation (the "Company") will be held at The Bernards Inn, 27 Mine Brook Road, Bernardsville, New Jersey, on Thursday, April 22, 1993 at 10:30 A.M., local time. In accordance with the By-Laws of the Company, the Board of Directors has determined to fix the size of the Board at seven members. The meeting will be held for the following purposes:

1. To elect two Directors to Class III to serve for a term of three years.
2. To act upon such other matters as may properly come before the meeting or any adjournment or postponement thereof.

Only shareholders of record at the close of business on March 1, 1993 will be entitled to vote at the meeting either in person or by proxy.

In order to insure that your shares are represented and are voted in accordance with your wishes, IT WILL BE APPRECIATED IF YOU WILL DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ACCOMPANYING ENVELOPE. You are cordially invited to attend the meeting and, if you do so, you may personally vote your shares regardless of whether you have signed a proxy.

RAYMOND B. OSTROSKI,
Secretary

Dated: March 17, 1993

C-TEC CORPORATION PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of C-TEC Corporation, a Pennsylvania corporation (the "Company"), to be used at the Annual Meeting of Shareholders of the Company to be held on Thursday, April 22, 1993 at 10:30 A.M., local time, at The Bernards Inn, 27 Mine Brook Road, Bernardsville, New Jersey, and at any adjournment or postponement thereof. Shares represented by properly executed proxies will be voted at the meeting. Where a direction is specified with regard to any of the proposals to be acted upon, the proxy will be voted in accordance with such direction. If no direction is specified, the proxy will be voted in accordance with the recommendations of the Board of Directors. Any proxy may be revoked at any time insofar as it has not been exercised. Shareholders may revoke proxies by written notice to the Company, or by delivery of a proxy bearing a later date, or by personally appearing at the meeting and casting a contrary vote. This proxy statement and the accompanying proxy are first being mailed to shareholders on or about March 17, 1993. The address of the Company's principal executive offices is 46 Public Square, P.O. Box 3000, Wilkes-Barre, PA 18703-3000.

The close of business on March 1, 1993 has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting and at any adjournment or postponement thereof. On February 1, 1993, there were outstanding 7,961,177 shares of Common Stock and 8,522,416 shares of Class B Common Stock of the Company. Shareholders will be entitled to one vote per share for Common Stock and fifteen votes per share for Class B Common Stock on all matters to be submitted at the meeting and are entitled to cumulative voting rights with respect to the election of Directors. Under cumulative voting, a shareholder's total vote (the number of shares held multiplied by the number of Directors to be elected) may be cast entirely for one candidate or distributed among two or more candidates. The persons named in the accompanying proxy may, at their discretion, cumulate the votes which they are authorized to cast. If a shareholder is a participant in the C-TEC Corporation Common-Wealth Builder Plan, the proxy card will indicate the number of shares held beneficially by the participant in the plan and the proxy card will serve as a voting instruction for the trustee of the plan.

ELECTION OF DIRECTORS

At the Annual Meeting, shareholders will elect two Directors to Class III to serve for a three-year term.

It is the intention of the persons named in the accompanying form of proxy, unless other directions are given, to vote their proxies at the meeting for the election of the persons named in the tabulation below to serve as Directors for the terms indicated and until their successors are duly elected and qualified. All nominees have consented to be named and to serve if elected. In case a person named in the tabulation is unable to serve (which is not anticipated), the proxyholders will vote for another nominee of their choice.

Nominees for election to Class III of the Board of Directors are as follows:

Class III

(To serve for a three-year term)

S.E. Graham
W.B. Sordoni

Information as of February 1, 1993 concerning the Directors whose terms will continue after the Annual Meeting and the above nominees is set forth below:

<u>Name</u>	<u>Age</u>	<u>Principal Occupation and Business Experience During Past Five Years; Directorships</u>	<u>Director Since</u>
S. E. Graham	47	Chairman, President and Chief Executive Officer, Sordoni Skanska Construction Co., Parsippany, NJ; President and Chief Executive Officer, Sordoni Construction Co., Parsippany, NJ	1990
F. M. Henry	59	President, Frank Martz Coach Company, Wilkes-Barre, Pa.; President, White Transit Co., Wilkes-Barre, Pa.; President, Gold Line, Inc., Tuxedo, Md. and Washington, D.C.; Member, Board of Commissioners, Pennsylvania Department of Transportation; Director, First Fidelity Bancorporation and Merchants Bank North	1980
C. E. Parente	52	President and Chief Executive Officer of the Company since January 1988; President, Commonwealth Telephone Company; Vice President, Evergreen Capital Corp., Forty Fort, Pa.; Vice President, Sordoni Enterprises, Inc., Forty Fort, Pa.; Director and President, Mercom, Inc., Wilkes-Barre, Pa.	1987
D. G. Reinhard	65	President and Chief Executive Officer, Pencor Services, Inc., Palmerton, Pa.; President and Chief Executive Officer, Blue Ridge Cable Television, Inc. and Blue Ridge CATV Inc., Palmerton, Pa.; President and Chief Executive Officer, Palmerton Telephone Company, Palmerton, Pa.	1991
E. Roth	57	Partner, Rosenn, Jenkins and Greenwald (Attorneys), Wilkes-Barre, Pa.; Director, Fidelity Bank and Merchants Bank, North	1989
A. J. Sordoni, III	49	Chairman of the Board of the Company; Chairman of the Board, Commonwealth Telephone Company; Chairman of the Board, Evergreen Capital Corp., Forty Fort, Pa.; Chairman of the Board, Sordoni Enterprises, Inc., Forty Fort, Pa.; Chairman of the Board, Whiteman Tower, Inc., Forty Fort, Pa.; Director, HARSCO Corporation, Camp Hill, Pa.; Director and Chairman, Mercom, Inc., Wilkes-Barre, Pa.	1979
W. B. Sordoni	48	Vice Chairman of the Company; Vice Chairman, Commonwealth Telephone Company; President, Evergreen Capital Corp.; Forty Fort, Pa.; President, Sordoni Enterprises, Inc., Forty Fort, Pa.; Vice Chairman, Whiteman Tower, Inc., Forty Fort, Pa.; Chairman, Enterprise Telcom Services, Inc., Blue Bell, Pa.; Director, Mercom, Inc., Wilkes-Barre, Pa.	1979

C. E. Parente and D. G. Reinhard are members of Class I with terms expiring in 1994 and F.M. Henry, E. Roth and A.J. Sordoni, III, are members of Class II with terms expiring in 1995.

Ownership of Stock

Security Ownership of Management

The following tables set forth certain information as of February 1, 1993 with respect to the beneficial ownership of the Common Stock and Class B Common Stock of the Company by the Directors, nominees and executive officers. If a Director or nominee owns less than one percent of the stock, no percentage is shown under the heading "Percent of Class." The "Total" columns are unlikely to represent the sum of the related columns because most forms of ownership require that the same shares be disclosed in two of the columns.

Because the shares of Class B Common Stock are convertible at the option of the holder into shares of Common Stock on a one-for-one basis at any time and from time to time, the "Assuming Conversion" columns in the Common Stock table reflect the effect of such conversion by showing the total shares of Common Stock which would be beneficially owned upon conversion by each individual or by the group as well as the related percentage of shares which would be beneficially owned by such individual or by the group assuming no other conversions. The "Percent of Class" columns represent ownership, not voting interest. Shares of Common Stock have one vote per share and shares of Class B Common Stock have 15 votes per share. In addition, shares of both classes can be voted cumulatively.

COMMON STOCK:

Directors/Executive Officers	Without Conversion					Assuming Conversion		
	Sole Voting Power	Sole Investment Power	Shared Voting Power	Shared Investment Power	Total	Percent of Class (Approx.)	Total	Percent of Class (Approx.)
COMMON STOCK:	Shares Outstanding	1/31/93	7,961,177					
Graham, S. E.	6	6	0	0	6		1,666	
Henry, F. M.	41,040	41,040	0	0	41,040		64,137	
Parente, C. E. (1)(2)	8,093	9,832	572,612	570,092	580,705	7.29%	5,528,368	42.83%
Reinhard, D. G.	0	0	1,000	1,000	1,000		1,000	
Roth, E.	0	0	0	0	0		3,996	
Sordoni, A. J. III (1)	6,284	7,065	496,914	416,589	503,198	6.32%	5,818,893	43.83%
Sordoni, W. B. (1)	794	794	496,914	416,589	497,708	6.25%	5,640,253	43.04%
Thomas, Jack H.	0	0	0	0	0	0.00%	7,500	
Mazza, Paul W.	0	0	0	0	0	0.00%	17,500	
Executive Officers	4,237	4,237	1,500	1,500	5,737		41,804	
All Directors, Nominees & Executive Officers as a Group (16 persons) (2) ...	60,454	62,974	575,112	572,592	635,566	7.98%	6,066,571	45.30%

CLASS B COMMON STOCK:

	Sole Voting Power	Sole Investment Power	Shared Voting Power	Shared Investment Power	Total	Percent of Class (Approx.)
CLASS B STOCK:	Shares Outstanding	1/31/93	8,522,416			
Graham, S. E. (3)	1,220	1,220	440	440	1,660	
Henry, F. M.	23,097	23,097	0	0	23,097	
Parente, C. E. (1)(3)	11,075	11,075	4,936,588	4,316,857	4,947,663	58.05%
Reinhard, D. G.	0	0	0	0	0	
Roth, E.	396	396	3,600	3,600	3,996	
Sordoni, A. J., III (1)(3) ...	2,405	155,905	5,313,290	4,576,286	5,315,695	62.37%
Sordoni, W. B. (1)(3)	1,526	67,916	5,141,019	4,404,015	5,142,545	60.34%
Thomas, Jack H.	0	0	7,500	7,500	7,500	
Mazza, Paul W.	0	0	17,500	17,500	17,500	
Executive Officers	2,333	2,333	33,734	33,734	36,067	
All Directors, Nominees & Executive Officers as a Group (16 persons) (3)(4)	42,052	261,942	5,388,953	4,829,063	5,431,005	63.73%

- (1) With respect to the shares of Common Stock and Class B Common Stock beneficially owned by C.E. Parente, A.J. Sordoni, III and W.B. Sordoni, reference should be made to the information concerning the "Control Group" set forth in the section entitled *Security Ownership of Certain Beneficial Owners*.
- (2) Includes 75,698 shares of Common Stock owned by C.E. Parente's wife and children, as to which he disclaims beneficial ownership.
- (3) Includes the following shares of Class B Common Stock owned by the wife and/or children of each of the following, as to which each disclaims beneficial ownership: S.E. Graham, 440 shares; C.E. Parente, 31,501 shares; A.J. Sordoni, III, 228,500 shares; W.B. Sordoni, 199,770 shares; and directors, nominees and officers as a group, 460,211 shares.
- (4) Includes an aggregate of 26,000 shares of Class B Common Stock which certain officers may acquire during the 60-day period beginning February 1, 1993 by exercising stock options outstanding under the Company's 1984 Stock Option and Stock Appreciation Rights Plan.

Security Ownership of Certain Beneficial Owners

The following table sets forth certain information with respect to the beneficial ownership of shares of Common Stock and Class B Common Stock of the Company by any person or group known to the Company to be a beneficial owner of more than five percent of either class of shares. The "Total" columns are unlikely to represent the sum of the related columns because most forms of ownership require that the same shares be disclosed in two of the columns.

Because the shares of Class B Common Stock are convertible at the option of the holder into shares of Common Stock on a one-for-one basis at any time and from time to time, the "Assuming Conversion" columns in the Common Stock table reflect the total shares of Common Stock which would be beneficially owned upon conversion by each group as well as the related percentage beneficially owned by such group assuming no other conversions. The "Percent of Class" columns represent ownership not voting interest. Shares of Common Stock have one vote per share and shares of Class B Common Stock have 15 votes per share. In addition, shares of both classes can be voted cumulatively. The 587,793 shares of Common Stock and 5,448,154 shares of Class B Common Stock beneficially owned by the Control Group on February 1, 1993 represent approximately 60.61% of the votes for the election of directors, assuming no votes are cumulatively cast and no conversion of shares of Class B Common Stock to shares of Common Stock.

COMMON STOCK:

	Without Conversion					Assuming Conversion		
	Sole Voting Power	Sole Investment Power	Shared Voting Power	Shared Investment Power	Total	Percent of Class (Approx.)	Total	Percent of Class (Approx.)
Mario J. Gabelli								
Group (1)	1,341,928	1,380,628	267,000	267,000	1,647,628	20.70%	2,495,447	28.33%
Control Group (2)	15,171	17,691	572,612	570,092	587,783	7.38%	6,035,937	45.01%
Capital Group (3)	100,000	617,000	0	0	617,000	7.75%	617,000	7.75%

CLASS B STOCK:

	Sole Voting Power	Sole Investment Power	Shared Voting Power	Shared Investment Power	Total	Percent of Class (Approx.)
Mario J. Gabelli						
Group (1)	769,319	800,819	47,000	47,000	847,819	9.95%
Control Group (2)	15,006	284,737	5,433,148	4,813,417	5,448,154	63.93%
Capital Group (3)	0	0	0	0	0	

- (1) Based on information obtained from Schedule 13Ds and amendments thereto for the Common Stock and the Class B Common Stock filed through January 19, 1993 with the Securities and Exchange Commission (the "SEC") by Mario J. Gabelli, together with GAMCO Investors, Inc., Gabelli Funds, Inc., Gabelli Performance Partnership, Gabelli International Limited and Gabelli & Co., all of whose address is One Corporate Center, Rye, New York 10580-1434.
- (2) The Control Group consists of A. J. Sordoni, III, W. B. Sordoni and S. Sordoni (the "Sordoni Brothers") and C. E. Parente. In addition to shares of Common Stock and Class B Common Stock owned directly by members of the Control Group, they, as a group, control, directly or indirectly, Evergreen Capital Corp., which in turn controls Sordoni Enterprises, Inc., Whiteman Tower, Inc. and Owen & Murray Partners. The beneficial ownership of each other member of the Control Group other than S. Sordoni is reflected under the section entitled *Security Ownership of Management*. As of February 1, 1993, S. Sordoni beneficially owned a total of 496,914 shares of Common Stock and 4,937,215 shares of Class B Common Stock as follows: Common Stock—shared voting power, 496,914 shares; shared investment power, 416,589 shares; and Class B Common Stock—sole investment power, 49,841 shares; shared voting power, 4,937,215 shares; shared investment power, 4,200,211 shares. These figures include 32,128 shares of Class B Common Stock owned by S. Sordoni's wife and children, as to which he disclaims beneficial ownership. The address of the Control Group is 45 Owen Street, Forty Fort, Pennsylvania 18704.

The Sordoni Brothers and C. E. Parente, through a partnership controlled by Mr. Parente, are parties to an Evergreen Capital Corp. shareholders' agreement, pursuant to which (a) the transfer of shares of Evergreen Capital Corp. is restricted and subject to certain rights of first refusal and, on the part of Evergreen Capital Corp., obligations to repurchase shares of Evergreen Capital Corp. on certain events including death, (b) the Sordoni Brothers and C. E. Parente, or such of them as are ready, willing and able to serve, will be elected to be the Board of Directors of Evergreen Capital Corp. and (c) the shares of Common Stock and Class B Common Stock of the Company owned by Evergreen Capital Corp. or its directly or indirectly owned subsidiaries (including Sordoni Enterprises, Inc., and Whiteman Tower, Inc.) shall be voted or caused to be voted as determined by the affirmative vote of a majority of the Evergreen Capital Corp. Board of Directors. As of February 1, 1993, Evergreen Capital Corp. and its subsidiaries owned 56,100 shares of Common Stock and 3,435,987 shares of Class B Common Stock.

A joint voting agreement dated as of February 28, 1991 among each of the Sordoni Brothers, C. E. Parente, Sordoni Enterprises, Inc., Whiteman Tower, Inc. and Owen & Murray Partners provides that shares of Common Stock and Class B Common Stock of the Company which from time to time the signatories have the sole power to vote or direct the vote (other than those shares held in an Individual Retirement Account or in a trust which forms part of a qualified retirement plan) shall be voted in unison as determined by the affirmative vote of a majority of the Evergreen Capital Corp. Board of Directors. The effect of the joint voting agreement is to add to the shares of Common Stock and Class B Common Stock covered by the above described voting arrangements under the shareholders' agreement 360,489 shares of Common Stock and 732,096 shares of Class B Common Stock owned by Owen & Murray Partners and shares of Common Stock and Class B Common Stock owned directly by each of the Sordoni Brothers and C. E. Parente, individually, and by C. E. Parente jointly with his spouse. The shares owned by Owen & Murray Partners had previously been voted by C. E. Parente as the managing general partner of Owen & Murray Partners. This joint voting agreement became effective on March 1, 1991 when a series of applications was granted by the Federal Communications Commission ("FCC") authorizing transfer of control (as defined by the FCC) of the Company to the signatories of the joint voting agreement.

Owen & Murray Partners have entered into a Credit Agreement dated as of February 1, 1991 with a commercial bank (the "Bank"), the identity of which has been filed separately with the

SEC, pursuant to which the Bank has provided the Owen & Murray Partners with a revolving principal credit line of \$17,000,000. The entire principal credit line was borrowed by Owen & Murray Partners on March 8, 1991 and used to refinance a portion of the indebtedness incurred by Owen & Murray Partners to Sordoni Enterprises, Inc. and others in connection with the purchase by Owen & Murray Partners of Common Stock and Class B Common Stock of the Company. The obligations of Owen & Murray Partners under the Credit Agreement are secured, among other things, by a pledge of all the shares of Common Stock and Class B Common Stock owned by Owen & Murray Partners and Whiteman Tower, Inc. as well as a guarantee by Evergreen Capital Corp. As of March 1, 1991 an aggregate of 416,589 shares of Common Stock and 4,168,083 shares of Class B Common Stock were pledged to the Bank as security for the obligations under the Credit Agreement.

The shares of Common Stock shown as beneficially owned by the Control Group include 75,698 shares owned by C. E. Parente's wife and children, as to which he disclaims beneficial ownership. The shares of Class B Common Stock shown as beneficially owned by the Control Group include 491,899 shares owned by the wife and/or children of members of the Control Group, as to which each disclaims beneficial ownership.

- (3) As of December 31, 1992, Capital Guardian Trust Company and Capital Research and Management Company, operating subsidiaries of The Capital Group, Inc., ("CG") exercised investment discretion with respect to the ownership of the Company's Common Stock by various institutional investors. No managed account by itself owns 5% or more of the Company's stock, but it is only as a result of the aggregation and attribution rules established by the SEC that the above disclosure was made pursuant to a Schedule 13G filed with the SEC by CG on February 11, 1993. The principal business address of The Capital Group, Inc. is 333 South Hope Street, Los Angeles, California 90071.

COMPENSATION COMMITTEE REPORT

Under rules established by the SEC, the Company is required to provide certain data and information in regard to the compensation and benefits provided to its five most highly compensated executive officers who are: A. J. Sordoni, III, Chairman; W. B. Sordoni, Vice Chairman; C. E. Parente, President and Chief Executive Officer; J. H. Thomas, Executive Vice President and Chief Operating Officer and P. W. Mazza, Executive Vice President of the Telephone Group ("Executive Officers"). The disclosure requirements for these Executive Officers include the use of tables and a report explaining the rationale and considerations that led to fundamental executive compensation decisions pertaining to those individuals. In fulfillment of this requirement, the Compensation Committee, consisting of E. Roth, Esquire, Chairman; C. J. Fitze and S. E. Graham, ("Compensation Committee") at the direction of the Board of Directors, has prepared the following report for inclusion in this Proxy Statement.

Compensation Philosophy

This report reflects the Company's compensation philosophy as endorsed by the Board of Directors and its Compensation Committee and resulting actions taken by the Company for the reporting periods shown in the various compensation tables supporting this report. The Compensation Committee recommends to the Board of Directors payment amounts and award levels for senior management of the Company and its subsidiaries. With regard to compensation actions pertaining to the Executive Officers, all of the members of the Board of Directors acted as the approving body except C. E. Parente, A. J. Sordoni, III and W. B. Sordoni who abstained from said action by the Board.

Essentially, the executive compensation program of the Company has been designed to:

- Provide compensation, consisting of base salary, short-term incentive compensation and long-term incentive compensation based upon factors which are designed to emphasize continued growth in revenues and operating cash flow because consistent growth in these factors is viewed to be the most significant contributor to enhanced long-term shareholder value;
- Motivate and encourage senior executives to be aggressive in expanding existing businesses as well as entering new telecommunications-related businesses for the purpose of enhancing the long-term shareholder value of the Company without concern for the impact such expansion will have on the short-term operating results of the Company or the possible negative impact such short-term results could have on their compensation;
- Support a pay-for-performance policy that differentiates compensation amounts based on corporate, business unit and individual performance;
- Motivate key senior executives to achieve strategic business objectives and reward them for their achievement;
- Provide compensation and growth opportunities which are comparable to those offered by other leading companies, thus allowing the Company to attract and retain talented executives.
- Provide reasonable compensation and benefits to enable key senior executives to concentrate their efforts on the Company's objective of enhancing long-term shareholder value rather than having their attention diverted from the Company's long-term objectives.

At present, the executive compensation program comprises base salary, annual cash incentive opportunities, long-term cash incentive opportunities, life insurance programs and other benefits typically offered to executives by major corporations. The granting of stock options has been a part of the executive compensation program in the past with the last grant made in 1987. Each year since 1988 stock options have been considered by the Compensation Committee as they were during 1992 but no options were granted.

As an executive's level of responsibility increases, a greater portion of their potential total compensation opportunity is based on performance incentives and less on base salary and benefits, causing greater potential variability in the individual's absolute compensation level from year-to-year.

Annual Compensation and Bonus for 1992

Effective February 1, 1992, the Board of Directors, acting on the recommendation of the Compensation Committee, increased the salaries paid to the Executive Officers. These increases were based upon the consideration of competitive data provided by the Company's Human Resources Department, the Committee's and the Board's assessment of the performance of the Executive Officers over the last year, recognition of the position tenure and internal comparability considerations.

Executive Officers were awarded, in February of 1993, cash bonus awards pursuant to the guidelines set forth in the 1992 Executive Short-Term Incentive Plan ("Short-Term Plan") and based upon a review of the performance of their particular operating or staff group as well as the Company's overall performance in 1992 in attaining strategic business initiatives, non-financial

objectives and financial objectives as set forth in the Short-Term Plan. The Short-Term Plan was adopted by the Board of Directors in early 1992 at the recommendation of the Compensation Committee. The Short-Term Plan contains specific criteria for measuring awards granted to Executive Officers of the Company, other than the Messrs. Sordoni and Parente. In determining the amount of bonus paid to C. E. Parente, A. J. Sordoni, III and W. B. Sordoni, the Board of Directors, upon the recommendation of the Compensation Committee, considered the performance measures listed above, that the Company had exceeded its revenue and cash flow expectations, and that the Company had exceeded other corporate goals and objectives during 1992. They also considered Mr. Parente's leadership qualities and his ability to build and motivate an effective senior management team to sustain the Company's achievement toward its long-term objectives. Another important consideration of the Board was the fact that the Company has been able to function effectively during the last few years with a smaller group of senior executives than were with the Company when Mr. Parente took over five years ago. At the same time, the Company has experienced continuing growth and expansion. This efficiency has resulted in correlating improvements in the Company's operating results over the same period of time. As to the bonuses paid to Messrs. Sordoni, the Compensation Committee considered their contributions to the combined effectiveness of the Senior Management group and their individual contributions to the overall success of the Company during 1992.

Long-Term Bonus

The long-term bonus is the result of the Company's Senior Management Long Term Incentive Plan ("Long-Term Plan") which commenced January 1, 1989 and which will terminate December 31, 1993. Payment under the Long-Term Plan is set up to take place at three different dates. The first bonus installment was paid to the Executive Officers based on performance through December 31, 1991, the second installment was based on performance through the end of 1992 while the third installment is based on performance through the end of 1993. The long-term bonus is premised upon the consolidated operations of the Company's businesses. The specific long-term payments to the Executive Officers are determined by a mathematical formula which relates actual operating results to predetermined objectives for the Company's consolidated operations for the years 1989 through 1993.

No member of the Compensation Committee is a former or current officer or employee of the Company or any of its subsidiaries.

Compensation Committee

E. Roth, Esquire, Chairman

C. J. Fitze

S. E. Graham

Cash Compensation

The following table sets forth the cash compensation paid to the Company's five most highly compensated executive officers over the last three fiscal years.

I. SUMMARY COMPENSATION TABLE

Name and Position	Year	Annual Compensation			Long Term Compensation			(C)(D) All Other Compensation (\$)
		Salary (\$)	(A) Bonus (\$)	(B)(C) Other Annual Comp. (\$)	Awards		Payouts	
					Restricted Stock (\$)	Options/ SARs (\$)	LTIP Payouts (\$)	
C. E. Parente	1992	587,885	342,000	-0-	-0-	-0-	1,230,434	69,084
President & Chief	1991	530,260	267,500				1,088,178	
Executive Officer	1990	485,985	270,000				-0-	
A. J. Sordoni, III	1992	430,385	250,000	-0-	-0-	-0-	903,380	41,699
Chairman of	1991	390,565	197,000				802,098	
the Board	1990	358,396	200,000				-0-	
W. B. Sordoni	1992	218,769	127,000	-0-	-0-	-0-	459,173	38,000
Vice Chairman	1991	198,291	100,000				407,595	
	1990	182,238	102,000				-0-	
J. H. Thomas	1992	222,115	75,000	-0-	-0-	-0-	467,901	6,249
Executive Vice	1991	203,327	65,000				417,526	
President & Chief								
Operating Officer	1990	187,308	46,000				-0-	
P. W. Mazza	1992	144,231	40,000	-0-	-0-	-0-	299,427	5,555
Executive Vice	1991	128,885	47,000				262,072	
President—	1990	108,777	24,000				-0-	
Telephone Group								

- (A) Senior managers of the Company are eligible for incentive compensation awards under the Company's Short-term Incentive Plan (the "Incentive Plan"), whereby, senior management establishes, and the Compensation Committee and the Board of Directors approve, annual performance objectives for each participant and the bonus awards which may be granted under the Incentive Plan. The award of a performance bonus to a participant is made by, and at the sole discretion of, the Board of Directors after evaluation of how well each participant has met his performance objectives. Bonuses were paid to senior managers pursuant to the Incentive Plan in December 1992 and are included in the above table.
- (B) The aggregate amounts paid to the executive officers named above did not exceed the lesser of (i) \$50,000 or (ii) ten percent (10%) of the total annual salary and bonus' reported for each individual.
- (C) Information for years ending prior to December 31, 1992 is not required to be disclosed.
- (D) The amounts shown in this column for the last fiscal year are derived from the following figures: (i) C. E. Parente: \$61,476—Company paid split-dollar insurance premium; \$4,800—401(k) Company Match; \$2,808—Company paid life insurance; (ii) A. J. Sordoni, III: \$36,029—Company paid split-dollar insurance premium; \$4,800—401(k); \$870 Company paid life insurance; (iii) W. B. Sordoni: \$37,130—Company paid split-dollar insurance premium; \$870 Company paid life insurance; (iv) J. H. Thomas: \$4,800—401(k); \$1,449 Company paid life insurance; (v) P. W. Mazza: \$4,760—401(k); \$795 Company paid life insurance. Details of the Plans are set forth under Summary of Compensation Plans.

II. Aggregate Option/SAR Exercised in Last Fiscal Year and Year End Option/SAR Values

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Unexercised Options at Year End (#)	*Value of Unexercised In-the-Money Options at Year End (\$)	Number of Unexercised SARs at Year End (#)	*Value of Unexercised In-the-Money SARs at Year End (\$)
			(Exercisable/Unexercisable)	(Exercisable/Unexercisable)	(Exercisable/Unexercisable)	(Exercisable/Unexercisable)
C. E. Parente	-0-	-0-	-0/-0-	-0/-0-	-0/-0-	-0/-0-
A. J. Sordoni, III	-0-	-0-	5,000/-0-	37,750/-0-	10,000/-0-	67,500/-0-
W. B. Sordoni	-0-	-0-	5,000/-0-	37,750/-0-	10,000/-0-	67,500/-0-
J. H. Thomas	-0-	-0-	7,500/-0-	56,625/-0-	15,000/-0-	101,250/-0-
P. W. Mazza	-0-	-0-	2,500/-0-	18,875/-0-	5,000/-0-	33,750/-0-

* Market Value of Class B Common Stock at year-end, minus the exercise price of the options and the base price of the SARs.

III. Long-Term Incentive Plans—Awards in Last Fiscal Year

Name	Number of Shares, Units or Other Rights	(B) Minimum (\$)	(A) Estimated Future Payouts Under Non-Stock Price-Based Plans		
			(C) Threshold (\$)	(D) Target (\$)	(E) Maximum (\$)
C. E. Parente	Last year of five (5) year plan	\$0	\$128,494	\$675,756	\$949,388
A. J. Sordoni III	Last year of five (5) year plan	0	91,629	493,527	694,476
W. B. Sordoni	Last year of five (5) year plan	0	46,846	251,163	353,321
J. H. Thomas	Last year of five (5) year plan	0	34,890	240,721	343,636
P. W. Mazza	Last year of five (5) year plan	0	29,088	161,171	227,213

(A) The awards paid under the long term incentive plan are premised upon the consolidated operating results of C-TEC's business segments. The specific long term payments to the executive officers are determined to a formula which relates certain measures of actual operating results to certain objectives for C-TEC's consolidated operating results for the years 1989 through 1993. The payout in 1992 was determined based upon the ratio of the time period elapsed since inception of the plan to the total time period until final maturation. This ratio is then applied to the award earned to date under the plan's formula for award determination. The first bonus installment was paid to the Executive Officers based on performance through the end of 1991, the second installment was based on performance through the end of 1992 while the third and final installment is based on performance through the end of 1993. Under the terms of Company's Long-Term Incentive Plan, the Compensation Committee has the option to modify the Plan's formula for award determination to adjust for certain events and/or changed circumstances.

(B) The minimum award represents the lowest amount payable under the plan.

(C) The threshold award is the minimum amount payable under the plan if certain performance levels are attained. However, no awards will be paid under the plan unless certain performance levels are attained.

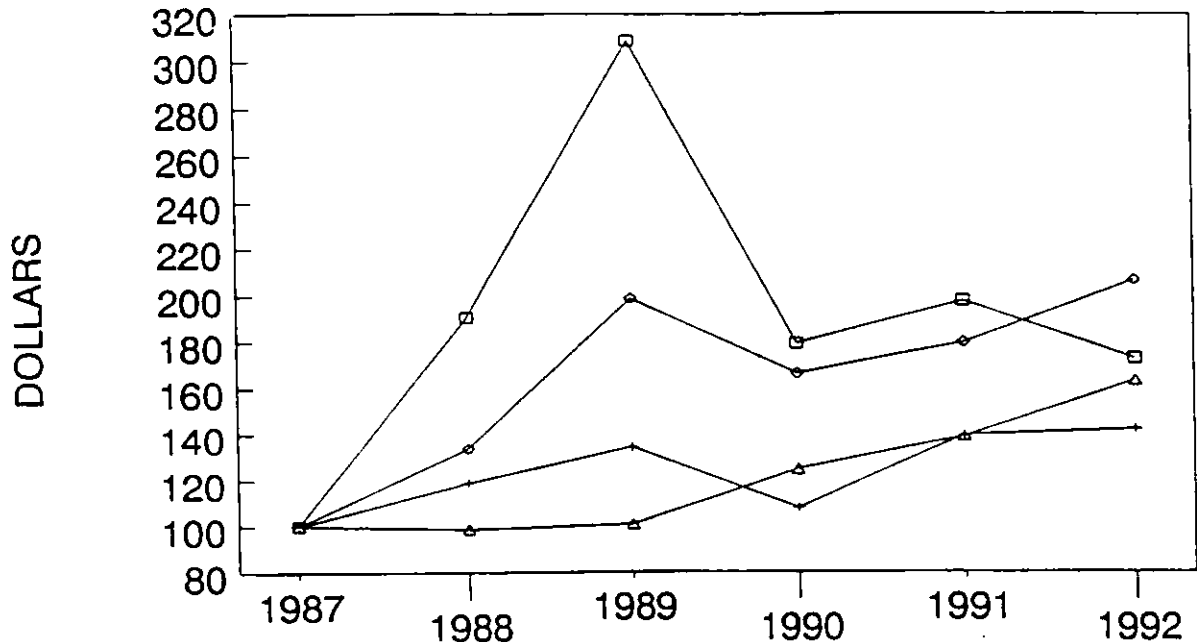
(D) Since the target award is not determinable, the target amount is based on the previous fiscal year's performance.

(E) The maximum award is the highest amount payable under the plan.

IV. FIVE YEAR SHAREHOLDER RETURN COMPARISON

The SEC requires that the Company include in this proxy statement a line-graph presentation comparing cumulative, five year shareholder returns on an indexed basis with a broad market index and either a nationally recognized industry standard or an index of peer companies selected by the Company. Since the Company's stock trades on NASDAQ's over-the-counter market, management has selected a broad market index comprised of all companies listed by NASDAQ during the five year measurement period. This index was supplied by Media General Financial Services, an independent third-party source. Management has selected a group of three peer companies based on their similarities to the Company in its major lines of business. The companies were chosen based on location and size of system for the mobile services group, number of access lines for telephone, long distance and communications services groups and number of subscribers for the cable group. The index for this peer group was also supplied by Media General Financial Services. Additionally, the Company has chosen to include a graph of its operating cash flows, defined as operating income before depreciation and amortization. This measure is viewed by the Company to be one of the most significant contributing factors to enhanced long-term shareholder value. This measure is also a key component of executive compensation, as discussed in the compensation committee report.

**Comparison of Five Year Cumulative Total Return
C-TEC Corporation, NASDAQ Broad Market Index,
Company Selected Peer Group and C-TEC Operating Cash Flows**



C-TEC	100.00	191.50	311.67	180.77	199.47	174.54
Industry						
Peer Group	100.00	133.79	198.34	165.89	179.75	206.42
NASDAQ	100.00	118.93	134.20	107.70	139.33	141.99
Cash Flow	100.00	98.75	100.68	124.53	139.02	163.24

Assumes \$100 invested on January 1, 1988 in each relevant index. Reinvestment of dividends is assumed.

□ C-TEC Corporation
+ NASDAQ Broad Market Index
◇ Company Chosen Peer Group
△ C-TEC Corporate Cash Flow

Compensation Committee Interlocks and Insider Participation

Mr. Roth served on the Company's Compensation Committee in 1992. He is a partner in Rosenn, Jenkins and Greenwald, which serves as local counsel to the Company.

A. J. Sordoni, III, W. B. Sordoni and C. E. Parente, directors and executive officers of the Company, serve as directors and executive officers of Evergreen Capital Corp. ("Evergreen"), Enterprise Telcom Services, Inc. ("Telcom"), Sordoni Enterprises, Inc. ("Enterprises"), Sordoni Construction Service, Inc. ("Construction"), Whiteman Towers, Inc. ("Whiteman") and Mercom, Inc. ("Mercom"). In 1992, the Company paid an aggregate of \$562,165 to Construction, Senate, Telcom and Whiteman, for the purchase of certain equipment, supplies and services and for building construction and repair. See "Security Ownership of Management," "Security Ownership of Certain Beneficial Owners" and "Transactions with Management and Certain Concerns." A subsidiary of the Company owns approximately 42.63% of the outstanding shares of Mercom's common stock. Mercom is managed by a subsidiary of the Company pursuant to a management agreement that provides for the payment to the Company of a management fee. The amount of payment received by the subsidiary for services rendered during 1992 was \$976,166.

Employment Agreements

Mr. A. J. Sordoni's compensation is determined pursuant to an employment agreement which provides that he will be employed until the later of January 31, 1995 or three years after notice of termination is given by the Company, subject to earlier termination in certain circumstances, including termination by the Company for cause (as defined in the agreement) or by Mr. Sordoni following a change in control of the Company (as defined in the agreement) which significantly and adversely affects the conditions of his employment. Mr. Sordoni will receive a base salary of \$363,200 per year, subject to annual review for increases and awards of stock options and such other forms of compensation as may be determined by the Board of Directors of the Company. He may also participate in any employee benefit plan which the Company provides to its executive officers as well as a split-dollar insurance plan. If Mr. Sordoni is permanently disabled, he will receive his base salary for two years, and 60% of his base salary thereafter, but not beyond normal retirement age. If the agreement is terminated by the Company for cause, upon Mr. Sordoni's death or by Mr. Sordoni's resignation, Mr. Sordoni's compensation will cease. If the agreement is terminated by the Company without cause or by Mr. Sordoni following a change in control which significantly and adversely affects the conditions of his employment, Mr. Sordoni will receive his base salary, and his benefits will continue to accrue, for the unexpired portion of the employment term.

Mr. W. B. Sordoni's compensation is determined pursuant to an employment agreement which provides that he will be employed until the later of January 31, 1995 or three years after notice of termination is given by the Company, subject to earlier termination in certain circumstances, including termination by the Company for cause (as defined in the agreement) or by Mr. Sordoni following a change in control of the Company (as defined in the agreement) which significantly and adversely affects the conditions of his employment. Mr. Sordoni will receive a base salary of \$184,680 per year, subject to annual review for increases and awards of stock options and such other forms of compensation as may be determined by the Board of Directors of the Company. He may also participate in any employee benefit plan which the Company provides to its executive officers as well as a split-dollar insurance plan. If Mr. Sordoni is permanently disabled, he will receive his base salary for two years, and 60% of his base salary thereafter, but not beyond normal retirement age. If the agreement is terminated by the Company for cause, upon Mr. Sordoni's death or by Mr. Sordoni's resignation, Mr. Sordoni's compensation will cease. If the agreement is terminated by the Company without cause or by Mr. Sordoni following a change in control which significantly and adversely affects the conditions of his employment, Mr. Sordoni will receive his base salary, and his benefits will continue to accrue, for the unexpired portion of the employment term.

Mr. Parente's compensation is determined pursuant to an employment agreement which provides that he will be employed until the later of December 31, 1992 or three years after notice of termination is given by the Company, subject to earlier termination in certain circumstances, including termination by the Company for cause (as defined in the agreement) or by Mr. Parente following a change in control of the Company (as defined in the agreement) which significantly and adversely affects the conditions of his employment. Mr. Parente will receive a base salary of \$400,000 per year, subject to annual review for increases and awards of stock options and such other forms of compensation as may be determined by the Board of Directors of the Company. He may also participate in any employee benefit plan which the Company provides to its executive officers, as well as a split-dollar insurance plan. Mr. Parente will be entitled to an annual supplemental pension commencing at age 65 equal to the excess of (a) .5% per month of service (up to a maximum of 60 months) multiplied by his average base compensation during his highest paid 60 consecutive months of service over (b) the annual benefits (if any) which would be payable to him under the Company's Pension Plan. If Mr. Parente is permanently disabled, he will receive his base salary for two years, and 60% of his base salary thereafter, but not beyond normal retirement age. If the agreement is terminated by the Company for cause, upon Mr. Parente's death or by Mr. Parente's resignation, Mr. Parente's compensation will cease. If the agreement is terminated by the Company without cause or by Mr. Parente following a change in control which significantly and adversely affects the conditions of his employment, Mr. Parente will receive his base salary, and his benefits will continue to accrue, for the unexpired portion of the employment term. Under the agreement, Mr. Parente was granted an option, to purchase 10,000 shares (which became 30,000 shares as a result of a stock split in 1989) of the Company's Class B Common Stock at a price of \$.001 per share. Mr. Parente exercised this option on January 4, 1988.

Summary of Compensation Plans

The Common-Wealth Builder Employee Savings Plan ("Common-Wealth Builder Plan")

This Plan is qualified under Section 401 of the Internal Revenue Code. The Common-Wealth Builder Plan provides an opportunity for employees who elect to participate to defer payment of federal income taxes on contributions of up to the lesser of 10% of their base salary or \$8,728. Eligible full-time employees and part-time employees working at least 1,000 hours annually who have completed one year of service may participate in the Plan. The Company contributes an amount equal to 55% of each participating employee's contribution, up to a maximum of the lesser of \$4,800 or 3.3% of the employee's base salary. Federal income tax on Company contributions and subsequent earnings are also deferred until withdrawal.

Employee contributions and earnings thereon are invested at the employee's direction in certain investment funds. Company contributions are invested in whichever investment fund is selected by the participant for their basic contributions. The investment options for participants include a Company Com-Share Fund, consisting generally of shares of Common Stock and Class B Common Stock of the Company. Participants are no longer permitted to make additional investments in Class B Common Stock through the Com-Share Fund. Participants have the right to direct the trustee of the plan as to how to vote the shares of Common Stock and Class B Common Stock held by the Fund that are allocated to them. Shares allocated to officers under the Common-Wealth Builder Plan are included in the total number of shares reported as beneficially owned by such persons in the tables set forth under the caption "Ownership of Stock."

Split-Dollar Insurance Plan

During 1990, the Board of Directors approved a Split-Dollar Insurance Plan covering select members of the Office of the Executive Officers and their spouses whereby a portion of the annual premiums are advanced by the Company and a portion of the annual premiums are paid by the participants. Management estimates the value of the premium advance to be approximately \$147,752 in 1992.

The Company has an ownership interest in the insurance contracts enabling the Company to recover the premiums paid, without interest, upon payment of policy proceeds, the participant's retirement or the participant's termination of employment. Participants are paid additional compensation sufficient to cover their premium costs plus any income taxes due on additional compensation. During 1992, A.J. Sordoni, III, W.B. Sordoni and C.E. Parente participated in the Split-Dollar Insurance Plan.

Senior Management Long-Term Incentive Plan

Senior managers of the Company are eligible for incentive compensation awards under the Company's Senior Management Long-Term Incentive Plan ("Long-Term Plan"). Under the Long-Term Plan, the Board of Directors and the Compensation Committee establish an incentive award pool based on financial objectives for the Company as a whole. The award of a bonus from the award pool to a participant is made by, and at the sole discretion of, the Board of Directors after evaluation of how well the Company has met its financial objectives. Bonuses were paid to Senior Managers pursuant to the Long-Term Plan in 1992 as shown in the Summary Compensation table.

Stock Option and Stock Appreciation Rights Plan

The 1984 Stock Option and Stock Appreciation Rights Plan ("Plan") was adopted by the Board of Directors in February 1984 and approved by the shareholders of the Company at the 1984 Annual Meeting of Shareholders. The Company's Compensation Committee, composed of three non-management Directors who are not eligible to receive grants under the Plan, is authorized to grant Stock Options ("Options") and Stock Appreciation Rights ("SARS") to key employees selected by the Committee. The Compensation Committee has sole discretion to determine the number of options to be granted and the participating key employees. Up to 150,000 shares of the Company's Common Stock, 300,000 shares of the Company's Class B Common Stock and 900,000 SARs may be issued under the Plan. An Option gives the employee the right to purchase shares of stock for a specified price during a specified period. Options may be either incentive stock options or non-qualified stock options. SARs give the employee the right to receive its "value" in cash, shares of stock, or both, as approved by the Committee. The value of SARs is equal to the excess of the fair market value of one share of stock on the date of exercise over the fair market value on the date of grant.

In January 1988, the Board of Directors amended the Plan to provide that, at the discretion of the Compensation Committee, the option exercise price and the optionee's tax liability upon exercise may be paid by the delivery of Company stock having a market value equal to the exercise price and/or the tax liability. These amendments will not apply to outstanding options unless the Compensation Committee amends the option agreements to so provide. These amendments are intended to provide greater flexibility in structuring the benefits under the Plan to respond to changes in tax, accounting and securities law rules applicable to stock options.

In March 1988, the plan participants agreed to convert their 1986 incentive stock options to non-qualified stock options ("NQSO") and surrender their stock appreciation rights and were granted 1 1/4 NQSOs for each stock appreciation right surrendered for cancellation.

The Year End Option/SAR Values table sets forth the information relating to Options and SARs exercisable under the Plan. No options or SARs have been granted since 1987.

Pension Plan

The Company's pension plan is a defined benefit plan computed on an actuarial basis giving effect to retirement at a specified age and after a specified number of years' service. Accrued benefits are vested after five years' service. The Company made no contributions to the plan in 1992. The plan

covers eligible full-time employees of the Company and its subsidiaries, as well as part-time employees working at least 1,000 hours annually. The following table shows the estimated annual retirement benefits, expressed in the form of a single life annuity payable at normal retirement age, to persons in specified remuneration and years-of-service classifications under the pension plan.

Average Earnings*	Annual Benefits for Years of Service				
	15	20	25	30	35
\$125,000	\$23,153	\$30,870	\$38,588	\$46,305	\$ 54,023
150,000	28,215	37,620	47,025	56,430	65,835
175,000	33,278	44,370	55,463	66,555	77,648
200,000	38,340	51,120	63,900	76,680	89,460
225,000	43,403	57,870	72,338	86,805	101,273
250,000	48,465	64,620	80,775	96,930	113,085

* Average Earnings is the average of base annual compensation in effect on January 1 of a calendar year (not including incentive compensation) for the five consecutive full calendar years of service out of the last ten such years which produce the highest average. Benefit amounts are not subject to any deduction for social security or other amounts.

The base compensation taken into consideration in determining pension benefits and the credited years of service for the individuals named in the compensation table are as follows:

	Covered Base Compensation	Years of Service
A. J. Sordoni, III	\$228,860	13
W. B. Sordoni.....	212,000	9
C. E. Parente	228,860	5
J. H. Thomas	215,000	7
P. W. Mazza	140,000	21

Effective for plan years commencing after December 31, 1991, no more than \$228,860 of compensation can be included in calculating a plan participant's accrued benefit.

Transactions with Management and Certain Concerns

During 1992, the Company and its subsidiaries paid a total of \$562,165 to Enterprise Telecom Services, Inc., Senate Construction Company, and Whiteman Tower Inc., corporations indirectly owned and controlled by A.J. Sordoni, III, W.B. Sordoni, S. Sordoni and C.E. Parente, for the purchase of certain equipment, supplies and services, and for building construction and repair, in the ordinary course of its business.

F. M. Henry is a principal in Martz Travel and Frank Martz Coach Company which performs travel services for the Company and its subsidiaries. A total of \$109,571 was paid by the Company and its subsidiaries to Martz Travel during 1992.

F. M. Henry and C. E. Parente, together with his spouse, each own a 50% partnership interest in Frank M. Henry Associates, which leases office space in Martz Tower, 46 Public Square, Wilkes-Barre, Pa., to the Company under a renewed two-year lease which expires June 1, 1994. A total of \$282,944 was paid by the Company to Frank M. Henry Associates for rent, utility, parking and maintenance services for the period January 1, 1992 through December 31, 1992.

E. Roth is a partner in Rosenn, Jenkins and Greenwald which serves as local counsel for the Company and its subsidiaries.

The Company's policy is to make all purchases, contracts and borrowings at competitive rates, terms and/or prices. Directors do not participate in discussions or voting of the Board of Directors relating to transactions in which they may have a direct or indirect interest.

Information about the Board and its Committees

The Board of Directors of the Company held five regularly scheduled meetings in 1992. The Board of Directors has standing Executive, Audit, Compensation and Pension Committees, but does not have a Nominating Committee. The Committee members as of March 1, 1993, were as follows:

<u>Executive Committee</u>	<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>Pension Committee</u>
* A. J. Sordoni, III	* F. M. Henry	* E. Roth	* C. J. Fitze
W. B. Sordoni	S. E. Graham	C. J. Fitze	C. E. Parente
C. E. Parente	D. G. Reinhard	S. E. Graham	W. B. Sordoni
			J. E. Bogdan
			J. J. Menapace

* Designates Chairman of the respective committees.

The Executive Committee of the Company held one meeting in 1992. The Committee approved the Proxy Statement and Notice of Annual Meeting of Shareholders, and authorized Company investments. This committee also presents names of prospective candidates to serve on the Board of Directors.

The Audit Committee of the Company held two meetings in 1992. The Committee (i) discussed matters concerning the audit of the annual financial statements, (ii) considered the Company's internal audit program, (iii) discussed required communications to the Audit Committee by external auditors, (iv) recommended the selection of the independent auditors to audit the accounts of the Company and its wholly-owned subsidiaries for fiscal 1992, and (v) discussed matters of concern to the Audit Committee, the auditors or management.

The Compensation Committee of the Company held one meeting in 1992. The Committee made recommendations to the Board of Directors concerning the salaries and incentive compensation awards for the top levels of management of the Company and its subsidiaries and established compensation policy. The Compensation Committee also administered the Company's Short-Term Incentive Compensation, Long-Term Incentive Plan, and Stock Option and Stock Appreciation Rights Plans.

The Pension Committee of the Company held three meetings in 1992. The Committee reviewed and evaluated the investment performance of the various pension investment funds and monitored the performance of the administrators, investment managers and trustees of such funds, as well as reviewed the actuarial assumptions used in setting the Company's funding policies for such funds.

Directors of the Company and Commonwealth Telephone Company ("CTCo") who are not officers of the Company are currently paid a \$900 monthly retainer and \$500 for each Company and CTCo board meeting attended. Committee Chairmen are paid \$500 and other committee members are paid \$300 for each committee and subsidiary board meeting (other than CTCo) attended. During 1992, compensation paid to outside directors for services rendered in such capacity was as follows: S.E. Graham \$16,600, F.M. Henry \$14,800, D.G. Reinhard \$16,400 and E. Roth \$16,300.

OTHER MATTERS

The Board of Directors does not know of any other matters that may come before the meeting. However, if any other matters properly come before the meeting, it is the intention of the persons named in the accompanying form of proxy to vote the proxy in accordance with their judgment on such matters.

GENERAL INFORMATION

Matters Regarding Auditor

The Board of Directors of the Company has retained Coopers & Lybrand as independent auditors of the Company and its wholly-owned subsidiaries and Parente, Randolph, Orlando, Carey & Associates as auditors of the Company's Common-Wealth Builder Plan and Pension Plan. Representatives of Coopers & Lybrand, whose report on the Company's financial statements for the year ended December 31, 1992 appears in the Company's Annual Report to Shareholders, and Parente, Randolph, Orlando, Carey & Associates are expected to be present at the Annual Meeting and will have the opportunity to make statements, and to respond to appropriate questions from shareholders.

Financial Information

A copy of the Company's 1992 Annual Report to Shareholders containing the Consolidated Financial Statements of the Company, including the report thereon dated February 26, 1993 of Coopers & Lybrand, independent accountants, has been mailed to shareholders.

Upon the written request of any person who on March 1, 1993 was a record owner of the Company's Stock, or who represents in good faith that he was on such date a beneficial owner of such Stock entitled to vote at the Annual Meeting, the Company will send to such person, without charge, a copy of its Annual Report on Form 10-K for 1992, as filed with the Securities and Exchange Commission. Requests for the Report should be directed to:

Thelma J. Marshall
Assistant Secretary and Administrative Assistant
C-TEC Corporation
46 Public Square, P.O. Box 3000
Wilkes-Barre, PA 18703-3000

Solicitation of Proxies

The Company will bear the cost of solicitation of proxies. In addition to the use of the mail, proxies may be solicited by officers, directors and regular employees of the Company, personally or by telephone or telegraph, and the Company may reimburse persons holding stock in their names or those of their nominees for their expenses in forwarding soliciting materials to their principals.

It is important that proxies be returned promptly. Therefore, shareholders are urged to fill in, date, sign and return the enclosed proxy in the enclosed envelope, to which no postage need be affixed if mailed in the United States, even though expecting to attend the meeting in person.

Shareholders' Proposals

Any shareholder who desires to submit a proposal to be considered for inclusion in the proxy statement and proxy of the Company relating to the 1994 Annual Meeting of Shareholders must submit such proposal in writing to the Company by December 1, 1993. Such proposals should be hand delivered or mailed, return receipt requested, to the Secretary of the Company.

By order of the Board of Directors.



Raymond B. Ostroski
Secretary

Dated: March 17, 1993

PUC LATE-FILED EXHIBITS

26

RECEIVED

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PUBLIC U.S.
INFO. SERV. DIV.

Docket No. I - 00920020

Hearing Date July 2, 1993

Judge Kashi

Hearing held in Harrisburg

Exhibit No. OCA Cross Examination Exhibit #13

Reporter Judith A. Valencik

1. Above exhibit to be supplied to reporter by:

2. Above exhibit to be filed directly with PUC by:

Additional Comments:

PA PUC V. COMMONWEALTH TELEPHONE COMPANY
DOCKET NO. I-00920020

OCA CROSS EXAMINATION EXHIBIT NO. 13

DATE ENTERED: 7/2/93

RECORDED
SERIALIZED
JUL 16 1993
P.A. PUC V. C. DIV.
REG. CONTROL DIV.

DOCUMENT
FOLDER

DOCKETED
JUL 16 1993

Ex 13
I-00920020
Hbq. 7-2-93
JAV

RESPONSE OF COMMONWEALTH TELEPHONE COMPANY
TO INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE, SET VI
PA PUC V CTCO
PA PUC DOCKET NO. I-00920020

29. Please provide copies of C-TEC's Commonwealth Builder Plan, Short-Term Incentive Compensation Plan, Long-Term Incentive Compensation Plan, and Stock Option and Stock Appreciation Rights Plans. Please provides copies of the above plans for the years 1990, 1991, 1992 and 1993.

ANSWER: Attached are the following C-TEC requested documents: the C-TEC Commonwealth Builder Plan, the Performance Incentive Plan which includes the Short-Term and the Long-Term Compensation Plan and the Stock Option and Stock Appreciation Right and Plans.

PREPARED BY: JOHN FILIPOWICZ, PAUL MAZZA AND DON CAWLEY

UPDATE TO QUESTION - 6/29/93
See attached Exhibits OCA Set VI, A and B.

C-TEC CORPORATION

MEMORANDUM

CONFIDENTIAL

DATE: March 12, 1993

TO: C. E. Parente

FROM: J. H. Thomas
J. J. Menapace

SUBJECT: 1993 Mid-Management Short-Term Bonus Program for
CTCo

The following outlines the participants and parameters for
CTCo's 1993 Mid-Management Short-Term Bonus Program:

<u>Position/ Employee</u>	<u>Incentive Potential</u>	<u>Measurements</u>
Dir Network Services/	25%	6%-15% Financial 1:2 Revenue/Ebidat Home Runs 115% 10% Maximum "Traditional"
Dir Sales & Marketing/	25%	6%-15% Financial 2:1 Revenue/Ebidat Home Runs 115% 10% Maximum "Traditional"

Additionally, the following are submitted for "Traditional" Bonus
treatment based on performance ratings:

VP Regulatory & Public Affairs/	15% Maximum
Dir Revenue Requirements/	15% Maximum
Dir Support Services/	15% Maximum
Controller/	12% Maximum
Sr Mgr Quality Program/	8% Maximum
Sr Mgr Network Control/	8% Maximum

Sr Mgr Customer Services/

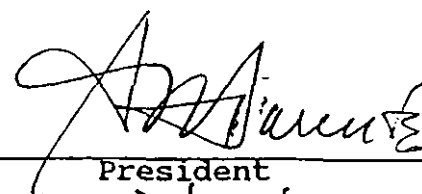
8% Maximum

Area Managers/

8% Maximum

CONFIDENTIAL

Approved:



President

Date:

3/12/93

C-TEC CORPORATION MIDDLE MANAGEMENT
LONG TERM INCENTIVE PLAN

PURPOSE

This plan is intended to further the long-term growth of C-TEC Corporation (Company) by offering long-term incentives to the middle management group of the Company in addition to annual compensation, fringe benefits and a short-term annual incentive plan. The group being included in this plan will be limited to the middle management group that will be responsible for the long term growth of each specific operating/staff group.

This plan is structured in a way that emphasizes and directs primary FOCUS on specific performance of the individual operating groups and, recognizes the overall performance and contributions of the corporate staff groups to consolidated results.

ADMINISTRATION

The plan will be administered by the Human Resources Department in conjunction with Senior Management and the Office of the Chairman. The Office of the Chairman will have full and final authority and discretion to apply and interpret the various provisions of the plan and to decide all questions of fact that

will arise in the application of the plan. All payments will be approved by the Office of the Chairman.

The Human Resources Department, in conjunction with the responsible group and staff vice presidents, will make recommendations to the Office of the Chairman concerning:

1. The specific employees (positions) and their associated impact level;
2. The size and terms of such payments;
3. Changes in payments;
4. Adjustments, if any, that should be considered as a result of changes in law, accounting practices, acquisitions, mergers, dispositions, extraordinary items or events, or nonrecurring items or events.
5. Alterations to the plan that are deemed appropriate to reflect changed circumstances.

In order to provide guidelines concerning accounting matters and particularly concerning the treatment of unusual items, the Office of the Chairman will be guided by the following general rules; however, these general rules should not be interpreted to provide precedent for any transactions or possible events that are not covered by the general rules:

1. Revenue and EBIDAT from the disposition of any business owned as of 1/1/91 will be excluded from all calculations and the "planned" Revenue and EBIDAT of the business disposed of will be eliminated from the computation.

2. Revenue and EBIDAT that results from administrative decisions outside the control of middle management such as significant refinancings, disposition of non-operational investments, restructuring of the Company's pension plan, etc. may but are not required to be excluded from all / calculations.
3. In the event of any acquisition accounted for as a "Purchase", Revenue and EBIDAT may be adjusted at the discretion of the Office of the Chairman.
4. In the event of any acquisition accounted for as a "Pooling of Interest", appropriate adjustment will be made.

After consideration of such recommendations, the Office of The Chairman shall have final authority and discretion to administer this plan.

COMMENCEMENT AND TERMINATION

The plan will commence on January 1, 1991 and will continue until terminated by the Office of the Chairman. If not terminated prior to December 31, 1994, the plan will terminate as

of that date but could be extended or an alternative plan initiated at the discretion of the Office of the Chairman.

PARTICIPATION

Participants will be those individuals, selected by Senior Management and approved by the Office of the Chairman, who are in a position to directly impact the success of the Company by their efforts. In order to identify the variations of responsibilities and impact within the middle management group, three impact levels have been created. These levels are identified as:

Level A

Level B

Level C

Human Resources will provide the Office of the Chairman with a list of the individuals selected for participation and their associated impact level. Upon adoption of the plan and periodically thereafter Human Resources will provide additions and deletions to the list of participants and/or impact level changes which are deemed appropriate. Participants who are included in the plan will be notified in writing.

INCENTIVE DETERMINATION

It is the responsibility of the C-TEC Finance Department to develop revenue and EBIDAT figures for each C-TEC operating group

for each year of the plan, 1991 through 1994. These figures are used to calculate a three and four year (1993 and 1994) cumulative target as identified in the table below. C-TEC staff revenue and EBIDAT figures are a consolidation of the operating group figures and are identified below as well.

<u>Group</u>	Cumulative 1991/93	Cumulative 1991/94		
	Revenue	EBIDAT	Revenue	EBIDAT
	<u>(000)</u>	<u>(000)</u>	<u>(000)</u>	<u>(000)</u>

CTCO	367,423	190,155	499,828	257,588
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Group specific incentive matrices, Exhibits Ia through VIIIc (attached) define maximum incentive percentages earned based upon achievement of varying degrees of financial performances for both 1991 through 1993 and 1991 through 1994.

Based upon impact level, the maximum incentive percentages earned are as follows:

<u>Level</u>	<u>Maximum Incentive Percentage</u>
A	50%
B	37.5%
C	25%

The incentive percentage earned, as determined by each matrix factored by impact level, will be applied to the participants average base salary for the plan terms 1991 through 1993 and/or 1991 through 1994.

The plan provides for a payout at the end of the third and fourth years (December 31, 1993 and 1994). The Finance Department will calculate the actual operating results per group (after any adjustments required) for each of the above plan terms. Whenever revenue and EBIDAT figures are achieved /surpassed, incentive percentages shall be earned based on the requirement of the "Rights to Payment" section of the plan. Should an incentive be earned in the third year of the plan, payments will be awarded at 50% of the total earned amount. The remaining 50% will be held and paid after the fourth year of the plan.

Examples:

I. Payment in third year of plan:

Finance submits actual results for Cellular Plus from 1991 through 1993 as:

Revenue	\$67,590,000
EBIDAT	\$ 5,147,000

Using Exhibit Ia, the incentive percentage earned would be 27.80%. A Cellular Plus participant employed from January 1, 1991 through April 30, 1994 with an average three year salary of \$60,000 and an impact level A would have earned:

\$60,000	x	27.80%	=	\$16,680
(average salary)		(incentive percentage)		

Payout shall be 50% of earned amount.

$\$16,680 \times 50\% = \$8,340$

Employee would receive \$8,340 less taxes in 1994. The remaining 50% will be held and paid after the fourth year of the plan if such employee is employed at the time of such payment.

II. Payment in the fourth year of the plan:

Finance submits actual results for Cellular Plus from 1991 through 1994 as:

Revenue	\$97,751,000
EBIDAT	\$10,427,000

Using Exhibit Ia, the incentive percentage earned would be 33.80%. A Cellular Plus participant employed from January 1, 1991 through December 31, 1994 with an average four year salary of \$70,000 and an impact level A would have earned:

\$70,000	x	33.80%	=	\$23,660
(average salary)		(incentive percentage)		

Employee would receive \$23,660 less taxes in 1995.

(This example assumes no payment in the third year of the plan. If there was a payment at the end of the third year, that gross payment would reduce the 1995 payment.)

If a new participant is added to or deleted from the plan during the term of the Plan (January 1, 1991 through December 31, 1994), the incentive earned will be pro-rated based upon the actual months of eligibility in the plan. Average salary shall be calculated as a flat average of annual salary rates (excluding any bonus, etc.) of the participant from the date of entering the plan until the termination or deletion from the plan.

Examples:

New participant enters Plan July 1, 1991 with an annual salary of \$50,000. Their 1992 and 1993 annual salary figures are \$52,500 and \$54,000 respectively. Should a three year payment be awarded, the gross incentive which can be earned will be calculated as:

$$\begin{aligned} & 30 \text{ actual months} && \} \\ & \text{-----} & = & 0.833 \text{ pro-rating for time} \\ & 36 \text{ plan months} && \\ \\ & \text{average salary} & = & \frac{\$50,000 + \$52,500 + \$54,000}{3} \\ & & & = \$52,167 \end{aligned}$$

These two factors will then be applied to the incentive percentages earned, considering impact level.

A participant is deleted from the plan June 31, 1994. Their past four annual salary figures are \$50,000, \$52,500, 54,000 and \$59,000. Should the Office of the Chairman determine that a payment be made after the fourth year of the plan, the gross incentive which can be earned will be calculated as:

$$\begin{aligned} & 42 \text{ actual months} && \\ & \text{-----} & = & 0.875 \text{ pro-rating for time} \\ & 48 \text{ plan months} && \\ \\ & \text{average salary} & = & \frac{\$50,000 + \$52,500 + \$54,000 + \$59,000}{4} \\ & & & = \$53,875 \end{aligned}$$

These two factors will then be applied to the incentive percentage earned, considering impact level.

Note: Both examples assume compliance with all other provisions as stipulated in the plan.

RIGHTS TO PAYMENTS

A participant shall have no right to receive a payment from the plan unless the Participant remains in the employment of the Company through the earliest of (a) December 31, 1994, (b) normal retirement, (c) death, (d) total disability, or (e) early retirement.

If a participant is terminated for any reason or voluntarily resigns at any time prior to January 1, 1995, the terminated participant will have no right to any payment except the portion he/she was actually paid at the end of the third year of the plan. Payment of any partial award at the end of the third year of the plan is conditioned on employment by the participant on the date said payment is made.

Any prorated payments under the plan to participants who leave the employment of the Company prior to December 31, 1994 will be entirely at the discretion of the Office of the Chairman.

PAYMENT

The payments will be awarded within 120 days following the end of the year that incentive compensation is earned. Based on the plan the earliest payment date will be April 30, 1994.

MISCELLANEOUS

A participant's rights and interest in this Plan are not assignable or transferable.

In case of death of a participant, any payment from this plan on account of decedent's participation shall be made to participant's designated beneficiary or in absence of such designation, by will or in the absence of a will, by the controlling statute for intestacy.

Participation in the plan shall not be construed to give participant any right to continued employment.

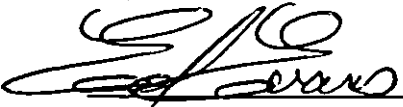

The Company shall have the right to deduct from all payments any and all taxes required by law to be withheld with respect to such award.

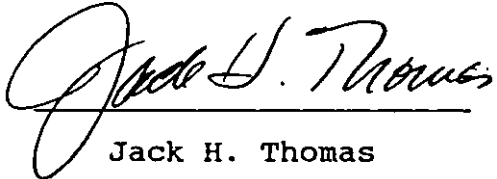
For purposes of this plan, the term "total disability" shall have the same meaning that exists in the Company's Long-Term Disability Income Protection Plan in effect at the time such determination is made.

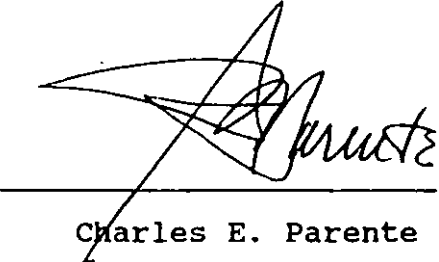
This plan does not eliminate the possibility of special performance bonuses being awarded in those unusual situations where the Office of the Chairman determines that the performance of an individual on a specific project deserves special consideration. In such cases, the Office of the Chairman will recommend a special performance bonus.

RECOMMENDED BY:

APPROVED BY:

	<u>3/26/92</u>		<u>3-26-92</u>
Ed Evans	Date	John J. Menapace	Date

	<u>4-2-92</u>
Jack H. Thomas	Date

	<u>3/27/92</u>
Charles E. Parente	Date

PA PUC V. COMMONWEALTH TELEPHONE COMPANY
DOCKET NO. I-00920020

OCA CROSS EXAMINATION EXHIBIT NO. 14

DATE ENTERED: 7/2/93

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Tom Brown

C-TEC CORPORATION

MEMORANDUM

TO: Distribution
FROM: C. E. Parente
SUBJECT: Bonus Guidelines and Objectives
DATE: January 28, 1992

Attached, for your information, are the executive short-term bonus guidelines for 1992.

For the purposes of this plan, final financial objectives are defined as the 1992 budget, unless otherwise indicated. Operating groups will be evaluated on the basis of their specific performance while staff groups will be evaluated on the basis of their respective staff budgets. The Corporate financial objective is the consolidated C-TEC budget. Obviously, actual financial performance will be compared to the budgets. However, unusual transactions and events will be reviewed to determine the appropriate treatment of those transactions and events in the final comparison of actual and budgeted results.

Non-financial objectives for each group will include complete support for all C-TEC programs and policies including employee development, community relations efforts, etc. Please keep this important fact in mind as you guide your group through 1992.

I have been successful in getting our Compensation Committee and the full Board of Directors to recognize the importance of the executive short-term bonus program. As you know, the potential has increased dramatically over the past two years. By adopting my recommendation, the Board has agreed with the philosophy that I have been striving to have adopted since I took over as C-TEC's President on January 1, 1988. An integral part of the philosophy is the recognition that base compensation levels will be kept at the lower level of the market while bonus compensation will be expanded. At the same time, there is recognition that bonus compensation will only be paid for specific performance above and beyond what is normally expected for a specific position. Objectives must be set to assure that they will produce above-average results if they are met. By attaining all of these targets, incentive bonus of 35% of

Distribution
January 28, 1992
Page 2

compensation will be earned. By exceeding these objectives an individual has the opportunity to earn up to the maximum award.

It is absolutely essential for everyone to understand that the objectives that are finally set must represent a stretch. For instance, making budget is not a reasonable objective for the purpose of this plan. A reasonable objective is to exceed budget.

The Office of the Chairman has been committed to improving our incentive system. This commitment has been fulfilled. It is now up to you to do your part to attain the highest possible level of achievement. We have provided the plan and the tools.

If you have any questions, please discuss them with me.

CEP:ecl

Enclosure

Distribution: J. C. Balan
J. E. Bogdan
M. C. Elgaway
M. J. Mahoney
P. W. Mazza
✓ J. J. Menapace
R. B. Ostroski
D. P. Roskos

cc: J. H. Thomas

C-TEC CORPORATION

1992 EXECUTIVE SHORT-TERM INCENTIVE PLAN

Purpose: To recognize and reward our senior executives for their contributions in achieving and exceeding major corporate, group and individual objectives.

Procedure: A maximum bonus potential equal to 50% of base salary may be attained. Attainment of the maximum potential will be based upon the following criteria:

Operating Group Executives

<u>Level of Success</u>	<u>Group Financial Objectives</u>	<u>Group Non-Financial Objectives</u>	<u>Corporate Financial Objectives</u>	<u>Totals</u>
Achieves	20%	10%	5%	35%
Exceeds	60%	25%	15%	100%

Staff Group Executives

<u>Level of Success</u>	<u>Staff Departmental Non-Financial Objectives</u>	<u>Corporate Financial Objectives</u>	<u>Staff Departmental Financial Objectives</u>	<u>Totals</u>
Achieves	20%	7½%	7½%	35%
Exceeds	50%	25%	25%	100%

- Calculation:
1. Select appropriate Group's table.
 2. Select the appropriate percentage from each column based on level of success.
 3. Add selected percentages.
 4. Multiply total percentage by 50% of compensation to determine bonus amount.

Incentive Plan
January 28, 1992
Page 2

All incentive awards paid are subject to final approval of the Compensation Committee.

The objectives referred to above are those that were developed in 1992 and formalized for presentation to the Compensation Committee.

C-TEC CORPORATION

MEMORANDUM

File w/ Bonus memo

TO: Distribution
FROM: C. E. Parente
SUBJECT: Bonus Guidelines
DATE: January 31, 1992

In order to clarify the January 28, 1992 memo on Bonus Guidelines and objectives, please note the following correction:

Attaining the objectives (financial, non-financial, group and corporate) will earn 17.5% of compensation (50% of 35%) not 35% as stated in the memo.

The calculation page is correct and bonus can be calculated by following those steps.

ecl

Distribution:

- J. C. Balan
- J. E. Bogdan
- M. C. Elgaway
- M. J. Mahoney
- P. W. Mazza
- ✓ J. J. Menapace
- R. B. Ostroski
- D. P. Roskos

cc: Jack Thomas



HOUSE POSTAL

To See Distribution Date 11/29/89

From C. E. Parente 

Subject Senior Management Long-Term Incentive Plan

I am providing each of you with a copy of the Senior Management Long-Term Incentive Plan which has been approved by the Board of Directors.

This plan became effective on 1/1/89 and runs until the earlier of its termination date or 12/31/93.

The plan is constructed around a Base Pool. This base pool is the sum of the average annual salary paid to plan participants during the period of such participation. The Base Pool is converted to an Award Pool in order to determine the final amount of money that will be distributed to participants. The conversion to the Award Pool is a mathematical calculation that is the product of the Base Pool times the success multiple derived from the matrix established. The matrix is derived from revenue and cash flow amounts using a point-to-point method.

The matrix used in the plan was developed from the five year plan (1989-1993) previously approved by the Board of Directors. Revenues and operating cash flow amounts are cumulative for the incentive plan time period which coincides with business plan time period.

It is important to understand that matrix design has not been "cast in concrete". The Board recognized that adjustments would have to be made periodically in order to avoid a situation where the incentive plan criteria became the dominant consideration in running the business. A prime example of this possible outcome is the evaluation of entering the Long Distance business. It is probable that we could face operating losses from such a business during the period through 12/31/93 if we decide to pursue L.D., yet the long-term value attributable to the L.D. business could be significant. In this type situation, I will propose that such early year losses be adjusted out of the calculations for the purpose of the long-term incentive plan.

Distribution
November 29, 1989
Page 2

Adjustments to the matrix have already been approved by the Board as a result of the Centel Michigan Cable purchase. Due to the size of the transaction, the revenue and operating cash flow numbers were adjusted for the four years from 1/1/90 to 12/31/93. In addition, the interest cost attributable to \$50 million debt was also adjusted out of the operating cash flow numbers on the theory that \$50 million should have been the amount of capital employed in the acquisition. Since we borrowed or will borrow 100% of the purchase price, the interest adjustment on \$50 million will be made to our actual figures in order to get the matrix figures to reflect a normalized situation.

The few smaller cable acquisitions made in Michigan (Caledonia, Lake Ann, etc.) which have cost us under \$10 million to date in 1989, have not been treated as adjustments to the revenue and operating cash flow numbers because these acquisitions have not been viewed to be unusual. In other words, the revenues and operating cash flows resulting from these acquisitions will not increase the matrix figures. Since we will get four months revenue and operating cash flow from the Centel Michigan purchase in 1989, these amounts will be counted in the cumulative revenue and cash flow amounts since the matrix amounts were not adjusted for the 1989 figures but rather were adjusted only for the projected amounts starting with 1/1/90. These were conscious decisions that were made in order to provide added incentive.

The plan is one that could provide very substantial incentive rewards. We have the support of the Board and their full encouragement to be challenged to make the numbers happen.

Andy Sordoni, Bill Sordoni and I are included in the long-term incentive plan. We are all working for the same goals - to increase the value of C-TEC for its stockholders and, at the same time, achieve the highest possible level of incentive compensation. The Office of the Chairman and the Board of Directors believe that attainment of our long-term business plan will result in increased value for the shareholders.

By surpassing the levels of the business plan, we will also provide meaningful additional compensation for ourselves.

Distribution
November 29, 1989
Page 3

Our plan is to integrate similar incentive plans throughout the C-TEC organization. You should initiate the design of such plans to the extent feasible. Without a doubt, this type plan should be initiated for those senior level people that are directly responsible for a particular business segment.

In order to control the process, I would like each of you to direct a memo to John Menapace (with a copy to me) containing a list of the individuals whom you propose to include in a long-term incentive plan and explaining your reasons for such inclusion. You should also suggest the basis on which each individual would participate, the suggested maximum multiple of annual compensation that could be earned and the time period suggested. (I personally believe that the 1990-1993 time frame of four years would be a good approach).

After a master list is assembled and reviewed, I will discuss the implementation plan with you. Due to the fact that we are getting close to the end of the year, I would like to have this phase completed as soon as possible so that the specific plans can be discussed with each person who will participate by 2/1/90.

ehc

Enclosure

Distribution:

Jim Bogdan ✓
Marc Elgaway ✓
Paul Mazza
Jack Thomas ✓
✓John Menapace
Jon Dell'Antonia
Don Roskos ✓

C-TEC CORPORATION SENIOR MANAGEMENT
LONG TERM INCENTIVE PLAN

PURPOSE

This plan is intended to further the long-term growth of C-TEC Corporation (Company) by offering long-term incentives to the management group of the Company in addition to annual compensation, fringe benefits and a short-term annual incentive plan. The group of executives that will be included in the plan will be limited to the Senior Management group that will be responsible for such growth. It is intended that middle management will be included in a separate plan which will be modeled after this plan but which will include objectives that are limited to the performance of their specific operating group. In addition, the plan for middle management will include annual incentive payments for shorter term goal attainment.

This plan is structured in a way that emphasizes and directs primary FOCUS on the consolidated operations of C-TEC's businesses while recognizing in a more limited fashion, the performance of the individual units that constitute the consolidated operation.

Both operating and staff groups are covered by the plan without distinction in order to emphasize the FOCUS on the overall business.

ADMINISTRATION

The plan will be administered by the Board of Directors of the Company, through its Compensation Committee, in conjunction with the Office of the Chairman. The Board will have full and final authority and discretion to apply and interpret the various provisions of the plan and to decide all questions of fact that will arise in the application of the plan.

The Office of the Chairman will make recommendations to the Board concerning:

1. The specific employees to whom awards shall be made;
2. The size and terms of such awards;
3. Changes in awards;
4. Adjustments, if any, that should be considered as a result of changes in law, accounting practices, acquisitions, mergers, dispositions, extraordinary items or events, or nonrecurring items or events.
5. Alterations to the plan that are deemed appropriate to reflect changed circumstances.

In order to provide guidelines concerning accounting matters and particularly concerning the treatment of unusual items, the Board will be guided by the following general rules; however, these general rules should not be interpreted to provide precedent for any transactions or possible events that are not covered by the general rules:

1. Gains or losses and cash flow from sales or other dispositions of any businesses owned as of 1/1/89 will be excluded from all calculations.
2. Gains or losses and cash flow that could result from administrative decisions outside the control of senior management such as significant refinancings, disposition of non-operational investments, restructuring of the Company's pension plan, etc. will be excluded from all calculation.
3. In the event of any acquisition accounted for as a "Purchase", the amortization of purchased goodwill or negative goodwill may be excluded from all calculations of revenue and pretax profit at the discretion of the Board.
4. In the event of any acquisition accounted for as a "Pooling of Interest", the base year revenue of C-TEC shall be increased by the revenue of the acquired company for 1988 and the operating cash flow of the acquired company for the year ended 12/31/88; and the point-to-point compound growth rates used for the Award Pool Determination (both revenue and cash flow) will be based on the revised base year amounts with the years of the acquired company subsequent to 12/31/88 included in the Award Pool Determination.
5. In the event of any acquisition accounted for as a "purchase" that requires C-TEC to incur debt to make the purchase consideration may be given to adjusting the operating cash flow figures during the period by some portion of the cost of such debt (interest, fees, etc.) For example, the financing cost associated with the \$50 million debt incurred for the Michigan purchase should be excluded from operating cash flow calculations. Any such adjustment could be positive or negative with respect to operating cash flow depending on the circumstances at the discretion of the Board.

After consideration of such recommendations, the Board shall have final authority and discretion to administer this plan.

COMMENCEMENT AND TERMINATION

The plan will commence on January 1, 1989 and will continue until terminated by the Board. If not terminated prior to December 31, 1993, the plan will terminate as of that date but could be extended or an alternative plan initiated by the Board.

PARTICIPATION

Participants will be those individuals selected by the Office of the Chairman who are in a position to directly impact the success of the Company by their efforts.

The Office of the Chairman will provide the Board with a list of the individuals selected for participation upon adoption of the plan and periodically thereafter, as additions and deletions to the list of participants are deemed appropriate.

INCENTIVE AWARD POOL

The incentive award pool will be the sum of the participant's average salary paid to the Plan Participants over the five year cycle, adjusted periodically by the amount of base salary paid to new participants reduced by the amount of base salary included in the pool for any Participant who does not continue to be a Participant.

When an employee is admitted to or removed from the plan as a participant, consideration will be given to the date of admission and/or removal prorated by the number of years remaining in the cycle.

The multiple of the base pool that will constitute the final total incentive pool will be known as the Award Pool. This Award Pool will be earned, based on the Company's level of cash flow and revenue over a three, four and five year period from January 1, 1989 through December 31, 1993 using 1988 as the base year. All multiples will be calculated by using the point-to-point method. The base year amounts are:

Revenue	\$140,100,000
Cash flow from operations	47,900,000

It should be noted that the 1988 base year amounts above exclude the ISG group figures for 1988. The ISG group figures are not included in the plan as currently designed. Although excluded from the corporate plan, a separate plan could be developed for ISG and the group may be included in the future. If the group is subsequently included in the corporate plan the base year and point-to-point numbers will require adjustment. ISG has been excluded at this time only because of the unusual circumstances that currently exist with respect to that group.

The revenue and cash flow figures for 1990-1991-1992 and 1993 have been modified from those reflected in the original 5 year plan approved by the Board for the 5 years commencing January 1, 1989. This modification was made to reflect the impact of the pending purchase of cable business assets from Centel Cable Systems of Michigan, Inc. Base, target and objective amounts for revenue and cash flow were adjusted accordingly. The adjustments were based on the projections of that acquired cable business that were made when the purchase decision was made and approved by the Board. The inclusion of the Centel cable business acquisition figures in the incentive plan includes the debt that will be incurred by the cable business but does not include any debt at the parent company level that is incurred in order to infuse the \$50 million equity contribution into the cable subsidiary. Therefore, where amounts are determined to measure actual performance against the plan, it will be necessary to exclude actual interest incurred by the parent company on debt of \$50 million.

AWARD POOL DETERMINATION

At the point where revenue and operating cash flow over the period 1989-1993 using 1988 as the base year cross, a matrix as described in Exhibit A (attached) will be established. This matrix becomes the multiple of the base pool that will become the Award Pool.

The plan provides for determinations at the end of the third, fourth and fifth years (December 31, 1991, 1992 and 1993).

As of each of these dates the actual operating results (after any adjustments required) will be calculated for the three, four and five years that ended on such dates. Whenever C-TEC has reached the revenue and operating cash flow results reflected on Exhibit A the prorated multiple of the Award Pool will have been earned. For instance, ~~if~~ for the three years ended December 31, 1991, the senior management group would have earned an incentive bonus of one times the award pool, 60% of that amount would be distributed.

The plan is intended to be cumulative. If nothing is earned at the end of the third year a determination would be made at the end of the fourth year. If the multiple at the end of the fourth year exceeds the multiple earned at the end of the third year, the group would earn the amount equivalent to the difference for that fourth year. The same approach would be used for the fifth year.

Once the maximum multiple is earned the plan would terminate.

This approach will provide incentive to continue striving for the maximum incentive award.

RIGHTS TO AWARD

A participant shall have no right to receive an award from the Award Pool unless the Participant remains in the employment of the Company through the earliest of (a) December 31, 1993, (b) normal retirement, (c) death, (d) total disability, (e) early retirement, or (f) date of termination without cause.

In the event that a participant is not employed at December 31, 1993 as a result of any of the points mentioned above, the Board may prorate (but is not required to prorate) a portion of the Award Pool to such Participant based on the number of months actually employed from January 1, 1989 through December 31, 1993.

If a participant is terminated for cause at any time prior to January 1, 1994, the terminated participant will have no right to any award.

Any individual Participant Award for any Participant not employed by the Company as of December 31, 1993, may be reduced by no more than 50% if the Board of Directors determines that any such reduction is necessary to more accurately reflect the contribution of the former employee. Any such reduction will be retained in the Award Pool for distribution to other participants whose personal contributions to the success of the Company warrant additional consideration.

If a new Participant is added to the Plan during the term of the Plan (between January 1, 1989 and December 31, 1993), the Incentive Award Pool shall be increased by a prorata percentage of that Participant's average compensation for the years remaining in the Plan. For instance, if an employee is admitted to the plan as a Participant on 1/1/90, the Incentive Award Pool would be increased by 80% (48 months/60 months) of the participant's four year average salary.

If the Board of Directors elects to prorate the award for a Participant who is terminated without cause, became disabled, retired or died before 12/31/93, the Incentive Award Pool would be decreased by a percentage of that Participant's award compensation. The factor shall be determined by the fraction of the remaining period of time until 12/31/93 as of the date of termination to the total period of time of the plan. For instance, if a Participant is dropped from the plan on 1/1/92 and the Board elects to prorate for the employee, the Incentive Award Pool would be reduced by 60% (36 months/60 months).

PAYMENT

The sum of all awards may not exceed the total Incentive Award Pool.

The awards will be paid by the April 30th following the end of the year that incentive compensation is earned. Based on the plan the earliest payment date will be April 30, 1992.

Individuals may elect, prior to December 31, 1993 to defer payment of any portion of the earned amount. Any such election to defer must be made for at least one year but may be continued. In the event of death after an election to defer has been made, the deferred portion will be paid to the designated beneficiary within 60 days of death.

If a participant elects to defer, interest will be credited to the deferred portion at the rate C-TEC pays for its long-term debt. Interest will be calculated on a monthly basis as of the 15th day of each month.

MISCELLANEOUS

A Participant's rights and interest in this Plan are not assignable or transferable.

In case of death of a Participant, payment of any award from this Plan on account of decedent's Participation shall be made to Participant's designated beneficiary or in absence of such designation, by will or controlling statute if decedent dies intestate.

Participation in the Plan shall not be construed to give Participant any right to continued employment.

The Company shall have the right to deduct from all award payments any and all taxes required by law to be withheld with respect to such award.

For purposes of this Plan, the term "total disability" shall have the same meaning that exists in the Company's Long-Term Disability Income Protection Plan in effect at the time such determination is made.

In the event that employee voluntarily terminates employment during the period from January 1, 1989 through December 31, 1993, the Company is not obligated to make any award payments to such employee. The Board of Directors may, however, elect to make payment of a portion or all of such terminated employee's award but shall not be obligated to do so.

This Plan does not eliminate the possibility of special performance bonuses being awarded in those unusual situations where the Office of the Chairman determines that the performance of an individual on a specific project deserves special consideration. In such cases, the Office of the Chairman will recommend a special performance bonus.

PA PUC V. COMMONWEALTH TELEPHONE COMPANY
DOCKET NO. I-00920020

OCA CROSS EXAMINATION EXHIBIT NO. 15

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RESPONSE OF COMMONWEALTH TELEPHONE COMPANY
TO INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE, SET XII
PA PUC V. CTCO
PA PUC DOCKET NO. I-00920020

17. Company witness Cowley on page 4 of his testimony indicates that costs associated with this proceeding are anticipated to be approximately \$350,000 and that this amount has been expensed in the future test year.
- a. Please provide the workpapers supporting this estimate.
 - b. Please indicate to which accounts this amount has been expensed in CTCO's future test-year claim and explain the services provided.
 - c. Please provide all support for the statement that external economic and operational influences will create requests for rate relief as early as next year.

ANSWER: a. See Exhibit, OCA Set XII, Question 17.
b. See A
c. See Exhibit DPC-6 for support of said statement.

PREPARED BY: DON CAWLEY

COMMONWEALTH TELEPHONE COMPANY
REGULATORY PROCEEDING COSTS
TOTAL EXPENSE

<u>Account Number Description</u>	<u>Percentage</u>	<u>Total Hours</u>	<u>Cost</u>
6711 CTCo Labor	Various	624	37,000
6721 CTCo Labor	Various	1,576	49,000
Total CTCo Labor			86,000
6711/6721 CTCo Out of Pocket Expenses Copies, Federal Express, Travel, etc.			14,000
6725 Legal Fees			150,000
6722 Consultants			100,000
Total Test Year Expenses			<u>350,000</u> =====

Exhibit

(OCA Set Question 17)

PA PUC V. COMMONWEALTH TELEPHONE COMPANY
DOCKET NO. I-00920020

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RESPONSE OF COMMONWEALTH TELEPHONE COMPANY
TO INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE, SET VI
PA PUC V. CTCO
PA PUC DOCKET NO. I-00920020

10. CTCo has indicated that the property of 62, 100 and 120 Lake Street, Dallas, Pennsylvania, that CTCo sold to SRHC for \$1,375,000 on August 11, 1992 had a net book value at the time of sale of approximately \$1,958,000.
- a. Please indicate how CTCo treated for book keeping purposes the \$583,000 difference between its actual sales price for the Lake Street property and CTCo's net book value for that property.
 - b. Please indicate how CTCo has treated this \$583,000 difference for ratemaking purposes?
 - c. For the proportionate share of property now rented by CTCo, please itemize the present cost of providing such facilities as a whole. Such itemization shall include depreciation, maintenance, property tax and all other such expenses.

- ANSWER:
- a. Said amount was primarily associated with a regulated asset. Accordingly, this amount was charged against accumulated depreciation and therefore had no impact on results of operations.
 - b. Same as response to a.
 - c. See Exhibit (OCA Set VI, Question #10).

PREPARED BY: DON CAWLEY AND PAUL MAZZA

depreciation	39,551	
real estate taxes	87,741	
insurance	6,394	
bdg maintenance & repair	14,922	
utilities	131,657	
house services	58,134	
general & administrative	34,989	
total	<table border="1"><tr><td>373,387</td></tr></table>	373,387
373,387		

PA PUC V. COMMONWEALTH TELEPHONE COMPANY
DOCKET NO. I-00920020

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DATE ENTERED: 7/2/93

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RESPONSE OF COMMONWEALTH TELEPHONE COMPANY
TO INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE, SET V
PA PUC V. CTCO
PA PUC DOCKET NO. I-00920020

3. The 1991 C-TEC Annual Report on page 20 indicates that the transaction for the disposition of the Information Services Group and the Company's corporate data processing function encompassed a facilities management agreement whereby continuing and uninterrupted information processing services would be provided to C-TEC's operations.
- a. Please explain the extent to which the referenced transaction required CTCO to continue purchasing information services or data processing from any entity.
 - b. Please explain the extent to which CTCO has taken any competitive bids for the functions referenced in a. and a discussion of the bids received.
 - c. Please provide a copy of the long term facilities management agreement referenced at page 1 of the 1990 C-TEC Annual Report.
 - d. Please provide a copy of the agreement of sale pertaining to the Information Services Group and the Company's corporate data processing function.

- ANSWER:
- a. Said facilities agreement dated January 1, 1991, covers a period of seven years.
 - b. CTCO has not taken any competitive bids for the functions referred in question a.
 - c. Said agreement was with C-TEC and accordingly, CTCO does not possess this agreement.
 - d. Said agreement was with C-TEC and accordingly, CTCO does not possess this agreement

PREPARED BY: DON CAWLEY

PA PUC V. COMMONWEALTH TELEPHONE COMPANY
DOCKET NO. I-00920020

OCA CROSS EXAMINATION EXHIBIT NO. 15

DATE ENTERED: 7/7/93

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Commonwealth Telephone Company
Intrastate Expenses
DPC-4 Other Adjustments

Corporate
Other

6724 Information Management

485,230

The variance is primarily due to an increase in the Facilities Management charge.

- Per the terms of the agreement, with our FM provider, MIS charges increased based on changes in the Consumer Price Index for All Urban Consumers- Other Goods and Services as published by the U.S. Department of Labor, Bureau of Labor Statistics. The index applied was over a 20 month period from January 1, 1991 until August 31, 1992. The increase for that period was 11.79%
- The IBM system software increased from \$34,949 to \$56,950 per month.
- An increase in programming development resources. (See Attached Schedule)

Commonwealth Telephone Company
 Corporate - Other
 6724 Information Management

	1992	1993	Variance
Regulated Factors	0.94797	0.96743	
Intrastate Factors	0.7938	0.80412	
Systematics Billing	219,259	253,149	33,890 (1)
Software Lease	<u>34,949</u>	<u>56,950</u>	<u>22,001</u>
Monthly Totals	<u>254,208</u>	<u>310,099</u>	<u>55,891</u>
Annual Expense	<u>3,050,496</u>	<u>3,721,188</u>	<u>670,692</u>
Regulated Expense	<u>2,891,779</u>	<u>3,599,989</u>	<u>708,210</u>
Intrastate Expense	<u>2,295,494</u>	<u>2,894,823</u>	599,329
Inflation			<u>73,456</u> (2)
Intrastate Variance			<u>525,873</u>

(1)

Monthly Billing	219,259
CPI Rate	<u>0.1179</u>
	25,851
Usage	<u>8,039</u> -
1993 Increase	33,890
Software	<u>22,001</u>
Total Monthly Increase	<u>55,891</u>
Total Annual Increase	<u>670,692</u>

(2)

1992 Regulated Expense	2,891,779
Inflation Rate	<u>0.032</u>
Inflation - Regulated	<u>92,537</u>
Inflation - Intrastate	<u>73,456</u>