

DIRECT TESTIMONY  
OF  
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FINANCIAL ANALYSIS DIVISION  
ILLINOIS COMMERCE COMMISSION

PUBLIC VERSION

ALHAMBRA-GRANTFORK TELEPHONE COMPANY

PETITION FOR UNIVERSAL SERVICE SUPPORT

DOCKET NO. 04-0354

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1 Witness Identification

2 **Q. Please state your name and business address.**

3 A. My name is Bill L. Voss. My business address is 527 East Capitol Avenue,  
4 Springfield, Illinois 62701.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by the Illinois Commerce Commission as a Technical  
7 Assistant to the Director of the Financial Analysis Division. The Financial  
8 Analysis Division is a division within the Public Utilities Bureau of the Illinois  
9 Commerce Commission ("ICC" or "Commission").

10 **Q. Please describe your professional background and affiliations.**

11 A. I joined the Staff of the Illinois Commerce Commission ("Staff") in March  
12 1989. I am a Certified Public Accountant licensed to practice in Illinois. My  
13 prior accounting experience includes three years as an accounting  
14 supervisor for a telephone utility and five years as the corporate controller of  
15 a small business. I hold a Master of Accounting Science degree from the  
16 University of Illinois at Urbana-Champaign.

17 **Q. Have you previously testified before this Commission?**

18 A. Yes, I have. I was a Staff witness in the original Illinois Universal Service  
19 Fund proceeding, Docket Nos. 00-0233 and 00-0335 (Consolidated); in that  
20 proceeding, I provided calculations determining the amount of funding that

21 would be awarded to small telephone companies, including the Alhambra-  
22 Grantfork Telephone Company.

23 Purpose of Testimony

24 **Q. What is the purpose of your testimony in this proceeding?**

25 A. The purpose of my testimony is to quantify the Illinois Universal Service Fund  
26 (“IUSF”) funding requirement for Alhambra-Grantfork Telephone Company  
27 (“Alhambra” or “Company”). My quantification of the IUSF funding  
28 requirement should only be used if the Commission rejects the position of  
29 Staff witness Dr. Genio Staranczak that the Commission should not grant  
30 Alhambra any IUSF funding at this time.<sup>1</sup>

31 Schedule Identification

32 **Q. Are you sponsoring any schedules with your testimony?**

33 A. Yes. I am sponsoring the following schedules:

34	Schedule 2.01	Staff Calculated Funding Requirement
35	Schedule 2.02	Adjustment for 2003 Revenues Received in 2004
36	Schedule 2.03	Adjustment for Increases in Network Access Service
37		Revenues
38	Schedule 2.04	Adjustment for Depreciation Expense
39	Schedule 2.05	Adjustment for the Incremental Cost of DSL Cards

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<sup>1</sup> ICC Staff Exhibit 1.0, page 4. See ICC Staff Exhibit 1.0 for a complete explanation of Staff witness Staranczak’s position.

40 Schedule 2.06 Adjustments for the Operations of A-G Long Distance,  
41 Inc.

42 I am also sponsoring CONFIDENTIAL versions of Schedule 2.01 and  
43 Schedule 2.06.

44 Quantification of IUSF Funding Requirement

45 **Q. Please describe the corporate structure of Alhambra and its**  
46 **subsidiaries.**

47 A. Alhambra provides local and long-distance services to its customers.

48 Alhambra has three subsidiaries:

- 49 ▪ A-G Long Distance, Inc.,
- 50 ▪ Alhambra-Grantfork Cellular Telephone Company, and
- 51 ▪ A-G Cable TV, Inc.

52 A-G Long Distance, Inc. (“A-G Long Distance”), is a reseller of long distance  
53 and provides dial-up and high-speed internet service. Alhambra-Grantfork  
54 Cellular Telephone Company maintains an ownership interest in two cellular  
55 partnerships. A-G Cable TV, Inc., has sold its cable operations and is  
56 currently dormant.

57 **Q. Please describe your methodology for presenting adjustments to**  
58 **Alhambra’s request for IUSF funding.**

59 A. I will present my adjustments in three tiers. The first tier contains  
60 adjustments to telephone operations of Alhambra. The second tier contains

61 adjustments to Alhambra for the dial-up and high-speed internet operations  
62 of A-G Long Distance. The third tier contains adjustments for the long-  
63 distance activities of A-G Long Distance. The adjustments in the second and  
64 third tiers are supported by the testimony of Dr. Staranczak. Dr. Staranczak  
65 justifies the adjustments in the second and third tiers because it is difficult, if  
66 not impossible, to determine the appropriate level of transfer pricing for the  
67 telephone plant and for the services provided by Alhambra to A-G Long  
68 Distance. Dr. Staranczak testifies that certain portions of telephone plant  
69 and certain expenses currently assigned to Alhambra should, in part, be  
70 assigned to A-G Long Distance.<sup>2</sup>

71 Summary of Adjustments and Calculation of IUSF Funding

72 **Q. Where have you summarized your adjustments?**

73 A. I have summarized my adjustments on Schedule 2.01 in columns c, d, and e  
74 for the first, second, and third tiers of my adjustments, respectively.

75 **Q. Have you calculated Alhambra's IUSF funding requirement in the event**  
76 **that the Commission rejects Staff witness Staranczak's**  
77 **recommendation not to grant IUSF funding at this time?**

78 A. Yes. Alhambra's IUSF funding requirement is presented in column f on  
79 Schedule 2.01.

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<sup>2</sup> ICC Staff Exhibit 1.0, pages 4 and 5.

80 **Q. Please explain ICC Staff Exhibit 2.0, Schedule 2.01.**

81 A. Schedule 2.01, entitled "Staff Calculated Funding Requirement," is a two-  
82 page schedule.

83 The descriptions in column a are identical to the descriptions on page 1 of  
84 Alhambra Exhibit 1.0, Attachment 6. The amounts, percentages, and factor  
85 in column b are the same amounts, percentages, and factor presented in the  
86 Adjusted Amount column on page 1 of Alhambra Exhibit 1.0, Attachment 6.

87 My adjustments are presented in columns c, d, and e for the three tiers of  
88 adjustments. Column c presents adjustments to Alhambra's telephone  
89 operations. Column d presents adjustments for the internet operations of A-  
90 G Long Distance. Column e presents adjustments for the long-distance  
91 operations of A-G Long Distance.

92 Column f aggregates the amounts in columns b, c, d, and e and presents the  
93 Staff ROR Deficiency on line 28.

94 The Staff ROR Deficiency in column f at line 28 shows that Alhambra has a  
95 negative rate of return deficiency. This means that Alhambra is earning more  
96 than the 11.21% cost of capital discussed by Alhambra witness  
97 Schoonmaker.<sup>3</sup> Thus, Alhambra does not require any IUSF funding at this  
98 time.

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<sup>3</sup> Alhambra Exhibit 1.0, page 56, lines 1246 through 1254.

99 In the CONFIDENTIAL version of Schedule 2.01, CONFIDENTIAL  
100 information is displayed over a light gray background.

101 **Q. Do you concur with the description of page 1 of Alhambra Exhibit 1.0,**  
102 **Attachment 6, as offered by Alhambra witness Schoonmaker?**

103 A. Yes. I concur with Alhambra's witness Schoonmaker's description of page 1  
104 of Alhambra Exhibit 1.0, Attachment 6, as described in Mr. Schoonmaker's  
105 direct testimony, Alhambra Exhibit 1.0, at page 48, line 1071, through page  
106 53, line 1184, and at page 56, line 1243, through page 57, line 1267.

107 Adjustments for the Telephone Operations of Alhambra

108 **Q. What categories are addressed in your first tier of adjustments?**

109 A. I am proposing adjustments to revenues, depreciation expense, and  
110 telephone plant for the telephone operations of Alhambra.

111 2003 CCL Settlement Revenues Received in 2004

112 **Q. Please explain ICC Staff Exhibit 2.0, Schedule 2.02.**

113 A. Schedule 2.02, entitled "Adjustment for 2003 Revenues Received in 2004,"  
114 presents my adjustment for the common carrier line ("CCL") settlements  
115 received in 2004 that are attributable to 2003. The amounts of these  
116 settlements are presented on lines 7 and 8, with a total on line 9. My  
117 adjustment is presented on lines 1 through 4. Line 4 shows an increase to  
118 revenues in the amount of \$28,591.

119 **Q. Did Alhambra adjust its revenues for out-of-period revenues received in**  
120 **2003 attributable to prior periods?**

121 A. Yes. On Alhambra Exhibit 1.0, Attachment 6, Alhambra reduced, or debited,  
122 its 2003 revenues by \$58,030 to “record true-up in CCL revenue booked in  
123 2003 for prior periods.”<sup>4</sup> If it is appropriate to reduce 2003 revenues for  
124 revenues attributable to prior periods as Alhambra has done, then it is also  
125 appropriate to include revenues attributable to 2003, but received in periods  
126 after 2003, in the calculation of the IUSF funding requirement. In the  
127 response to Staff Data Request BV-2.02, Alhambra identified additional 2003  
128 CCL settlement revenues of \$28,591 that Alhambra has received, or will  
129 receive, during 2004.

130 Network Access Service Revenues

131 **Q. Please explain ICC Staff Exhibit 2.0, Schedule 2.03.**

132 A. Schedule 2.03, entitled “Adjustment for Increases in Network Access Service  
133 Revenues,” is a three-page schedule. Page 1 presents my adjustment for  
134 increased network access service revenues on lines 1 through 4. Line 4  
135 shows an increase to revenues in the amount of \$100,000. Pages 2 and 3  
136 show the calculations and sources of the amounts, discussed below,  
137 pertaining to net telephone plant and network access service revenues for  
138 Cass Telephone Company and Home Telephone Company, respectively.

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<sup>4</sup> See Adjustment 1 on page 4 of Alhambra Exhibit 1.0, Attachment 6. See also Alhambra Exhibit 1.0, pages 57 and 58, lines 1281 through 1284.

139 **Q. Did Alhambra adjust its revenues for anticipated changes in 2004**  
140 **revenues?**

141 A. Yes. On Alhambra Exhibit 1.0, Attachment 6, Alhambra reduced, or debited,  
142 its revenues by \$11,966 to “adjust for the decrease in Federal High Cost loop  
143 Funding change in 2004.”<sup>5</sup>

144 **Q. Do you anticipate that Alhambra will be receiving any additional**  
145 **revenues in 2004?**

146 A. Yes. I believe that Alhambra will be receiving additional network access  
147 service revenues<sup>6</sup> as a result of its 2003 and 2004 plant additions. Alhambra  
148 witness Wilkening, in Alhambra Exhibit 2.0, discusses the two-year project to  
149 upgrade outside plant that began in 2003. In 2003, Alhambra recorded  
150 \$849,688 in plant additions.<sup>7</sup> During 2003, Alhambra’s net plant increased  
151 by \$480,429.<sup>8</sup> During 2004, Alhambra has projected \$500,503 in plant  
152 additions to complete this two-year project to upgrade its outside plant.<sup>9</sup> In

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<sup>5</sup> See Adjustment 2 on page 4 of Alhambra Exhibit 1.0, Attachment 6. See also Alhambra Exhibit 1.0, page 58, lines 1285 through 1289.

<sup>6</sup> Network access service revenues have included accounts 5081, 5082, 5083, and 5084. According to the current Uniform System of Accounts for Telecommunications Carriers in Illinois, 83 Ill. Adm. Code 710, effective August 1, 2003, network access service revenues now include accounts 5081, 5082, and 5083. Alhambra records its Federal Universal Service Fund revenues within these accounts.

<sup>7</sup> Alhambra’s Annual Report to the Commission for the Calendar Year Ended December 31, 2003 (“2003 ICC Form 23A”), page 6, line 8, column c.

<sup>8</sup> See Alhambra’s 2003 ICC Form 23A, page 8, line 11, and Alhambra’s Annual Report to the Commission for the Calendar Year Ended December 31, 2002 (“2002 ICC Form 23A”), page 8.

<sup>9</sup> Alhambra Exhibit 1.0, page 50, lines 1290 through 1297.

153 this proceeding, Alhambra has increased its 2003 rate base by the projected  
154 \$500,503 to complete this project.<sup>10</sup>

155 The network access service revenues received by Alhambra are based, in  
156 part, upon net telephone plant. Since Alhambra's net telephone plant has  
157 increased in 2003 and will most likely increase in 2004, Alhambra will receive  
158 additional network access service revenues in the form of increased cost  
159 study settlements and increased Federal Universal Service Fund ("Federal  
160 USF") funding.

161 **Q. Have you been able to determine an estimate of these increased**  
162 **network access service revenues for 2004?**

163 A. Yes. I have observed the effect on network access service revenues when  
164 net telephone plant increases. Cass Telephone Company ("Cass") and  
165 Home Telephone Company ("Home") are two cost study companies that  
166 increased net telephone plant during 2000.

167     ▪ Cass, during 2000 and 2001, increased its net telephone plant by  
168         \$326,617 and \$123,992, respectively. Cass's network access service  
169         revenues increased by \$100,444 in 2000 and by an additional \$256,372  
170         in 2001. Cass's network access service revenues continued to increase  
171         in 2002 and 2003.<sup>11</sup>

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<sup>10</sup> Adjustment 3 on page 4 of Alhambra Exhibit 1.0, Attachment 6.

<sup>11</sup> See page 2 of my Schedule 2.03 for the calculations and sources of these amounts for Cass.

172           ▪ Home, during 2000, increased its net telephone plant by \$443,549.  
173           During 2001, Home's net telephone plant decreased by \$307,706.  
174           Home's network access service revenues increased by \$97,703 in 2000  
175           and by an additional \$402,913 in 2001. Home's network access service  
176           revenues continued to increase in 2002 and 2003.<sup>12</sup>

177           These two instances demonstrate that a cost study company's network  
178           access services revenues can increase after an increase in net telephone  
179           plant and that these increases in revenue remain two and three years after  
180           the increase in net telephone plant. Since Alhambra's net telephone plant  
181           increased in 2003, and will most likely increase in 2004, it is reasonable to  
182           expect that Alhambra's network access service revenues will increase. I  
183           have relied upon my judgment in making a conservative estimate of  
184           Alhambra's increase in network access service revenues attributable to its  
185           increases in net telephone plant. Thus, I estimate that Alhambra's network  
186           access service revenues will increase by \$100,000 in 2004 through  
187           increased cost study settlements and increased Federal USF funding.  
188           However, as shown in the examples of Cass and Home, the amount of  
189           increased network access service revenues could be much greater.

190           To refine my estimate, I have issued Staff Data Requests BV-7.01 and BV-  
191           7.02. In these two data requests, I have asked Alhambra to prepare and  
192           provide worksheets showing the dollar amounts of the estimated impacts of

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<sup>12</sup> See page 3 of my Schedule 2.03 for the calculations and sources of these amounts for Home.

193 the 2003 and 2004 increases in net plant on the access charge settlements  
194 received from long distance carriers and on Federal USF funding, for the  
195 years 2003, 2004, 2005, 2006, 2007, 2008, and 2009. These two data  
196 requests were issued on September 30, 2004. Alhambra is not expected to  
197 respond before the October 8 filing date for this testimony. I will update my  
198 \$100,000 estimate of increased revenues in my rebuttal testimony pending a  
199 timely response by Alhambra to these two data requests.

200 Depreciation Expense

201 **Q. Please explain ICC Staff Exhibit 2.0, Schedule 2.04.**

202 A. Schedule 2.04, entitled "Adjustment for Depreciation Expense," presents my  
203 adjustment to correct for the depreciation of central office switching  
204 equipment. The corrected total depreciation expense is calculated on lines 7  
205 through 15. My adjustment is presented on lines 1 through 4. Line 4 shows  
206 a decrease in depreciation expense of \$83,165.

207 **Q. Why are you proposing an adjustment to Alhambra's depreciation**  
208 **expense?**

209 A. Alhambra's central office switching equipment is almost fully depreciated.  
210 Alhambra's year-end 2003 balance for central office switching equipment,  
211 found in Account 2212, Digital Electronic Switching, is \$1,099,695.<sup>13</sup>  
212 Alhambra's year-end 2003 balance for accumulated depreciation for central

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<sup>13</sup> Alhambra's 2003 ICC Form 23A, page 6.

213 office switching equipment is \$1,050,897.<sup>14</sup> Thus, there is only \$48,798  
214 remaining of non-depreciated central office switching equipment. During  
215 2003, Alhambra charged \$131,963 to its depreciation expense in Account  
216 6561 for depreciating its central office switching equipment.<sup>15</sup> In Staff Data  
217 Request BV-7.03, I have asked Alhambra for its anticipated amount of  
218 depreciation expense on central office switching equipment for 2004. My  
219 adjustment of \$83,165 on Schedule 2.04 reduces Alhambra's depreciation  
220 expense to the amount required to fully depreciate its central office switching  
221 equipment.

222 Incremental Cost of DSL Cards

223 **Q. Please explain ICC Staff Exhibit 2.0, Schedule 2.05.**

224 A. Schedule 2.05, entitled "Adjustment for the Incremental Cost of DSL Cards,"  
225 presents my adjustment to remove this incremental cost to provide advanced  
226 services. My adjustment is presented on lines 1 through 4. Line 4 shows a  
227 decrease to net regulated plant of \$34,375.

228 **Q. Provide the rationale for your adjustment to remove the incremental**  
229 **cost of DSL cards.**

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<sup>14</sup> Alhambra's 2003 ICC Form 23A, page 17, line 7, column j. (This amount should correctly be placed on line 5, not on line 7.)

<sup>15</sup> Alhambra's 2003 ICC Form 23A, page 16, line 7, column c. (This amount should correctly be placed on line 5, not on line 7.)

230 A. During my review of Alhambra's upgrade to outside plant, I observed that  
231 Alhambra has been installing DSL (digital subscriber line) cards. DSL cards  
232 are capable of providing advanced services such as high-speed internet  
233 connections. DSL cards are more expensive than POTS (plain old telephone  
234 service) line cards. Since A-G Long Distance, and not Alhambra, offers this  
235 high-speed internet access, the additional incremental investment for DSL  
236 cards should not be used in the calculation of IUSF funding. In response to  
237 Staff Data Request BV-3.03, Alhambra states that phase one of the upgrade  
238 to outside plant included "six DSL line cards at a cost of \$975 each" and that  
239 "[t]hese cards are used in place of POTS line cards that cost \$350 each."  
240 Alhambra determined that "[t]he incremental cost for the six DSL line cards  
241 included in the 2003 phase of the project is \$3,750." Staff Data Request BV-  
242 5.01 asked Alhambra to determine the total amount of the incremental costs  
243 of installing DSL line cards rather than POTS line cards in the Alhambra  
244 system. In response to Staff Data Request BV-5.01, Alhambra states that it  
245 has installed 55 DSL cards with an incremental cost of \$34,375.

246 Adjustments for the Operations of A-G Long Distance, Inc.

247 **Q. Do you believe that Alhambra has made an adequate allocation of its**  
248 **costs to its non-regulated subsidiaries?**

249 No. I do not believe that Alhambra has made an adequate allocation of its  
250 costs to its non-regulated subsidiaries. Alhambra's three subsidiaries should

251 pay their appropriate shares of administrative and general expenses and  
252 direct costs. Dr. Staranczak has addressed the issue pertaining to the lack  
253 of an allocation of telephone plant to its non-regulated subsidiary, A-G Long  
254 Distance, Inc.<sup>16</sup> Although it appears that A-G Long Distance, Inc., pays  
255 Alhambra for the billing and collections of its long-distance operations, it does  
256 not appear that there is a similar arrangement for the billing and collections of  
257 its internet operations. As addressed by Dr. Staranczak, it also does not  
258 appear that A-G Long Distance pays an appropriate portion of Alhambra's  
259 general and administrative expenses.<sup>17</sup> For these reasons, I am proposing  
260 that the internet operations and long-distance operations of A-G Long  
261 Distance, Inc., be included in the calculation of Alhambra's funding  
262 requirement for the IUSF. The IUSF should not provide subsidies to non-  
263 regulated subsidiaries.

264 Alhambra has expressed a need for IUSF funding using financial information  
265 that includes expenses that should be charged to a non-regulated subsidiary  
266 and telephone plant that should be assigned to a non-regulated subsidiary.  
267 Because of the inclusion of this plant and these expenses in Alhambra's  
268 financial information, Alhambra shows a financial need that is greater than  
269 what is actually warranted.

270 **Q. Please explain ICC Staff Exhibit 2.0, Schedule 2.06.**

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<sup>16</sup> ICC Staff Exhibit 1.0, pages 4 and 5.

<sup>17</sup> *Ibid.*

271 A. Schedule 2.06, entitled "Adjustments for the Operations of A-G Long  
272 Distance, Inc.," is a two-page schedule.

273 Page 1 presents my adjustments to revenues and expenses for internet  
274 operations and long distance operations as calculated on page 2. Page 1  
275 also includes an adjustment for the incremental costs of DSL cards removed  
276 on Schedule 2.05.

277 Page 2 shows the aggregation of the revenues and expenses for the internet  
278 portion and long-distance portion of A-G Long Distance. The revenue and  
279 expense amounts are aggregated from the December 31, 2003, trial balance  
280 of A-G Long Distance. **BEGIN CONFIDENTIAL.**

281 **END**  
282 **CONFIDENTIAL.**

283 In the CONFIDENTIAL version of Schedule 2.06, CONFIDENTIAL  
284 information is displayed over a light gray background.

285 **Q. How did you include the operations of A-G Long Distance, Inc., in the**  
286 **calculation of the IUSF funding requirement?**

287 A. I included the revenues and expenses of A-G Long Distance in the  
288 calculation of the IUSF funding requirement as if these operations occurred  
289 within Alhambra.

290 Other Comments

291 **Q. Have you proposed any adjustments pertaining to Alhambra-Grantfork**  
292 **Cellular Telephone Company?**

293 A. No. However, Alhambra should conduct a thorough review of its expenses to  
294 ensure that the proper direct and indirect costs are being assigned to  
295 Alhambra-Grantfork Cellular Telephone Company.

296 **Q. Have you proposed any adjustments pertaining to A-G Cable TV, Inc.?**

297 A. No. However, Alhambra should conduct a thorough review of its expenses to  
298 ensure that the proper direct and indirect costs are being assigned to A-G  
299 Cable TV, Inc.

300 **Q: How should this review be conducted?**

301 A: Alhambra should complete a review in accordance with the cost allocation  
302 methodologies in 83 Ill. Adm. Code 712, Cost Allocation for Small Local  
303 Exchange Carriers. Such a review is necessary before any IUSF funding is  
304 awarded to Alhambra. This completed review should accompany Alhambra's  
305 rebuttal testimony.

306 Conclusion

307 **Q. Please summarize your quantification of Alhambra's calculated funding**  
308 **requirement as shown on Schedule 2.01.**

309 A. The following table summarizes the information presented on line 28 of page  
 310 2 to Schedule 2.01:

<u>Description</u>	<u>Amount</u>	<u>Column</u>
Alhambra's requested IUSF funding amount	\$ 213,781	b
Effect of adjustments to telephone operations	(218,051)	c
Effect of adjustments for internet operations	CONFIDENTIAL (XX,XXX) CONFIDENTIAL	d
Effect of adjustments for long-distance operations	CONFIDENTIAL (XX,XXX) CONFIDENTIAL	e
Staff recommended funding requirement	<u>Zero</u>	f

311 Since the cumulative effect of the three tiers of adjustments reduces  
 312 Alhambra's request to a negative amount, Alhambra should not receive any  
 313 IUSF funding.

314 CONFIDENTIAL information in the above table is displayed over a light gray  
 315 background.

316 **Q. In conclusion, what are your recommendations?**

317 A. I have two recommendations.

318 First, if the Commission does not agree with the recommendations of Staff  
 319 witness Staranczak and will not deny Alhambra IUSF funding for policy  
 320 reasons, then the Commission should rely upon the analysis presented in

321 this testimony and deny Alhambra IUSF funding because my analysis and  
322 calculations show that no funding is required.

323 Second, I recommend that, before any IUSF funding is granted to Alhambra,  
324 Alhambra must be required to correctly assign and allocate costs to its two  
325 active non-regulated subsidiaries, A-G Long Distance, Inc., and Alhambra-  
326 Grantfork Cellular Telephone Company, and to its dormant non-regulated  
327 subsidiary, A-G Cable TV, Inc. IUSF funding should not be used to subsidize  
328 a small telephone utility's non-regulated subsidiaries.

329 **Q. Does this question conclude your prepared direct testimony?**

330 A. Yes, it does.