

**STATE OF ILLINOIS**

**ILLINOIS COMMERCE COMMISSION**

GENESEO TELEPHONE COMPANY, )  
CAMBRIDGE TELEPHONE COMPANY and )  
HENRY COUNTY TELEPHONE COMPANY ) Docket 11-0210  
)  
Petition for Universal Service. )

ILLINOIS INDEPENDENT TELEPHONE )  
ASSOCIATION )  
)  
)  
Petition to update the Section 13-301(1)(d) Illinois ) Docket 11-0211  
Universal Service Fund and to implement Intrastate )  
Switched Access Charge reform as described herein ) Consolidated  
and for other relief. )

**DIRECT TESTIMONY OF MICHAEL P. PETROUSKE**

**ON BEHALF OF MOULTRIE INDEPENDENT TELEPHONE COMPANY**

**May 5, 2011**

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

2 A. My name is Michael P. Petrouske. My business address is 150 Coventry Way, Highland,  
3 IL, 62249.

4 **Q. What is the purpose of your testimony?**

5 A. I am the regulatory consultant for Moultrie Independent Telephone Company. I am  
6 providing this testimony in support of the request of Moultrie Independent Telephone  
7 Company (“Company”) to obtain funding from an updated Illinois Universal Service  
8 Fund (“IUSF”) in the referenced docket.

9 **Q. Please describe your professional background.**

10 A. I graduated from Carroll College in Waukesha, Wisconsin, in May 1984 with a Bachelor  
11 of Science Degree in finance and a minor in economics. I entered the  
12 telecommunications industry in 1987 when I accepted a position with Universal  
13 Telephone, a holding company that owned and operated 20 telephone companies in a  
14 nine-state region. At Universal Telephone, I worked in the finance and revenue  
15 management area and in the regulatory operations area. In 1989, I joined Pecoco Inc., an  
16 independent communications holding company in central Wisconsin with operations in  
17 telephone, cable TV, cellular communications and outside plant construction. At Pecoco,  
18 I was responsible for managing the accounting department, as well as managing certain  
19 financial and regulatory functions for all five companies in the Pecoco communications  
20 group. In 1996, I was hired by GVNW Inc./Management and served that organization in  
21 the positions of Management Consultant and Senior Consultant until 1998. In 1998, I  
22 accepted a position with GenSoft Systems, Inc., a communications billing and

23 management software company. At GenSoft Systems, I was Vice President and General  
24 Manager with overall responsibility for the operations of the company. In 1999, I joined  
25 Gridley Consulting Services, Inc., as Vice President until October 2004, when I worked  
26 for Schwartz Ventures, Inc., the holding company for Madison Telephone Company.  
27 While at Schwartz Ventures, I provided regulatory and financial consulting services to  
28 the affiliated Madison companies. I worked there until May 2009. In 2009, I started my  
29 own consulting business. I assist client companies in the areas of cost studies, tariff  
30 filings, business and financial planning, operational and management issues, acquisition  
31 analysis, new business development and regulatory issues.

32

33 **Q. How did you come to be involved in gathering of evidence for the IUSF?**

34 A. The Company received a request from the IITA a number of months ago to complete the  
35 form referred to as Schedule 1.01. I understand that form is essentially the same form  
36 that captured the same information established by agreement between the IITA and  
37 Commission Staff in consolidated Docket Nos. 00-0233 and 00-0335 and that was relied  
38 upon by the Illinois Commerce Commission in establishing the current Illinois Universal  
39 Service Fund (“IUSF”). I also understand that Mr. Schoonmaker, who is testifying on  
40 behalf of the IITA, will be describing the general format of the form in greater detail and  
41 will explain the use of the results from the form in establishing the proposed revision to  
42 the IUSF.

43 **Q. Did you complete the Schedule 1.01 for the Company in accordance with its**  
44 **instructions and based on the Company's Form 23A or other information filed by**  
45 **the Company with the Commission for the year 2009?**

46 A. Yes, I completed Schedule 1.01 for the Company based on the Company's Form 23A or  
47 other information filed with the Commission for the year 2009. For certain information  
48 that was not available from the Form 23A filed with the Commission, I used Company  
49 records as the source of information. That Schedule 1.01 is attached as Exhibit 1.01 to  
50 this testimony.

51 **Q. Have you provided the Company's Schedule 1.01 with all its requisite information**  
52 **to Mr. Schoonmaker for his use in compiling the composite results for all companies**  
53 **seeking updated IUSF funding in connection with his testimony in this docket?**

54 A. Yes. The Company initially provided this information to Mr. Schoonmaker for use in  
55 negotiating the Stipulation and Agreement between the IITA and AT&T. In reviewing  
56 the information for submission in this docket, certain errors were identified in the  
57 information provided to AT&T. I have corrected that information in the Schedule 1.01  
58 which I am submitting for this docket.

59 **Q. Is the Company's Schedule 1.01 (Exhibit 1.01 to this testimony) true and correct to**  
60 **the best of your knowledge, information and belief?**

61 A. Yes. A substantial part of the information included in Schedule 1.01 comes directly from  
62 the Form 23A. The Company's financial statements and any supplementary information  
63 included in the prescribed form are prepared in accordance with Standards for  
64 Accounting and Review Services issued by the American Institute of Certified Public

65 Accountants. The Company's financial statements and records are kept in accordance  
66 with Generally Accepted Accounting Principles (GAAP) and FCC Part 32 accounting  
67 rules. In addition, supplemental information presented in the Schedule 1.01 that did not  
68 come from these sources, but from the Company's records, is also true and correct to the  
69 best of my knowledge, information, and belief.

70 **Q. Did you make any of the standard adjustments as directed by the instructions to the**  
71 **Schedule 1.01 which Mr. Schoonmaker describes in his testimony?**

72 A. Yes.

73 **Q. Standard Adjustment #1 of the described standard adjustments is an adjustment to**  
74 **normalize approved regulatory changes. Did the Company have this type of**  
75 **adjustment?**

76 A. No.

77 **Q. Standard Adjustment #2 is related to out of period or extraordinary revenue and**  
78 **expense adjustments. Did the Company have this type of adjustment?**

79 A. Yes. The Company records the use of certain support and network assets from an  
80 affiliate as rent expense in its regulated accounts. For the purpose of adjusting these  
81 expense accounts, I have reversed the expenses recorded in the Company accounts for  
82 affiliate rents charged and added back the specific Company portion of maintenance  
83 expense, depreciation expense and other expense for these assets. The net effect of this  
84 adjustment is a reduction in operating expense in the amount of \$230,124, which is

85 reflected in the Company's Schedule 1.01, Page 1, Lines 7 and 17. The calculation of  
86 this adjustment is shown on Schedule 1.02, attached to my testimony as Exhibit 1.02.

87 **Q. Standard Adjustment #3 relates to significant or extraordinary changes in plant**  
88 **investment. Did the Company make this type of adjustment?**

89 A. Yes. The Company holds certain support and network assets in an affiliate company. To  
90 accurately reflect the impact on operations for the Company, the Company-specific  
91 portion of the support and network assets and associated depreciation reserve are added  
92 back to the Company's net plant investment. The impact of this net plant adjustment is  
93 an increase of \$1,414,459 to the Company net plant investment. This adjustment is  
94 reflected on the Company's Schedule 1.01, Page 1, Line 1. This adjustment is also  
95 summarized on Schedule 1.02, attached to my testimony as Exhibit 1.02.

96 **Q. Standard Adjustment #4 relates to adjustments made to Federal USF amounts. Did**  
97 **the Company make any adjustments of this type?**

98 A. Yes, the Company had changes in Federal USF support in 2010. The Company's support  
99 payments for Federal High Cost Loop ("HCL") decreased in 2010. Federal HCL  
100 payment amounts for 2009 and 2010 were available to calculate the impact of the change.  
101 The change in HCL resulted in an estimated \$90,657 decrease in operating revenue for  
102 the Company. The change in Federal USF support was deducted from the operating  
103 revenues on the Company's Schedule 1.01, Page 1, Line 14. The calculation of the  
104 Federal USF adjustment is shown on Schedule 1.02, attached to my testimony as Exhibit  
105 1.02.

106 **Q. Standard Adjustment #5 refers to adjustments made to reflect non-regulated**  
107 **revenue or expense items that may have been reflected in the Company's regulated**  
108 **accounts as shown in Form 23A. Did the Company make this type of adjustment?**

109 A. Yes. Since the initial submission of the Schedule 1.01 to the IITA, the company has  
110 finalized its 2009 annual cost study. In the cost study process, the company calculated  
111 two additional adjustments to operating expenses to allocate for non-regulated activities.

112 The first adjustment for non-regulated activities is made to operating expenses. The  
113 amount of the Operating Expenses adjustment for non-regulated activity is \$1,497. The  
114 operating expense adjustment is reflected on Page 1, Lines 7 and 17, of the Company's  
115 Schedule 1.01. This adjustment is shown on Schedule 1.02, attached to my testimony as  
116 Exhibit 1.02.

117 The last adjustment for non-regulated activities is an adjustment to Other Operating Tax  
118 expense. The non-regulated activity adjustment for this expense is a reduction of \$3.

119 This adjustment is reflected on Page 1, Line 19 of the Company's Schedule 1.01. This  
120 adjustment is shown on Schedule 1.02, attached to my testimony as Exhibit 1.02.

121 **Q. Have you made any other adjustments to the Company's Schedule 1.01?**

122 A. Yes, I have. In the initial submission of the Schedule 1.01 to the IITA, I omitted Other  
123 Operating Tax expense in the calculation. My revision to the Schedule 1.01, attached to  
124 my testimony, corrects this omission. The Other Operating Tax expense total is an  
125 additional amount of \$1,610, reflected on Page 1, Line 19, of the Schedule 1.01.

126 **Q. Has the Company reviewed and does the Company support the Stipulation and**  
127 **Agreement between the IITA and AT&T?**

128 A. Yes. As I mentioned above, we provided our Schedule 1.01 information to  
129 Mr. Schoonmaker and the IITA in support of the Stipulation and Agreement negotiation  
130 process. The Company supports the Stipulation and Agreement taken in its entirety.  
131 Although the Company believes that the agreed 9.34% after-tax cost of capital is  
132 inadequate to attract sufficient capital to high cost areas like those the Company serves,  
133 the Company believes the approval of the Stipulation and Agreement will provide a  
134 needed and timely interim updating of the IUSF better reflecting the current financial  
135 circumstances and needs of individual companies pending further action by the FCC.  
136 The Company also supports the creation of an access restructuring element for the IUSF  
137 that will allow small carriers in Illinois to mirror their intrastate switched access rates to  
138 their interstate switched access rates by replacing the revenues lost from a reduction in  
139 intrastate switched access rates on a dollar-for-dollar basis as set forth in the Stipulation  
140 and Agreement.

141 **Q. Does that conclude your testimony?**

142 A. Yes it does.

Moultrie Independent Telephone Company

Exhibit 1.01

Docket No. 11-0211 Cons.

Moultrie Independent Telephone Company  
 Illinois Universal Service Funding Calculation  
 Based upon ICC Form 23A Report Data for December 31, 2009

<u>Line #</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>	<u>Adjustment*</u>	<u>Adjusted Amount</u>
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 335,120	\$ 1,414,459	\$ 1,749,579
2	Materials and Supplies Inventory	Page 2, 13-Month Average	46,485		46,485
3	Customer Deposits	Form 23A, P 8, 4040	-	-	-
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	-	-	-
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			1,796,064
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 11, Total	2,201,248	(231,621)	1,969,627
8	Less: Depreciation Expense	Form 23A, P 11, 6560	157,196	120,475	277,671
9	Total WC Operating Expense	line 7 - line 8	2,044,052	(352,096)	1,691,956
10	WC OE Requirement	line 9 * 45 / 360			211,495
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			211,495
13	Total Rate Base	line 5 + line 12			2,007,559
14	Total Operating Revenues	Form 23A, P 9, Total	2,612,335	(90,657)	2,521,678
15	Less: Illinois Universal Service Fund	Page 3, Line 4	593,724	-	593,724
16	Net Operating Revenues	line 14 - line 15	2,018,611	(90,657)	1,927,954
17	Total Operating Expenses	Form 23A, P 11, Total	2,201,248	(231,621)	1,969,627
18	Other Operating Inc and Exp - Net	Form 23A, P 12, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 12, 7240	1,610	(3)	1,607
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	(184,247)	140,967	(43,280)
21	Income Tax Expense	line 34			(16,800)
22	Net Operating Income	line 20 - line 21			(26,480)
23	Return on Rate Base	line 22 / line 13			-1.32%
24	After-tax Cost of Capital				11.21%
25	Target Net Operating Income	line 24 * line 13			225,047
26	Adj to Achieve Target Return on RB	line 25 - line 22			251,527
27	Gross Revenue Conversion Factor	line 35			1.6345
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			411,121
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			(43,280)
31	Illinois Inc & Rep Tax Expense	line 30 * 7.30%			(3,159)
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			(40,121)
33	Federal Income Tax Expense	line 32 * 34.00%			(13,641)
34	Total Imputed Income Tax Expense	line 31 + line 33			(16,800)
35	Gross Revenue Conversion Factor	1 / ((1 - .0730) * (1 - .34))			1.6345

\* Provide detail on Page 4 for all adjustments.

Moultrie Independent Telephone Company  
 Illinois Universal Service Funding Calculation  
 Based upon ICC Form 23A Report Data for December 31, 2009  
 Material & Supplies Worksheet and Other Information

Line #		
1	December-08	\$52,812
2	January-09	\$52,812
3	February-09	\$52,812
4	March-09	\$52,812
5	April-09	\$52,812
6	May-09	\$52,812
7	June-09	\$52,812
8	July-09	\$39,104
9	August-09	\$39,104
10	September-09	\$39,104
11	October-09	\$39,104
12	November-09	\$39,104
13	December-09	\$39,104
14	13 Month Average	\$46,485

Sale/Lease Back Arrangement

- The company does not have any sale(s)/lease back arrangement.  
 The company does have sale(s)/lease back arrangement.

Lease Agreement with Affiliates

- The company does not have any lease agreements with affiliates.  
 The company does have lease agreements with affiliates.

Tax Status (1=Taxable, 2=Coop) 1

After Tax Return-Taxable 11.21%  
 After Tax Return-Coop 12.60%

**Moultrie Independent Telephone Company****Exhibit 1.01****Docket No. 11-0211 Cons.**

Moultrie Independent Telephone Company  
Illinois Universal Service Funding Calculation  
Based upon ICC Form 23A Report Data for December 31, 2009  
Operating Revenues By Category

<u>Line #</u>		<u>Source</u>	<u>Amount</u>
1	Local Revenues	Form 23A, P 9, Total Local Network Service Revenues	\$ 90,558
2	State Subscriber Line Charges	Trial Balance 12/31/09	\$ 92,429
3	State Access Revenues	Trial Balance 12/31/09	\$ 696,693
4	State Universal Service Support	Trial Balance 12/31/09	\$ 593,724
5	State Special Access Revenues	Trial Balance 12/31/09	\$ 11,435
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	<u>\$ 1,484,839</u>
7	Federal Subscriber Lines Charges	Trial Balance 12/31/09	\$ 59,860
8	Federal Access Revenues	Trial Balance 12/31/09	\$ 878,951
9	Federal High Cost Loop Support	Trial Balance 12/31/09	\$ 141,156
10	Federal Special Access Revenues	Trial Balance 12/31/09	\$ 68,296
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	<u>\$ 1,148,263</u>
12	Misc Revenues	Trial Balance 12/31/09	\$ (20,767)
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u><u>\$ 2,612,335</u></u>

Moultrie Independent Telephone Company  
Illinois Universal Service Funding Calculation  
Based upon ICC Form 23A Report Data for December 31, 2009  
Description of Adjustments

Description of Adjustment	Debit	Credit
<u>Rate Base Adjustments</u>		
Net Plant Investment Add-back	\$1,414,459	
<u>Revenue Adjustments</u>		
FED HCL USF change 2009 to 2010	\$90,657	
<u>Expense Adjustments</u>		
Net Affiliate Plant Lease Adjustment		\$230,124
Affiliate Depreciation Expense add-back	\$120,475	
Non-Regulated Op Exp Adjustment		\$1,497
Non-Regulated Oth. Op Tax Exp. Adj.		\$3

Note: Carry all adjustments forward to Page 1

## Moultrie Independent Telephone Company

Summary of Adjustments:

### Adjustment #2 - Affiliate Rent Expense Adjustment

<u>Description:</u>	<u>Amount</u>
Reverse Affiliate Support Asset Rents Recorded	\$ (471,605)
Reverse Affiliate Network Asset Rents Recorded	\$ (56,595)
Add Company-specific Support Maint & Oth. Exp.	\$ 173,403
Add Company-specific Network Maint Expense	\$ 4,198
Add Company-specific Support Deprec Expense	\$ 85,901
Add Company-specific Network Deprec Expense	\$ 34,574
<b>Total Affiliate Rent &amp; Expense Adjustment</b>	<b>\$ (230,124)</b>

### Adjustment #3 - Affiliate Net Plant Investment Adjustment

<u>Description:</u>	<u>Amount</u>
Company portion Support Asset Investment	\$ 2,574,197
Company portion Support Asset Reserve	\$ (1,256,539)
Company portion Network Asset Investment	\$ 714,710
Company portion Network Asset Reserve	\$ (617,909)
<b>Total Affiliate Net Plant Investment Adjustment</b>	<b>\$ 1,414,459</b>

### Adjustment #4 - Federal USF Funding

	<u>Amount</u>
Federal HCL - 2009	\$ 141,957
Federal HCL - 2010	\$ 51,300
<b>Total Change in Federal USF</b>	<b>\$ (90,657)</b>

USAC Quarterly filings 2009 and 1st Quarter 2010 USAC quarterly filings, annualized.

### Adjustment #5 - Non-regulated Expense Adjustments

<b>Non-regulated Operating Expense Adj.</b>	<b>\$ (1,497)</b>
<b>Non-regulated Oth. Op. Tax Exp. Adj.</b>	<b>\$ (3)</b>

Certificate of Service

Docket No. 11-0211 (Consolidated)

The undersigned certifies that a copy of the *Direct Testimony of Michael P. Petrouske on Behalf of Moultrie Independent Telephone Company* was served upon the following persons by e-mail this 5<sup>th</sup> day of May, 2011.

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A handwritten signature in black ink, appearing to read "Gary Smith", written over a horizontal line.