

**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. )

**REBUTTAL TESTIMONY OF JEFF GOUGH**

**ON BEHALF OF MCDONOUGH TELEPHONE COOPERATIVE, INC.**

**March 23, 2012**

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

2 A. My name is Jeffrey E. Gough. I am employed by GVNW Consulting, Inc. My Business  
3 address is 3220 Pleasant Run, Springfield, IL 62711.

4 **Q. Are you the same Jeffrey E. Gough who provided Direct Testimony on behalf of**  
5 **McDonough Telephone Cooperative, Inc. (the “Company”) on May 5, 2011?**

6 A. Yes.

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

8 A. I am responding to several adjustments proposed to McDonough’s Schedule 1.01 that  
9 were discussed in direct testimony submitted by Staff and rebuttal testimony submitted  
10 by Mr. Rubins.

11 **Q. What proposed adjustments are you going to discuss?**

12 A. I am going to respond to Staff adjustment JZ 3.03, Staff adjustment JZ 3.04 and Mr.  
13 Rubins’ McDonough specific adjustment to Schedule 1.01.

14 **Q. Please describe the operating revenue adjustments proposed by Dr. Zolnierек.**

15 A. In lines 510-528 of his testimony, ICC Staff Exhibit 3.03, Dr. Zolnierек notes that for  
16 eight companies, one of which is McDonough, the sum of federal universal service  
17 revenues the companies reported receiving in their response to data request (DR) GCH  
18 1.06 and the non universal service interstate switched access revenues reported in their  
19 response to data request (DR) JZ 2.04 exceed the sum of total interstate switched access  
20 revenues reported in Schedule 1.01. These differences are detailed on ICC Staff Exhibit

21 3.03. What Dr. Zolnierек characterizes as an under-reported revenue calculated on this  
22 exhibit for McDonough totals \$236,839.

23 In lines 539-549 of his testimony, ICC Staff Exhibit 3.04, Dr. Zolnierек notes that for  
24 eight companies, one of which is McDonough, the sum of federal universal service  
25 revenues the companies reported receiving in their response to data request (DR) GCH  
26 1.06 do not agree with the amount reported on the FCC Universal Service Monitoring  
27 Report. The ICC Staff made a calculation of the adjustment for McDonough, however,  
28 did not propose an adjustment at this time.

29 **Q. Do you agree with Staff proposed adjustment JZ 3.03?**

30 A. No, the revised response to GCH 1.06 is based on the portion of the respective year's  
31 settlement revenues that were identified in the NECA monthly settlement as ICLS or  
32 LSS. The revised JZ 2.04 being submitted with this filing includes the total settlement  
33 revenues less the amount of settlement identified in the monthly settlement as ICLS and  
34 LSS during the respective year.

35 **Q. Do you agree with Staff's calculation of adjustment JZ 3.04?**

36 A. No, as stated above the initial response to GCH 1.06 was based on the portion of the  
37 respective year's current booked settlement revenues that were identified by the  
38 Company as current period ICLS or LSS. The revised GCH 1.06 (attached to this  
39 testimony as McDonough Exhibit 3.01) reflects the total ICLS and LSS identified on the  
40 NECA settlement during the respective year. The difference between the amount  
41 identified on the monthly NECA settlement and the USAC disbursement report are prior

42 period true-ups that are provided to NECA and impact the total pool earnings and are not  
43 flowed directly to McDonough.

44 **Q. Are you providing a revised Response to GCH 1.06 and JZ 2.04?**

45 A. Yes, I am providing a revised GCH 1.06 (attached to this testimony as McDonough  
46 Exhibit 3.01) that reflects the ICLS amount identified on the NECA settlement. I'm also  
47 providing a revision to DR JZ 2.04 (attached to this testimony as McDonough Exhibit  
48 3.02) that includes the net settlements less the ICLS and LSS identified on the NECA  
49 settlements.

50 **Q. Have you reviewed the Direct Testimony of Mr. Scott Rubins?**

51 A. Yes, I will be responding to each of the items addressed to McDonough in Mr. Rubins  
52 testimony.

53 **Q. Do you agree with the cash working capital rate of 15 days addressed in Mr. Rubins  
54 testimony on row 412 through row 428?**

55 A. No, as stated in Mr. Schoonmaker's rebuttal testimony, the cash working capital rate of  
56 45 days applied to a simplified base is consistent with the prior proceedings.

57 **Q. Do you agree with Mr. Rubins that an adjustment for Federal Universal Support  
58 Funding should not be made?**

59 A. No, I agree that for LSS and ICLS the true-up process is a normal part of the process and  
60 adjustments should not be made for the true-ups, but High Cost Support is not a true-up.  
61 The High Cost support based on the 2009 investment and expenses was received in 2011

62 and including the now-known 2011 High Cost Support would better reflect the revenues  
63 associated with the investment being used in the proceeding.

64 **Q. Did you revise Schedule 1.01 to reflect the 2011 High Cost Loop Support?**

65 A. Yes, I am including an adjustment to reflect the 2011 High Cost Loop Support received  
66 by McDonough that is based on 2009 investment.

67 **Q. Do you agree with Mr. Rubins adjustment to cap Corporate Operation Expenses?**

68 A. No, the adjustment would not be appropriate. The NECA Corporate Expense adjustment  
69 is tied to a company's access line count. Many of the costs included in Corporate  
70 Expense such as completion of Annual ICC Report and annual audit do not decrease due  
71 to decreases in relation to access line count. The adjustment suggested by Mr. Rubins for  
72 McDonough includes the Part 64 adjustment already made to the Schedule 1.01.

73 **Q. Do you agree with Mr. Rubins adjustment to General Support?**

74 A. No, the adjustment to reflect non-regulated use of McDonough's regulated general  
75 support assets was already made in the Schedule 1.01.

76 **Q. Please describe the McDonough specific adjustment that Mr. Rubins proposed?**

77 A. In lines 545-667 of his testimony, Mr. Rubins attempts to calculate the amount of revenue  
78 McDonough's affiliate received from Broadband Services based on year-end customer  
79 counts and proposed an adjustment to regulated revenues for the difference between the  
80 regulated broadband transmission (DSL) and the non-regulated broadband service.

81 **Q. Do you agree with this adjustment?**

82 A. No, Mr. Rubins attempted to identify the revenues associated with the non-regulated  
83 service, but ignored all the costs associated with providing the non-regulated service.  
84 The regulated transmission service (DSL) is just one portion of the overall costs  
85 associated with offering broadband service to the customers. Mr. Rubins ignored the  
86 costs associated with the middle mile, web server and other costs necessary to make it a  
87 marketable service.

88 **Q. Do you agree with Mr. Rubins' assertions concerning allocations on lines 658-659?**

89 A. No. The allocations that Mr. Rubins reference are only the allocation for the affiliate's  
90 use of the regulated assets included in regulated accounts on the regulated company's  
91 books. The costs associated with providing the non-regulated broadband service are  
92 booked directly to the affiliate and are not allocated from the regulated company.

93 **Q. Are you making an adjustment to the Schedule 1.01 to reflect the proposed decrease**  
94 **in state originating access rates?**

95 A. Yes, I am including an adjustment to reflect the decrease in state originating access  
96 billing revenues associated with 2009 originating minutes mirroring interstate access  
97 rates. This adjustment was proposed in Dr. Zolnierек direct testimony. The adjustment  
98 is discussed in more detail in Mr. Schoonmaker's rebuttal testimony. The amount of  
99 2009 state originating access billing revenues at 2009 year end state access rates versus  
100 the same usage billed using the 2009 year end interstate rates for McDonough was a  
101 reduction of \$28,343.

102 **Q. Are you providing a revised Schedule 1.01?**

103 A. Yes, I am providing it as McDonough Exhibit 1.01 (as revised 3/23/12).

104 **Q. Is the Company's Schedule 1.01 McDonough Exhibit 1.02 (as revised 3/23/12) true**  
105 **and correct to the best of your knowledge, information and belief?**

106 A. Yes.

107 **Q. Have you provided the Company's revised Schedule 1.01 with all the requisite**  
108 **information to Mr. Schoonmaker for his use in adjusting the composite results for**  
109 **all companies seeking updated IUSF funding in connection with his testimony in this**  
110 **docket?**

111 A. Yes, I provided this revised Schedule 1.01 to Mr. Schoonmaker of the IITA so that he  
112 could use it to adjust his calculation of updated IUSF funding.

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

114 A. Yes it does.

## ILLINOIS COMMERCE COMMISSION

Docket Nos. 11-0210 and 11-0211 (Cons.)

(Revised Response to Geneseo, Cambridge and Henry County Data Request GCH 1.06)

Utility Company: McDonough Telephone Cooperative, Inc.

Person Responsible: Jeff Gough

Job Title: Consultant

Business Address: 3220 Pleasant Run, Springfield, IL 62711

Telephone Number: (217)862-1936

Response due: March 23, 2012

Data Request GCH 1.06

Exhibit 1, Schedule 1.01, page 3, Line 9 – Federal High Cost Loop Support only includes high cost loop support. Please provide amounts for 2009 and 2010 Local Switching Support, Interstate Common Line Support, Interstate Access Support, Safety Net and Safety Value Support, and for the 2009 amounts identify for each amount what line number this amount is included in Exhibit 1, Schedule 1.01, page 3.

Response

Please see schedule below showing the amount of the various Federal Supports identified on the NECA monthly statements and which would be part of McDonough's pool settlements.

	Amount of USF Identified on NECA Monthly Settlement in 2009	Amount of USF Identified on NECA Monthly Settlement in 2010	2009 Included in Line # of Page 3 of 1.01
Local Switching Support	\$51,036	\$204,648	Line 8
Interstate Common Line Support	\$996,936	\$1,059,930	Line 8
Interstate Access Support			NA
Safety Net Support	\$61,787	\$0	Line 8
Safety Valve Support	\$0	\$0	NA

ILLINOIS COMMERCE COMMISSION

Docket Nos. 11-0210 and 11-0211 (Cons.)

(Revised Responses to Staff's Data Request JZ 2.04)

Utility Company: McDonough Telephone Cooperative

Person Responsible: Jeff Gough  
Job Title: Consultant  
Business Address: 3220 Pleasant Run, Springfield, IL 62711  
Telephone Number: (217) 862-1936

Response due: March 23, 2012

JZ 2.04 Please provide the amount of revenue included within "Federal Access Revenues" on Page 3, Line #8 of McDonough Telephone Company Exhibit 1.01 excluding Federal Universal Service Fund revenue.

*Response: The amount excluding settlement amounts identified as LSS, ICLS and Safety Net Support is \$427,271.*

McDonough Telephone Cooperative, Inc.  
 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	\$ 12,513,706	\$ (243,812)	\$ 12,269,894
2	Materials and Supplies Inventory	Page 2, 13-Month Average	322,997		322,997
3	Customer Deposits	Form 23A, P 8, 4040	375	-	375
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	-	-	-
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			12,592,516
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 11, Total	5,551,600	(135,065)	5,416,535
8	Less: Depreciation Expense	Form 23A, P 11, 6560	1,546,264	(52,933)	1,493,331
9	Total WC Operating Expense	line 7 - line 8	4,005,336	(82,132)	3,923,204
10	WC OE Requirement	line 9 * 45 / 360			490,400
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			490,400
13	Total Rate Base	line 5 + line 12			13,082,916
14	Total Operating Revenues	Form 23A, P 9, Total	6,612,015	91,021	6,703,036
15	Less: Illinois Universal Service Fund	Page 3, Line 4	926,664	-	926,664
16	Net Operating Revenues	line 14 - line 15	5,685,351	91,021	5,776,372
17	Total Operating Expenses	Form 23A, P 11, Total	5,551,600	(135,065)	5,416,535
18	Other Operating Inc and Exp - Net	Form 23A, P 12, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 12, 7240	19,834	(389)	19,445
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	113,917	226,475	340,392
21	Income Tax Expense	line 34			-
22	Net Operating Income	line 20 - line 21			340,392
23	Return on Rate Base	line 22 / line 13			2.60%
24	After-tax Cost of Capital				9.34%
25	Target Net Operating Income	line 24 * line 13			1,221,944
26	Adj to Achieve Target Return on RB	line 25 - line 22			881,552
27	Gross Revenue Conversion Factor	line 35			1.0000
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			881,552
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			340,392
31	Illinois Inc & Rep Tax Expense	line 30 * 7.30%			-
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			340,392
33	Federal Income Tax Expense	line 32 * 34.00%			-
34	Total Imputed Income Tax Expense	line 31 + line 33			-
35	Gross Revenue Conversion Factor	1/((1 - 0)*(1 - 0))			1.0000

\* Provide detail on Page 4 for all adjustments.

McDonough Telephone Cooperative, Inc.  
Illinois Universal Service Funding Calculation  
Based upon ICC Form 23A Report Data for December 31, 2009  
Material & Supplies Worksheet and Other Information

<u>Line #</u>		
1	December-08	\$330,562
2	January-09	\$346,925
3	February-09	\$397,118
4	March-09	\$373,357
5	April-09	\$386,168
6	May-09	\$379,257
7	June-09	\$372,494
8	July-09	\$334,019
9	August-09	\$233,176
10	September-09	\$213,042
11	October-09	\$197,382
12	November-09	\$277,732
13	December-09	\$357,728
14	13 Month Average	\$322,997

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) 2

After Tax Return-Taxable 9.34%  
After Tax Return-Coop 9.34%

McDonough Telephone Cooperative, Inc.  
 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	\$ 809,836
2	State Subscriber Line Charges	Trial Balance 12/31/09	\$ 231,289
3	State Access Revenues	Trial Balance 12/31/09	\$ 410,551
4	State Universal Service Support	Trial Balance 12/31/09	\$ 926,664
5	State Special Access Revenues	Trial Balance 12/31/09	\$ 14,842
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	<u>\$ 2,393,182</u>
7	Federal Subscriber Lines Charges	Trial Balance 12/31/09	\$ 342,586
8	Federal Access Revenues	Trial Balance 12/31/09	\$ 1,537,030
9	Federal High Cost Loop Support	Trial Balance 12/31/09	\$ 1,756,062
10	Federal Special Access Revenues	Trial Balance 12/31/09	\$ 352,910
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	<u>\$ 3,988,587</u>
12	Misc Revenues	Trial Balance 12/31/09	\$ 230,246
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u><u>\$ 6,612,015</u></u>

McDonough Telephone Cooperative, Inc.  
 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 Part 64		\$243,812
<u>Revenue Adjustments</u>		
High Cost Loop 2009	\$1,791,600	
High Cost Loop 2011		\$1,910,964
Net Increase		\$119,364
State Access Rate Reduction	\$28,343	
<u>Expense Adjustments</u>		
Part 64 Plant Specific		\$36,973
Part 64 Depr		\$52,933
Part 64 Marketing		\$1,847
Part 64 Customer Service		\$16,433
Part 64 Corporate		\$26,879
Part 64 Other Taxes		\$389

Note: Carry all adjustments forward to Page 1

**CERTIFICATE OF SERVICE**

Docket No. 11-0211 (Consolidated)

The undersigned certifies that a copy of the *Rebuttal Testimony of Jeff Gough on Behalf of McDonough Telephone Cooperative, Inc.* was served upon all parties to the above cause at their address as follows:

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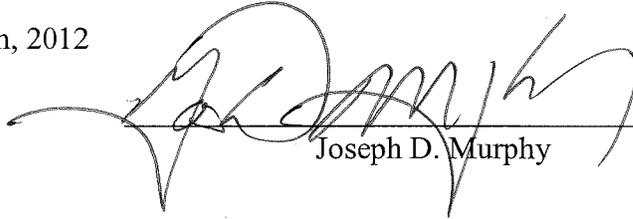
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via e-mail on this 23<sup>rd</sup> day of March, 2012



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Joseph D. Murphy