

Before the Illinois Commerce Commission

Direct Testimony of

Gordon J. Kraut, Jr.

On Behalf of

El Paso Telephone Company

(ICC Docket Nos. 00-0233 & 00-0335 Consolidated)

April 20, 2001

OFFICIAL FILE

ILL. C. C. DOCKET NO. 00-0233/0335
El Paso
Telephone Co. 1.0
Date 6-19-01 CB

1 **Q. PLEASE IDENTIFY YOURSELF FOR THE RECORD.**

2 A. My name is Gordon Kraut. I am a consulting manager with GVNW Consulting,
3 Inc. GVNW Consulting, Inc.'s principal business is telecommunications
4 consulting for small independent telephone companies. My business address is
5 3220 Pleasant Run, Springfield, Illinois 62707.

6

7 **Q. PLEASE PROVIDE YOUR EMPLOYMENT BACKGROUND.**

8 A. I joined GVNW, Inc. on October 20, 1997. In my current position I consult with
9 independent telephone companies and provide financial analysis and management
10 advice in areas of concern to these companies. Specific activities include
11 regulatory analysis, consultation on regulatory policy, financial analysis, market
12 analysis, rate design and tariff development, long-range strategic planning and
13 general management consulting services. Previously, I was employed by TDS
14 TELECOM, as Manager of Revenue and Earnings in the Government and
15 Regulatory Affairs Group, where my responsibilities were to manage the revenue
16 and earnings processes, manage the development and implementation of earnings
17 strategies, and oversee rate cases, regulatory audits, and earnings reviews for the
18 TDS TELECOM companies. I also assisted in the regulatory review of telephone
19 company operating and capital budgets, and ensuring that capital recovery
20 objectives were achieved for TDS TELECOM operating companies.

21

22 In 1988, I began my telecommunications career with TDS, Inc., as an Internal
23 Auditor. In this position, I conducted both operational and financial reviews of
24 TDS, Inc.'s operating companies. In 1993, I was promoted to Senior Internal
25 Auditor where I took a more active role in managing internal audits for the

1 company. In 1994, I was promoted to Associate Manager of Accounting in TDS
2 TELECOM. My responsibilities included providing management with monthly
3 reports on company financial results, troubleshooting and providing support to the
4 region accounting staffs and helping determine accounting policy and procedures.
5 Early in 1996, I was promoted to the position of Manager of Revenue and Earnings
6 in the Government and Regulatory Affairs Group.

7

8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

9 A. I graduated from Edgewood College in May 1988 with a Bachelor of Science
10 Degree in Business with an emphasis in Accounting. I was awarded a Masters in
11 Business Administration from Edgewood College in 1991.

12

13 **Q. HAVE YOU TESTIFIED BEFORE?**

14 A. Yes. I have provided testimony in the Commonwealth of Pennsylvania in rate
15 cases for Sugar Valley Telephone Company and Mahanoy & Mahantango
16 Telephone Company. I have also put in testimony on behalf of Citizens of
17 Kecksburg also in Pennsylvania in a rural exemption case.

18

19 **Q. ON WHAT COMPANY'S BEHALF IS THIS TESTIMONY SUBMITTED?**

20

21 A. El Paso Telephone Company.

22

23 **Q. HAVE THE ILLINOIS UNIVERSAL SERVICE FUNDING**
24 **CALCULATIONS FOR EL PASO TELEPHONE COMPANY USING THE**
25 **FORMAT AGREED TO BY THE STAFF AND THE IITA BEEN**
26 **PREPARED BY YOU OR SOMEONE UNDER YOUR DIRECT**
27 **SUPERVISION?**

28

1 A. Yes it has. It is attached as El Paso Telephone Company Exhibit 1.0, Schedule
2 1.01 and consists of three pages.

3

4 **Q. DID YOU COMPLETE EL PASO TELEPHONE COMPANYS EXHIBIT**
5 **1.0, SCHEDULE 1.01 IN ACCORDANCE WITH THE INSTRUCTIONS**
6 **AND BASED ON EL PASO TELEPHONE COMPANY'S ICC FORM 23A**
7 **FILED BY THE COMPANY WITH THE COMMISSION FOR THE YEAR**
8 **ENDED DECEMBER 31, 2000?**

9

10 A. Yes, that is correct.

11

12 **Q. BASED ON THE RESPONSES AND CONTENT OF EL PASO**
13 **TELEPHONE COMPANY EXHIBIT 1.0, SCHEDULE 1.01, IS EL PASO**
14 **TELEPHONE COMPANY PROVIDING STAFF WITH CERTAIN**
15 **ADDITIONAL DOCUMENTS?**

16

17 A. Yes. I am providing the Staff with a copy of El Paso Telephone Company's
18 December 31, 2000, Trial Balance.

19

20 **Q. HAVE YOU PROVIDED THE REQUISITE INFORMATION FROM EL**
21 **PASO TELEPHONE COMPANY EXHIBIT 1.0, SCHEDULE 1.01 TO MR.**
22 **SCHOONMAKER FOR HIS USE IN COMPILING THE COMPOSITE**
23 **RESULTS FOR ALL COMPANIES SEEKING FUNDING IN**
24 **CONNECTION WITH HIS TESTIMONY?**

25

26 A. Yes, I have.

27

28 **Q. IS EL PASO TELEPHONE COMPANY EXHIBIT 1.0, SCHEDULE 1.01**
29 **TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE,**
30 **INFORMATION AND BELIEF?**

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A. Yes, it is.

Q. HAVE YOU MADE ANY OF THE STANDARD ADJUSTMENTS THAT HAVE BEEN AGREED UPON BETWEEN THE IITA AND STAFF?

A. Yes, I have.

Q. PLEASE DESCRIBE EACH OF THE ADJUSTMENTS THAT YOU HAVE MADE TO EL PASO TELEPHONE COMPANY.

A. I have made one (1) standard adjustment on El Paso Telephone Company's Exhibit 1.0. This adjustment is summarized in Schedule 1.02.

The adjustment that was made was for an increase in Federal High Cost Loop (HCL) Revenues that El Paso is currently receiving in 2001. This is listed as standard adjustment #5 in Bob Schoonmaker's testimony. El Paso received \$94,257 in Federal HCL funding in 2000 per information that appears on quarterly filings that the Universal Service Administration Corporation (USAC) made with Federal Communication Commission. Per these same filings for the first two quarters of 2001 annualized, El Paso is receiving \$34,260. This results in an increase in Federal funding of \$59,997 and is a known and measurable increase in El Paso's revenue streams.

HAVE YOU MADE ANY OF NON STANDARD ADJUSTMENTS THAT WERE NOT AGREED UPON BETWEEN THE IITA AND STAFF?

A. Yes, I have.

1 **Q. PLEASE DESCRIBE EACH OF THE NON-STANDARD ADJUSTMENTS**
2 **THAT YOU HAVE MADE TO EL PASO TELEPHONE COMPANY.**

3

4 A. I have made two (2) non-standard adjustments on El Paso Telephone Company's
5 Exhibit 1.0. These adjustments are summarized in Schedule 1.02.

6

7 Both of the non-standard adjustments are to remove non-regulated items
8 appearing in El Paso Telephone Company's ICC Form 23A filed with the
9 Commission. The first adjustment removes \$227,425 of non-regulated revenues
10 from El Paso's Exhibit 1.0, Line 14, Total Operating Revenues. The second
11 adjustment removes \$23,077 of non-regulated expenses from El Paso's Exhibit
12 1.0, Line 7 and Line 17, Total Operating Expenses.

13

14 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY ON BEHALF**
15 **OF EL PASO TELEPHONE COMPANY?**

16

17 A. Yes, it does.

El Paso Telephone Company
Illinois Universal Service Funding Calculation
 Based upon ICC Form 23A Report Data for December 31, 2000

Line #	Description	Source	Amount	Adjustment	Adjusted Amount
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 1,623,137	\$ -	\$ 1,623,137
2	Materials and Supplies Inventory	Page 2, 13-Month Average	11,088		11,088
3	Customer Deposits	Form 23A, P 8, 4040	9,857	-	9,857
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	73,930	-	73,930
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			1,550,438
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 14, Total	1,666,026	(23,077)	1,642,949
8	Less: Depreciation Expense	Form 23A, P 13, 6560	393,546	-	393,546
9	Total WC Operating Expense	line 7 - line 8	1,272,480	(23,077)	1,249,403
10	WC OE Requirement	line 9 * 45 / 360			156,175
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			156,175
13	Total Rate Base	line 5 + line 12			1,706,613
14	Total Operating Revenues	Form 23A, P 11, Total	2,593,914	(287,422)	2,306,492
15	Less: Illinois High Cost Fund		396,951	-	396,951
16	Net Operating Revenues	line 14 - line 15	2,196,963	(287,422)	1,909,541
17	Total Operating Expenses	Form 23A, P 14, Total	1,666,026	(23,077)	1,642,949
18	Other Operating Inc and Exp - Net	Form 23A, P 15, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 15, 7240	9,839	-	9,839
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	521,098	(264,345)	256,753
21	Income Tax Expense	line 34			99,463
22	Net Operating Income	line 20 - line 21			157,290
23	Return on Rate Base	line 22 / line 13			9.22%
24	After-tax Cost of Capital				11.21%
25	Target Net Operating Income	line 24 * line 13			191,311
26	Adj to Achieve Target Return on RB	line 25 - line 22			34,021
27	Gross Revenue Conversion Factor	line 35			1.6324
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			55,536
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			256,753
31	Illinois Inc & Rep Tax Expense	line 30 * 7.18%			18,435
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			238,318
33	Federal Income Tax Expense	line 32 * 34.00%			81,028
34	Total Imputed Income Tax Expense	line 31 + line 33			99,463
35	Gross Revenue Conversion Factor	1 / ((1 - .0718) * (1 - .34))			1.6324

El Paso Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Material & Supplies Worksheet and Other Information

<u>Line #</u>		
1	December-99	\$9,741
2	January-00	\$9,741
3	February-00	\$9,741
4	March-00	\$9,741
5	April-00	\$10,394
6	May-00	\$10,280
7	June-00	\$10,240
8	July-00	\$12,552
9	August-00	\$11,927
10	September-00	\$11,902
11	October-00	\$15,080
12	November-00	\$11,700
13	December-00	\$11,110
14	13 Month Average	\$11,088

Sale/Lease Back Arrangement

- The company does not have any sale(s)/lease back arrangement.
 The company does have sale(s)/lease back arrangement and has provided additional information to staff.

Lease Agreement with Affiliates

- The company does not have any lease agreements with affiliates.
 The company does have lease agreements with affiliates and has provided additional information to staff.

Trial Balances

The Company has provided a copy of its 12/31/2000 trial balance in support of the attached exhibits.

El Paso Telephone Company
 Illinois Universal Service Funding Calculation
 Based upon ICC Form 23A Report Data for December 31, 2000
 Operating Revenues By Category

<u>Line #</u>		<u>Source</u>	<u>Amount</u>
1	Local Revenues	Form 23A, P 10, Total Local	
		Network Service Revenues	\$ 270,590
2	State Subscriber Line Charges	Trial Balance 12/31/00	\$ 315,688
3	State Access Revenues	Trial Balance 12/31/00	\$ 372,297
4	State High Cost Support	Exhibit X, Line 15	\$ 396,951
5	State Special Access Revenues	Trial Balance 12/31/00	\$ 28,430
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	\$ 1,383,956
7	Federal Subscriber Lines Charges	Trial Balance 12/31/00	\$ 103,764
8	Federal Access Revenues	Trial Balance 12/31/00	\$ 312,168
9	Federal High Cost Support	Trial Balance 12/31/00	\$ 379,043
10	Federal Special Access Revenues	Trial Balance 12/31/00	\$ 40,633
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	\$ 835,608
12	Misc Revenues	Trial Balance 12/31/00	\$ 374,356
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u>\$ 2,593,920</u>

El Paso Telephone Company
Summary of Adjustments

Adjustment 1	DR	CR
Miscellaneous Revenues	227,425	
Miscellaneous Expenses	23,077	

Remove non-regulated revenues and expenses.

Adjustment 2

Federal High Cost Loop Fund	59,997	
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Revenues received from the High Cost Loop Fund in 2000 were \$94,257
and current 2001 revenues are \$34,260.