

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

ILLINOIS INDEPENDENT TELEPHONE ASSOCIATION)	
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Petition for initiation and investigation of the necessity of and the establishment of a Universal Service Support Fund in accordance With Section 13-301(d) of The Public Utilities Act.)	Docket No. 00-0233
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ILLINOIS COMMERCE COMMISSION On Its Own Motion)	
)	
Investigation into the necessity of and, if appropriate, the establishment of a universal Service support fund pursuant to Section 13-301(d) of the Public Utilities Act.)	Docket No. 00-0335
)	

DIRECT TESTIMONY
OF
MICHAEL P. PETROUSKE
ON BEHALF OF
TONICA TELEPHONE COMPANY

OFFICIAL FILE
 IL C. C. DOCKET NO. 00-0233/0335
 Tonica Telephone Company Exhibit No. 1
 Witness _____
 Date 6/19/01 Reporter oad

April 20, 2001

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

2 A. My name is Michael P. Petrouske. My business address is 850 Pluto Street, Geneseo,
3 Illinois, 61254.

4
5 **Q. By whom are you employed and in what capacity.**

6 A. I am a Vice President of Gridley Consulting Services, Inc. For purposes of this
7 testimony, Gridley Consulting Services, Inc. has been hired by Tonica Telephone
8 Company.

9
10 **Q. Please outline your educational background and business experience.**

11 A. I graduated from Carroll College in Waukesha, Wisconsin in May of 1984 with a
12 Bachelor of Science degree in Finance and a minor in Economics. I entered the
13 telecommunications industry in 1987 when I accepted a position with Universal
14 Telephone. Universal Telephone was a holding company that owned and operated
15 twenty telephone companies in a nine state region. At Universal Telephone, I worked in
16 the finance and revenue management area and in the regulatory operations area. From
17 Universal Telephone, I joined Pecoco, Inc. in 1989. Pecoco Inc. was an independent
18 communications holding company in central Wisconsin with operations in telephone,
19 cable TV, cellular communications and outside plant construction. At Pecoco, I was
20 responsible for managing the accounting department as well as managing certain
21 financial and regulatory functions for all five companies in the Pecoco communications
22 group. In 1996, I was hired by GVNW Inc./Management and served that organization in
23 the positions of Management Consultant and Senior Consultant. At GVNW
24 Inc./Management I had direct and supervisory responsibility for over forty clients
25 providing telecommunications services in multiple states, the majority of which were in
26 Illinois. I assisted clients with projects encompassing cost studies, regulatory compliance
27 and reporting, financial management and planning, business case modeling, acquisition

1 analysis, toll service implementation, new business development and tariff filings. In
2 1998 I accepted a position with GenSoft Systems, Inc. a communications billing and
3 management software company. At GenSoft Systems, I was Vice President and General
4 Manager with overall responsibility for the operations of the company. In 1999, I joined
5 Gridley Consulting Services, Inc. as Vice President. In my current position, I assist client
6 companies in the areas of cost studies, tariff filings, business and financial planning,
7 operational and management issues, acquisition analysis, new business development and
8 regulatory issues.

9
10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to present the results of an earnings analysis for Tonica
12 Telephone Company. This analysis is being presented to determine whether the
13 Company qualifies for state Universal Service support based on its rate of return.

14
15 **Q. Does your testimony include any exhibits, and were these prepared by you or under
16 your direction?**

17 A. Yes, my testimony includes Tonica Telephone Company Exhibit 1, Schedule 1.01 which
18 was prepared under my direction.

19
20 **Q. What is the source of the amounts used in the Company's earnings analysis?**

21 A. Tonica Telephone Company Exhibit 1, Schedule 1.01, Page 1 of 3 attached to my
22 testimony shows the results of the Company's earnings analysis. The amounts used in
23 the earnings analysis were obtained from the Company's trial balance for calendar year
24 ended December 31, 2000, except for materials and supplies, line 2, which represents a
25 13-month average. The calculation of this 13-month average is shown in Tonica
26 Telephone Company Exhibit 1, Schedule 1.01, page 2 of 3 attached to my testimony. The
27 source of the amounts used in the calculation is company records. The Company has

1 provided a copy of the trial balance to Commission Staff in support of Tonica Telephone
2 Company Exhibit 1, Schedule 1.01.

3
4 **Q. Please summarize the results of the Company's earnings analysis shown on Tonica
5 Telephone Company Exhibit 1, Schedule 1.01, Page 1 of 3.**

6 A. This analysis shows that the Company has a return on rate base, or rate of return (ROR)
7 of 6.81 percent. This is shown on Line 23. This corresponds to a ROR Funding
8 Deficiency Including Income Taxes in the amount of \$55,036. This amount is shown on
9 Line 28. This means that the Company has a need for net state Universal Service support
10 of \$55,036.

11
12 **Q. Does your calculation of need based on the company's rate of return include
13 adjustments?**

14 A. Yes.

15
16 **Q. Are these standard adjustments as discussed in the Supplemental Direct Testimony
17 of Robert C. Schoonmaker.**

18 A. Yes, they are.

19
20 **Q. Please describe the adjustments you have made.**

21 A. I have made two adjustments to the results. First, I adjusted operating revenues by
22 subtracting the amount of IUSF support received by the company. This adjustment is
23 discussed on page 7 of Mr. Schoonmaker's Supplemental Direct Testimony. Secondly, I
24 adjusted total operating revenues in the amount of \$9,456 to reflect an increase in
25 operating revenues for Federal funding changes associated with Federal High Cost Loop
26 Fund (HCLF) support received by the company. This adjustment is listed as Adjustment

1 #5 – Federal Funding in IITA Exhibit #3, Attachment #3 of Mr. Schoonmaker’s
2 Supplemental Direct Testimony.

3
4 **Q. You are not making adjustments that would be consistent with Adjustment #1 –**
5 **RTB Stock, Adjustment #2 - Normalization for Approved Regulatory Changes,**
6 **Adjustment # 3 – Out-of-Period Adjustments or Adjustment #4 – Significant or**
7 **Extraordinary Plant Investment Changes as described in Mr. Schoonmaker’s**
8 **Supplemental Direct Testimony. Why not?**

9 A. Those adjustments are not appropriate for Tonica Telephone Company. The company
10 does not own any RTB stock. As an average schedule company, Tonica Telephone
11 Company does not have any regulatory changes to normalize. I am not aware of any out-
12 of-period adjustments for Tonica Telephone Co. that would be appropriate to include in
13 this analysis of state universal service requirements. Also, I do not expect any significant
14 plant investment changes that are known and measurable at this time.

15
16 **Q. Are you aware of any other known and measurable changes to the company’s actual**
17 **calendar year 2000 results that would impact the earnings analysis?**

18 A. No, I am not aware of any other changes that are known and measurable.

19
20 **Q. Why are total operating revenues on line 14 reduced by an amount for the Illinois**
21 **High Cost Fund on line 15?**

22 A. The \$20,004 amount on line 15 is the total support that Tonica Telephone Company is
23 currently receiving from the Illinois High Cost Fund. Since this fund expires on
24 September 30, 2001, the amounts the Company receives from these funds must be
25 subtracted from total operating revenues.

26

1 **Q. Why was an amount associated with the DEM fund not subtracted from Tonica**
2 **Telephone's results?**

3 A. As an average schedule company, Tonica does not receive funding support from the state
4 DEM fund.

5
6
7 **Q Please explain the adjustment in the amount of \$9,456 that you have made to**
8 **increase total operating revenues on line 14 of the earnings analysis.**

9 A. The purpose of this adjustment is to reflect the increase in 2001 revenues due to the
10 increase in Federal High Cost Loop Fund Support. In 2000, we received \$14,520 in
11 HCLF support. In 2001, we are receiving support at an annual level of \$23,976. The
12 difference is \$9,456. As stated earlier, this adjustment is consistent with the standard
13 Adjustment #5 – Federal Funding in IITA Exhibit #3, Attachment 3 in the Supplemental
14 Direct Testimony of Robert C. Schoomaker

15
16 **Q. Please summarize your testimony.**

17 A. The earnings analysis for Tonica Telephone Company shows a ROR Funding Deficiency
18 based on actual results for the year ending December 31, 2000. The amount of this
19 deficiency is \$55,036. Therefore Tonica Telephone Company should receive annual state
20 Universal Service support in the amount of \$55,036.

21
22 **Q. Does this conclude your testimony?**

23 A. Yes it does.

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

<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	\$ 960,244	\$ -	\$ 960,244
2	Materials and Supplies Inventory	Page 2, 13-Month Average	1,634		1,634
3	Customer Deposits	Form 23A, P 8, 4040	379	-	379
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	197,405	-	197,405
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			764,094
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 14, Total	408,296	-	408,296
8	Less: Depreciation Expense	Form 23A, P 13, 6560	133,612	-	133,612
9	Total WC Operating Expense	line 7 - line 8	274,684	-	274,684
10	WC OE Requirement	line 9 * 45 / 360			34,336
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			34,336
13	Total Rate Base	line 5 + line 12			798,430
14	Total Operating Revenues	Form 23A, P 11, Total	513,163	9,456	522,619
15	Less: Illinois High Cost Fund		20,004	-	20,004
16	Net Operating Revenues	line 14 - line 15	493,159	9,456	502,615
17	Total Operating Expenses	Form 23A, P 14, Total	408,296	-	408,296
18	Other Operating Inc and Exp - Net	Form 23A, P 15, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 15, 7240	3,251	-	3,251
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	81,612	9,456	91,068
21	Income Tax Expense	line 34			35,279
22	Net Operating Income	line 20 - line 21			55,789
23	Return on Rate Base	line 22 / line 13			6.99%
24	After-tax Cost of Capital				11.21%
25	Target Net Operating Income	line 24 * line 13			89,504
26	Adj to Achieve Target Return on RB	line 25 - line 22			33,715
27	Gross Revenue Conversion Factor	line 35			1.6324
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			55,036
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			91,068
31	Illinois Inc & Rep Tax Expense	line 30 * 7.18%			6,539
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			84,529
33	Federal Income Tax Expense	line 32 * 34.00%			28,740
34	Total Imputed Income Tax Expense	line 31 + line 33			35,279
35	Gross Revenue Conversion Factor	1 / ((1 - .0718) * (1 - .34))			1.6324

Tonica 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	\$1,616
2	January-00	\$1,616
3	February-00	\$1,616
4	March-00	\$1,616
5	April-00	\$1,616
6	May-00	\$1,616
7	June-00	\$1,619
8	July-00	\$1,619
9	August-00	\$1,619
10	September-00	\$1,619
11	October-00	\$1,619
12	November-00	\$1,619
13	December-00	\$1,835
14	13 Month Average	\$1,634

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.

Tonica Telephone Company 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	\$ 56,581
2	State Subscriber Line Charges	Trial Balance 12/31/00	\$ 83,490
3	State Access Revenues	Trial Balance 12/31/00	\$ 55,098
4	State High Cost Support	Exhibit X, Line 15	\$ 20,004
5	State Special Access Revenues	Trial Balance 12/31/00	\$ 1,132
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	\$ 216,305
7	Federal Subscriber Lines Charges	Trial Balance 12/31/00	\$ 24,884
8	Federal Access Revenues	Trial Balance 12/31/00	\$ 223,939
9	Federal High Cost Support	Trial Balance 12/31/00	\$ 34,699
10	Federal Special Access Revenues	Trial Balance 12/31/00	\$ 5,259
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	\$ 288,781
12	Misc Revenues	Trial Balance 12/31/00	\$ 8,077
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u>\$ 513,163</u>

Tonica Telephone Company
Exhibit 1 - Schedule 1.02

Tonica Telephone Company
2000 Earnings Review Adjustment Detail

Interstate Universal Service High Cost Loop Support

	<u>Amount</u>
Annual Amount received in 2000	\$ 14,520
Annual Amount received in 2001	<u>\$ 23,976</u>
Adjustment for 2000 Earnings Review	<u>\$ 9,456</u>