

**Before the Illinois Commerce Commission**

**Direct Testimony of**

**Gordon J. Kraut, Jr.**

**On Behalf of**

**Metamora Telephone Company**

**(ICC Docket Nos. 00-0233 and 00-0335 Consolidated)**

**OFFICIAL FILE**

IL C. C. DOCKET NO. 00-0233/0335

Metamora Exhibit No. 1.0

Witness 6/20/01

Date 6/20/01 Reporter AO

April 20, 2001

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. Metamora Telephone Company.

22

23 **Q. HAVE THE ILLINOIS UNIVERSAL SERVICE FUNDING**  
24 **CALCULATIONS FOR METAMORA TELEPHONE COMPANY USING**  
25 **THE 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 Metamora Telephone Company Exhibit 1.0, Schedule  
2 1.01 and consists of three pages.

3

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

9

10 A. Yes, that is correct.

11

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

16

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

19

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

25

26 A. Yes, I have.

27

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

1

2 A. Yes, it is.

3

4 **Q. HAVE YOU MADE ANY ADJUSTMENTS TO METAMORA**  
5 **TELEPHONE COMPANY'S FINANCIAL DATA?**

6

7 A. No, I have not.

8

9 **Q. ARE YOU AWARE OF ANY KNOWN AND MEASURABLE CHANGES**  
10 **TO THE COMPANY'S FINANCIAL DATA THAT WOULD IMPACT**  
11 **THE EARNINGS ANALYSIS?**

12

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

14

15 **Q. PLEASE SUMMARIZE THE RESULTS OF THE COMPANY'S ILLINOIS**  
16 **UNIVERSAL SERVICE FUNDING CALCULATION AS AGREED TO BY**  
17 **THE STAFF AND THE IITA AS CALCULATED ON EXHIBIT 1.0, PAGE**  
18 **1?**

19

20 A. The universal service funding calculation shows that Metamora Telephone  
21 Company has a return on rate base of 7.52% and a ROR funding deficiency of  
22 \$354,556. Based on the earnings analysis only, Metamora Telephone Company  
23 has a need of \$354,556 of annual Illinois Universal Service Support.

24

25 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY ON BEHALF**  
26 **OF METAMORA TELEPHONE COMPANY?**

27

28 A. Yes, it does.

**Metamora 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	\$ 6,104,647	\$ -	\$ 6,104,647
2	Materials and Supplies Inventory	Page 2, 13-Month Average	89,238		89,238
3	Customer Deposits	Form 23A, P 8, 4040	24,657	-	24,657
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	508,047	-	508,047
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			5,661,181
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 14, Total	2,597,279	-	2,597,279
8	Less: Depreciation Expense	Form 23A, P 13, 6560	761,741	-	761,741
9	Total WC Operating Expense	line 7 - line 8	1,835,538	-	1,835,538
10	WC OE Requirement	line 9 * 45 / 360			229,442
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			229,442
13	Total Rate Base	line 5 + line 12			5,890,623
14	Total Operating Revenues	Form 23A, P 11, Total	3,428,024	-	3,428,024
15	Less: Illinois High Cost Fund		77,940	-	77,940
16	Net Operating Revenues	line 14 - line 15	3,350,084	-	3,350,084
17	Total Operating Expenses	Form 23A, P 14, Total	2,597,279	-	2,597,279
18	Other Operating Inc and Exp - Net	Form 23A, P 15, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 15, 7240	29,444	-	29,444
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	723,361	-	723,361
21	Income Tax Expense	line 34			280,221
22	Net Operating Income	line 20 - line 21			443,140
23	Return on Rate Base	line 22 / line 13			7.52%
24	After-tax Cost of Capital				11.21%
25	Target Net Operating Income	line 24 * line 13			660,339
26	Adj to Achieve Target Return on RB	line 25 - line 22			217,199
27	Gross Revenue Conversion Factor	line 35			1.6324
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			354,556
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			723,361
31	Illinois Inc & Rep Tax Expense	line 30 * 7.18%			51,937
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			671,424
33	Federal Income Tax Expense	line 32 * 34.00%			228,284
34	Total Imputed Income Tax Expense	line 31 + line 33			280,221
35	Gross Revenue Conversion Factor	1 / ((1 - .0718) * (1 - .34))			1.6324

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

Line #		
1	December-99	\$85,379
2	January-00	\$85,379
3	February-00	\$85,379
4	March-00	\$85,379
5	April-00	\$85,379
6	May-00	\$86,642
7	June-00	\$86,642
8	July-00	\$86,642
9	August-00	\$88,860
10	September-00	\$89,749
11	October-00	\$89,749
12	November-00	\$92,543
13	December-00	\$112,366
14	13 Month Average	\$89,238

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.

**Metamora 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	\$ 606,702
2	State Subscriber Line Charges	Trial Balance 12/31/00	\$ 629,242
3	State Access Revenues	Trial Balance 12/31/00	\$ 775,570
4	State High Cost Support	Exhibit X, Line 15	\$ 77,940
5	State Special Access Revenues	Trial Balance 12/31/00	\$ 16,697
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	\$ 2,106,151
7	Federal Subscriber Lines Charges	Trial Balance 12/31/00	\$ 191,932
8	Federal Access Revenues	Trial Balance 12/31/00	\$ 618,011
9	Federal High Cost Support	Trial Balance 12/31/00	\$ 212,691
10	Federal Special Access Revenues	Trial Balance 12/31/00	\$ 8,458
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	\$ 1,031,092
12	Misc Revenues	Trial Balance 12/31/00	\$ 290,777
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u>\$ 3,428,020</u>