

00-0233/0335  
ICC Staff 6.0

REBUTTAL TESTIMONY

6/20/01

OF

Thomas Q. Smith

ACCOUNTING DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

ILLINOIS UNIVERSAL SERVICE FUND  
Docket No. 00-0233/00-0335 Consolidated

May 31, 2001

1        Witness Identification and Introduction

2        Q.     Please state your name and business address.

3        A.     My name is Thomas Q. Smith. My business address is 527 East Capitol  
4        Avenue, Springfield, Illinois 62701.

5

6        Q.     By whom are you employed and in what capacity?

7        A.     I am an Accounting Supervisor in the Accounting Department of the  
8        Financial Analysis Division of the Illinois Commerce Commission.  
9        (Commission)

10

11       Q.     What is the function of the Accounting Department of the Illinois Commerce  
12       Commission?

13       A.     The Department's function is to monitor the financial condition of public  
14       utilities as part of the Commission's responsibilities under Article IV of the  
15       Public Utilities Act and to provide accounting expertise on matters before the  
16       Commission.

17

18       Q.     Please describe your background and professional affiliation.

19       A.     In 1974 I received a Bachelor of Arts Degree in Accounting from Michigan  
20       State University. I am a Certified Public Accountant licensed to practice in  
21       Illinois, Michigan, and Wisconsin. My prior accounting experience includes  
22       seven years as an auditor with the Michigan Public Service Commission.  
23       Subsequently, I was employed for three years by Wisconsin Southern Gas

24 Company in the initial capacity of Senior Accountant - Rate Specialist and  
25 later as Controller. I am a member of the American Institute of Certified  
26 Public Accountants.

27

28 Q. Have you previously testified before regulatory bodies?

29 A. Yes, I have testified on several occasions before the Illinois Commerce  
30 Commission, the Michigan Public Service Commission, and the Public  
31 Service Commission of Wisconsin.

32

33 Q. What are your responsibilities in this case?

34 A. I have been assigned to this case by the Director of the Accounting  
35 Department of the Illinois Commerce Commission. I am to review the  
36 testimonies and other filings in this Docket for the purpose of identifying the  
37 amount of revenue that falls below required levels for twenty small telephone  
38 companies.

39

40 Q. What is the purpose of your Direct Testimony?

41 A. The purpose of this Testimony is to identify and present the revenue excess  
42 or deficiencies of 20 small Illinois local exchange carriers. This testimony will  
43 also discuss specific cost and revenue concerns, and how those concerns  
44 impact specific revenue excesses and deficiencies.

45

46

47

48 Q. Are you presenting schedules in support of ICC Staff Exhibit 6.0?

49 A. I am presenting the following schedules:

50 Schedule 6.01 - Henry County Communication Services  
51 Staff Calculated Funding Requirement

52 Schedule 6.02 - Home Telephone Co.  
53 Staff Calculated Funding Requirement

54 Schedule 6.03 - LaHarpe Telephone Co.  
55 Staff Calculated Funding Requirement

56 Schedule 6.04 - Leaf River Telephone Co.  
57 Staff Calculated Funding Requirement

58 Schedule 6.05 - Madison Telephone Co.  
59 Staff Calculated Funding Requirement

60 Schedule 6.06 - McDonough Telephone Cooperative, Inc.  
61 Staff Calculated Funding Requirement

62 Schedule 6.07 - McNabb Telephone Co.  
63 Staff Calculated Funding Requirement

64 Schedule 6.08 - Metamora Telephone Co.  
65 Staff Calculated Funding Requirement

66 Schedule 6.09 - MidCentury Telephone Co.  
67 Staff Calculated Funding Requirement

68 Schedule 6.10 - Montrose Mutual Telephone Co.  
69 Staff Calculated Funding Requirement

70 Schedule 6.11 - Moultrie Mutual Telephone Co.  
71 Staff Calculated Funding Requirement

72 Schedule 6.12 - New Windsor Telephone Co.  
73 Staff Calculated Funding Requirement

74 Schedule 6.13 - Odin Telephone Exchange, Inc.  
75 Staff Calculated Funding Requirement

- 76 Schedule 6.14 - Onieda Telephone Exchange, Inc.  
77 Staff Calculated Funding Requirement
- 78 Schedule 6.15 - Reynolds Telephone Co.  
79 Staff Calculated Funding Requirement
- 80 Schedule 6.16 - Shawnee Communications, Inc.  
81 Staff Calculated Funding Requirement
- 82 Schedule 6.17 - Tonica Telephone Co.  
83 Staff Calculated Funding Requirement
- 84 Schedule 6.18 - Viola Home Telephone Co.  
85 Staff Calculated Funding Requirement
- 86 Schedule 6.19 - Wabash Telephone Cooperative, Inc.  
87 Staff Calculated Funding Requirement
- 88 Schedule 6.20 - Woodhull Community Telephone Co.  
89 Staff Calculated Funding Requirement

90

91 Summary

92 Q. Have you reviewed the Testimonies of the 20 Companies for which you are  
93 responsible?

94 A. I have reviewed the testimonies for those 20 companies as well as various  
95 other testimonies in this Docket.

96

97 Q. What is the purpose of Schedules 6.01 through 6.20 above identified?

98 A. The purpose of theses schedules is to calculate the total funding requirement  
99 of the telecommunications utility identified on each of the schedules. Each  
100 schedule contains page 1 and page 2.

101

102 Q. What is the purpose of page 1 of each schedule?

103 A. Page 1 calculates the amount of funding, or revenues, required to provide for  
104 total cost plus a fair return on investment for the respective telephone  
105 company, based on the information and schedules they filed on April 20,  
106 2001. The required rate of return is provided by Staff Witness Alan  
107 Pregozen in Staff Exhibit 5.0. The source of column C is the various  
108 Schedules 1.01, page 1 of 3, as presented by each telephone company in  
109 their Direct Testimony. Column C represents each Company's position with  
110 regard to its own required funding. Column D identifies Adjustments which I,  
111 or other Staff, are providing. And Column E calculates Staff proposed  
112 funding based on Staff's adjustments.

113

114 Q. What is the purpose of page 2 of each Schedule?

115 A. Page 2 identifies one, or more, adjustments which are necessary to properly  
116 calculate the funding requirements of each of the 20 telephone company's  
117 which I am addressing. Page 2 for each Company is discussed below in  
118 Schedule order from 6.01 to 6.20.

119

120 Henry County Telephone Co. ("Henry")  
121 Q. Are you proposing any adjustments for Henry?

122 A. I am proposing two adjustments.

123

124 Q. What is the purpose of the first adjustment appearing on ICC Staff Exhibit  
125 6.0, schedule 6.01?

126 A. I am proposing an adjustment for the funding difference in FTHCF support  
127 between the years 2000 and 2001. This adjustment is based on the  
128 recommendation of Staff Witness Voss and supported in his testimony, ICC  
129 Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.01  
130 and included on column c, line 14, on page 1 of Schedule 6.01.

131

132 Q. What is the purpose of the second adjustment which you identify on page 2  
133 of Schedule 6.01?

134 A. Based on review of the Henry Telephone's annual report to the Commission,  
135 it was noted that Henry Telephone carries a debit, or asset, deferred tax  
136 balance. Normally, but not in all cases, telephone utilities have credit  
137 deferred tax balances which are deducted from rate base to recognize the  
138 fact that the Utility has access to this cost free source of funds.

139

140 Based on discussions with Henry representatives, it was learned that the  
141 debit deferred tax balance results from its compensation plan.  
142 Consequently, this deferred tax balance is not properly included in rate base.  
143 Schedule 6.01, page 2 identifies the proper adjustment to correct Henry's  
144 error in deducting the debit balance of accumulated deferred taxes as though  
145 it were a credit balance. This adjustment is carried forward to line 4 of  
146 Schedule 6.01, page 1, which calculates Henry Telephone's proper funding  
147 requirement.

148

149        Home Telephone Company (Home)  
150        Q.     Are you proposing any adjustments for Home?

151        A.     Yes, I am. I am proposing an adjustment for the funding difference in FTHCF  
152                support between the years 2000 and 2001. This adjustment is based on the  
153                recommendation of Staff Witness Voss and supported in his testimony, ICC  
154                Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.02  
155                and included on column c, line 14, on page 1 of Schedule 6.02.

156

157        LaHarpe Telephone Company (LaHarpe)  
158        Q.     Are you proposing any adjustments for LaHarpe?

159        A.     Yes, I am. I am proposing an adjustment for the funding difference in FTHCF  
160                support between the years 2000 and 2001. This adjustment is based on the  
161                recommendation of Staff Witness Voss and supported in his testimony, ICC  
162                Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.03  
163                and included on column c, line 14, on page 1 of Schedule 6.03.

164

165        Leaf River Telephone Company (Leaf River)  
166        Q.     Are you proposing any adjustments for Leaf River?

167        A.     Yes, I am. I am proposing an adjustment for the funding difference in FTHCF  
168                support between the years 2000 and 2001. This adjustment is based on the  
169                recommendation of Staff Witness Voss and supported in his testimony, ICC  
170                Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.04  
171                and included on column c, line 14, on page 1 of Schedule 6.04.

172

173 Madison Telephone Company (Madison)

174 Q. Are you proposing any adjustments for Madison?

175 A. Yes, I am. I am proposing an adjustment for the funding difference in FTHCF  
176 support between the years 2000 and 2001. This adjustment is based on the  
177 recommendation of Staff Witness Voss and supported in his testimony, ICC  
178 Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.05  
179 and included on column c, line 14, on page 1 of Schedule 6.05.

180

181 McDonough Telephone Cooperative, Inc. (McDonough)

182 Q. Are you proposing any adjustments for McDonough?

183 A. Yes, I am. I am proposing an adjustment for the funding difference in FTHCF  
184 support between the years 2000 and 2001. This adjustment is based on the  
185 recommendation of Staff Witness Voss and supported in his testimony, ICC  
186 Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.06  
187 and included on column c, line 14, on page 1 of Schedule 6.06.

188

189 McNabb Telephone Company (McNabb)

190 Q. Are you proposing any adjustments for McNabb?

191 A. Yes, I am. I am proposing an adjustment for the funding difference in FTHCF  
192 support between the years 2000 and 2001. This adjustment is based on the  
193 recommendation of Staff Witness Voss and supported in his testimony, ICC  
194 Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.07  
195 and included on column c, line 14, on page 1 of Schedule 6.07.

196

197 Metamora Telephone Company (Metamora)

198 Q. Are you proposing any adjustments for Metamora?

199 A. Yes, I am. I am proposing an adjustment for the funding difference in FTHCF  
200 support between the years 2000 and 2001. This adjustment is based on the  
201 recommendation of Staff Witness Voss and supported in his testimony, ICC  
202 Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.08  
203 and included on column c, line 14, on page 1 of Schedule 6.08.

204

205 Mid Century Cooperative (Mid Century)

206 Q. Are you proposing any adjustments for Mid Century?

207 A. Yes, I am. I am proposing an adjustment for the funding difference in FTHCF  
208 support between the years 2000 and 2001. This adjustment is based on the  
209 recommendation of Staff Witness Voss and supported in his testimony, ICC  
210 Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.09  
211 and included on column c, line 14, on page 1 of Schedule 6.09.

212

213 Montrose Telephone Company ("Montrose")

214 Q. Are you proposing any adjustments for Montrose?

215 A. I am proposing two adjustments.

216 Q. What is the purpose of the first adjustment appearing on ICC Exhibit 6.0,  
217 Schedule 6.10?

218 A. I am proposing an adjustment for the funding difference in FTHCF support  
219 between the years 2000 and 2001. This adjustment is based on the  
220 recommendation of Staff Witness Voss and supported in his testimony, ICC

221 Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.10  
222 and included on column c, line 14, on page 1 of Schedule 6.10.

223

224 Q. What is the purpose of the second adjustment which you identify on page 2  
225 of Schedule 6.10?

226 A. Montrose input the incorrect amount for depreciation expense when it  
227 calculated working capital on its Schedule 1.01. ICC Staff Exhibit 6.0,  
228 Schedule 6.10, page 2 calculates the appropriate adjustment to reflect the  
229 actual depreciation expense for 2000. The adjustment on page 2 carries  
230 forward to the working capital calculation contained on ICC Staff Exhibit 6.0,  
231 Schedule 6.10, page 1. This adjustment will carry through page 1 and  
232 recalculate line 28, Staff ROR Deficiency.

233

234 Moultrie Independent Telephone Company ("Moultrie")  
235 Q. Are you proposing any adjustments for Moultrie?

236 A. I am proposing two adjustments.

237

238 Q. What is the purpose of the first adjustment appearing on ICC Exhibit 6.0,  
239 schedule 6.11?

240 A. I am proposing an adjustment for the funding difference in FTHCF support  
241 between the years 2000 and 2001. This adjustment is based on the  
242 recommendation of Staff Witness Voss and supported in his testimony, ICC

243 Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.11  
244 and included on column c, line 14, on page 1 of Schedule 6.11.

245

246 Q. What is the purpose of the second adjustment which you identify on page 2  
247 of Schedule 6.11?

248 A. The second adjustment details a sale/lease back arrangement between  
249 Moultrie and an affiliate.

250

251 Q. Are you aware of the transaction in which Moultrie Independent Telephone  
252 Company sold property to Moultrie InfoComm, Inc. as of December 31,  
253 1996?

254 A. I am aware of this event, but I would not necessarily characterize it as a  
255 transaction or sale. The property was simply transferred from one wholly  
256 owned subsidiary of Moultrie MultiCorp, Inc. to another subsidiary of Moultrie  
257 MultiCorp, Inc. Prior to the transfer, Moultrie MultiCorp ultimately owned the  
258 property and subsequent to the transfer, Moultrie MultiCorp still ultimately  
259 owned the property. The property in question according to Moultrie's  
260 response to ICC Staff Data Request SDR-Moultrie-009 is used exclusively  
261 by Moultrie Independent Telephone Company. The customers of Moultrie  
262 received no benefit from this transfer.

263 Q. What is the basis of your knowledge that prior to, and subsequent to, the  
264 transfer, Moultrie Multi-Corp. Inc. is the ultimate owner of the property?

265 A. The "Agreement for Transfer of Property" provided by Moultrie with its filing in  
266 this proceeding indicates that property was transferred from Moultrie  
267 Independent Telephone Company to Moultrie InfoComm, Inc. In response to  
268 ICC Staff date request SDR-Moultrie-007, Moultrie indicates that both  
269 Moultrie Independent Telephone Company and Moultrie InfoComm, Inc. are  
270 subsidiaries of Moultrie MultiCorp, Inc.

271

272 Q. Are you aware of any independent confirmation which supports your position  
273 that the transfer of property from Moultrie Independent Telephone to Moultrie  
274 InfoComm does not represent a transaction with economic consequences?

275 A. In response to Staff data requests SDR-Moultrie-009, 010, and 011, the  
276 Company indicates that there were no income tax ramifications associated  
277 with this transfer. If a true sale had occurred, there almost certainly would  
278 have been tax consequences. If this transfer is to be called a transaction, it  
279 must be called a sham; nothing of monetary significance has occurred.

280

281 Q. Are you opposed to this transfer?

282 A. No, I am not. The owners of Moultrie MultiCorp, Inc. are responsible for  
283 overseeing their investments as they see fit. I accept, that from a corporate  
284 perspective, it was reasonable that the property be transferred. However,  
285 the actions of telephone company owners should not be detrimental to  
286 telephone company customers.

287

288 Q. Is the transfer of the property detrimental to Moultrie's regulated  
289 telecommunications customers?

290 A. Yes, it is my opinion that the transfer of property is detrimental. Even though  
291 the property which was transferred continues to serve Moultrie's customers in  
292 the same way as it served the customers prior to the transfer, the manner of  
293 calculating the costs of the assets to be recovered from customers has  
294 changed. Prior to the transfer, costs to be recovered from customers  
295 included depreciation expense plus a fair return on the net original cost of the  
296 assets adjusted for accumulated deferred income tax. Subsequent to the  
297 transfer, Moultrie has sought to include lease payments paid to its affiliate as  
298 a cost to be recovered from customers. The inclusion of lease payments to  
299 *an affiliate of Moultrie puts customers at risk of paying rates that are greater*  
300 *than would be calculated if Moultrie had not abandoned the*  
301 *telecommunications property to the advantage of its affiliates.*

302  
303 Q. Is there a solution to eliminate, or at least, minimize the risk to Moultrie's  
304 customers?

305 A. Yes, there is a simple solution. The rate and funding requirements of  
306 *Moultrie should be calculated as though the property were still owned by*  
307 *Moultrie Independent Telephone. This is a reasonable solution because it*  
308 *recognizes that the cost of the property to Moultrie MultiCorp did not change*  
309 *when the property was moved from the owners right pocket to the left pocket.*

310

311 Q. Moultrie witness Mr. Buz Wheeler suggests in his Direct Testimony, page 5,  
312 line 110 that the substitution of the original cost of the transferred assets for  
313 lease payments "... will create a substantially false and fictitious chart of  
314 accounts that does not accurately reflect the business activities of the  
315 regulated company." Do you agree with these concerns?

316 A. I do not agree that the substitution of original cost of assets for lease  
317 payments when calculating funding requirements will lead to a fictitious "chart  
318 of accounts". According to the Company's response to data request SDR-  
319 Moultrie-016 "chart of accounts" is interchangeable with "financial  
320 statements" for purposes of Mr. Wheeler's testimony.

321  
322 The purpose of this proceeding is to determine the cost of providing service  
323 to Moultrie's customers, the goal is not to reflect the business activities of  
324 Moultrie. It is not at all unusual, and in fact always occurs, for utility  
325 companies to present revenue requirements which are calculated in a way  
326 which is different from the way in which financial statements are reported to  
327 company management and the investing community.

328  
329 In fact, Moultrie, in this very case, has presented a funding requirement that  
330 does not match its financial statements. The most obvious difference is  
331 found on Moultrie's Schedule 1.01, line 24, after tax-cost of capital. This cost  
332 of capital does not reflect interest expense as shown in Moultrie's financial  
333 statements; rather, this cost of capital was developed by Staff and the

334 various companies who are party to this Docket. Similarly, the working  
335 capital requirements on line 12 are not from Moultrie's financial statements  
336 but are developed by formula.

337

338 Rate case revenue calculations typically include adjustments to remove  
339 institutional advertising expense and out-of-period items from the utility's  
340 actual financial statements. In this case it is reasonable, and not fallacious,  
341 to add the transferred assets to rate base, add depreciation expense, and  
342 deduct lease expense to arrive at a reasonable cost of providing service to  
343 customers.

344

345 O. Are you aware of the existence of a funding requirement for Moultrie that was  
346 calculated as though the property had not been transferred?

347 A. I am not aware of any specific calculation that currently exists. In response to  
348 Staff data request SDR-Moultrie-013, Moultrie declined to provide such a  
349 calculation.

350

351 Q. Is there a reasonable way to estimate the impact on funding requirements, as  
352 a result of treating the property as if it had not been transferred?

353 A. Yes there is. The National Exchange Carriers Association (NECA) is  
354 withholding funds from Moultrie as a result of Moultrie's decision to lease the  
355 property which was formerly included in Moultrie's rate base. The funds  
356 which are being withheld represent the impact of removing the lease

357 payments, placing the property in rate base, and recognizing depreciation  
358 expense. The amount of withheld funds is identified on Moultrie Exhibit 1.0,  
359 Schedule 1.0, line 16.

360

361 By reducing Moultrie's expense by the amount of the withheld NECA funds  
362 we can calculate the impact on Moultrie's Illinois funding requirements. ICC  
363 Staff Exhibit 6.0, Schedule 6.11, page 2 of 2, Affiliate Lease Adjustment  
364 identifies the appropriate reduction to expense. This reduction is then  
365 carried to Schedule 6.11, page 1 of 2, where Moultrie's funding deficiency is  
366 calculated.

367

368 New Windsor Telephone Company (New Windsor)

369 Q. Are you proposing any adjustments for New Windsor?

370 A. Yes, I am. I am proposing an adjustment for the funding difference in FTHCF  
371 support between the years 2000 and 2001. This adjustment is based on the  
372 recommendation of Staff Witness Voss and supported in his testimony, ICC  
373 Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.12  
374 and included on column c, line 14, on page 1 of Schedule 6.12.

375

376 Odin Telephone Exchange, Inc. (Odin)

377 Q. Are you proposing any adjustments for Odin?

378 A. Yes, I am. I am proposing an adjustment for the funding difference in FTHCF  
379 support between the years 2000 and 2001. This adjustment is based on the  
380 recommendation of Staff Witness Voss and supported in his testimony, ICC

381 Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.13  
382 and included on column c, line 14, on page 1 of Schedule 6.13.

383

384 Oneida Telephone Exchange (Oneida)

385 Q. Are you proposing any adjustments for Oneida?

386 A. Yes, I am. I am proposing an adjustment for the funding difference in FTHCF  
387 support between the years 2000 and 2001. This adjustment is based on the  
388 recommendation of Staff Witness Voss and supported in his testimony, ICC  
389 Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.14  
390 and included on column c, line 14, on page 1 of Schedule 6.14.

391 Reynolds Telephone Company (Reynolds)

392 Q. Are you proposing any adjustments for Reynolds?

393 A. Yes, I am. I am proposing an adjustment for the funding difference in FTHCF  
394 support between the years 2000 and 2001. This adjustment is based on the  
395 recommendation of Staff Witness Voss and supported in his testimony, ICC  
396 Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.15  
397 and included on column c, line 14, on page 1 of Schedule 6.15.

398

399 Shawnee Telephone Company (Shawnee)

400 Q. Are you proposing any adjustments for Shawnee?

401 A. Yes, I am. I am proposing an adjustment for the funding difference in FTHCF  
402 support between the years 2000 and 2001. This adjustment is based on the  
403 recommendation of Staff Witness Voss and supported in his testimony, ICC

404 Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.16  
405 and included on column c, line 14, on page 1 of Schedule 6.16.

406

407 Tonica Telephone Company (Tonica)

408 Q. Are you proposing any adjustments for Tonica?

409 A. Yes, I am. I am proposing an adjustment for the funding difference in FTHCF  
410 support between the years 2000 and 2001. This adjustment is based on the  
411 recommendation of Staff Witness Voss and supported in his testimony, ICC  
412 Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.17  
413 and included on column c, line 14, on page 1 of Schedule 6.17.

414

415 Viola Home Telephone Company (Viola)

416 Q. Are you proposing any adjustments for Viola?

417 A. Yes, I am. I am proposing an adjustment for the funding difference in FTHCF  
418 support between the years 2000 and 2001. This adjustment is based on the  
419 recommendation of Staff Witness Voss and supported in his testimony, ICC  
420 Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.18  
421 and included on column c, line 14, on page 1 of Schedule 6.18.

422

423 Wabash Telephone Cooperative, Inc. (Wabash)

424 Q. Are you proposing any adjustments for Wabash?

425 A. Yes, I am. I am proposing an adjustment for the funding difference in FTHCF  
426 support between the years 2000 and 2001. This adjustment is based on the  
427 recommendation of Staff Witness Voss and supported in his testimony, ICC

428 Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.19  
429 and included on column c, line 14, on page 1 of Schedule 6.19.

430

431 Woodhull Community Telephone Company (Woodhull)

432 Q. Are you proposing any adjustments for Woodhull?

433 A. Yes, I am. I am proposing an adjustment for the funding difference in FTHCF  
434 support between the years 2000 and 2001. This adjustment is based on the  
435 recommendation of Staff Witness Voss and supported in his testimony, ICC  
436 Staff Exhibit 7.0. The adjustment is presented on page 2 of Schedule 6.20  
437 and included on column c, line 14, on page 1 of Schedule 6.20.

438

439 Q. Does this conclude your Direct Testimony?

440 A. Yes, it does.

Henry County Telephone Company  
 Illinois Universal Service Funding Calculation  
 Staff Calculated Funding Requirement

Line #	Description	Compan Amount	Staf Adjustment	Staff Adjusted Amount	
(a)	(b)	(c)	(d)	(e)	
1	Net Regulated Plant	\$ 702,737		\$ 702,737	
2	Materials and Supplies Inventory	-		-	
3	Customer Deposits	3,640	-	3,640	
4	ADIT - Regulated Plant	<u>266,880</u>	<u>(266,880)</u>	<u>-</u>	
5	Rate Base before Working Capital	432,217	266,880	699,097	line 1 + line 2 - line 3 - line 4
6	Working Capital Requirement				
7	Total Operating Expenses	1,280,365	-	1,280,365	
8	Less: Depreciation Expense	<u>260,849</u>		<u>260,849</u>	
9	Total WC Operating Expense	<u>1,019,516</u>	<u>-</u>	<u>1,019,516</u>	line 7 - line 8
10	WC OE Requirement	127,440	-	127,440	line 9 * 45 / 360
11	Commission-Ordered Cash Balance Requir	-	-	-	
12	Total Working Capital Requirement	<u>127,440</u>	<u>-</u>	<u>127,440</u>	line 10 + line 11
13	Total Rate Base	<u>559,657</u>	<u>266,880</u>	<u>826,537</u>	line 5 + line 12
14	Total Operating Revenues	1,210,853	7,218	1,218,071	
15	Less: Illinois High Cost Fund	<u>21,444</u>	<u>-</u>	<u>21,444</u>	
16	Net Operating Revenues	1,189,409	7,218	1,196,627	line 14 - line 15
17	Total Operating Expenses	1,280,365	-	1,280,365	
18	Other Operating Inc and Exp - Net	-	-	-	
19	Other Operating Taxes	<u>2,358</u>	<u>-</u>	<u>2,358</u>	
20	Net Op Inc before Income Taxes	(93,314)	7,218	(86,096)	line 16 - lines 17, 18, & 19
21	Income Tax Expense	<u>(36,149)</u>	<u>2,796</u>	<u>(33,353)</u>	line 34
22	Net Operating Income	<u>(57,165)</u>	<u>4,422</u>	<u>(52,743)</u>	line 20 - line 21
23	Return on Rate Base	-10.21%		-6.38%	line 22 / line 13
24	After-tax Cost of Capital	<u>11.21%</u>	<u>11.21%</u>	<u>11.21%</u>	
25	Target Net Operating Income	<u>62,738</u>	<u>29,917</u>	<u>92,655</u>	line 24 * line 13
26	Adj to Achieve Target Return on RB	119,903	25,495	145,398	line 25 - line 22
27	Gross Revenue Conversion Factor	<u>1.6324</u>	<u>1.6324</u>	<u>1.6324</u>	line 35
28	Staff ROR Deficiency	<u>195,730</u>	<u>41,618</u>	<u>237,348</u>	line 26 * line 27
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	(93,314)	7,218	(86,096)	line 20
31	Illinois Inc & Rep Tax Expense	<u>(6,700)</u>	<u>518</u>	<u>(6,182)</u>	line 30 * 7.18%
32	Net Op Inc before Fed Inc Tax	(86,614)	6,700	(79,914)	line 30 - line 31
33	Federal Income Tax Expense	<u>(29,449)</u>	<u>2,278</u>	<u>(27,171)</u>	line 32 * 34.00%
34	Total Imputed Income Tax Expense	<u>(36,149)</u>	<u>2,796</u>	<u>(33,353)</u>	line 31 + line 33
35	Gross Revenue Conversion Factor	<u>1.6324</u>	<u>1.6324</u>	<u>1.6324</u>	1 / ((1 - .0718) * (1 - .34))

Henry County Telephone Company  
 Illinois Universal Service Funding Calculation  
 Staff Calculated Funding Requirement

<u>Line #</u>	<u>Description</u>	
(a)	(b)	(c)
	Funding Difference-FTHCF Support	
1	2001 Annualized FTHCF Support	\$ 190,381
2	2000 Total FTHCF Support	<u>183,162</u>
3	Adjustment	<u>\$ 7,219</u>

Source: ICC Staff Exhibit 7.0, Schedule 7.20, Page 1 of 2

	Accumulated Deferred Income Taxes	
1	Accumulated Deferred Income Tax per Staff	\$0
2	Accumulated Deferred Income Tax per Company	<u>260,849</u>
	Adjustment	<u>(\$260,849)</u>

Source: Response to Staff Data Request SDR-Henry-003

Home Telephone Company  
 Illinois Universal Service Funding Calculation  
 Staff Calculated Funding Requirement

Line #	Description	Compan Amount	Staf Adjustment	Staff Adjusted Amount	
(a)	(b)	(c)	(d)	(e)	
1	Net Regulated Plant	\$ 4,455,043		\$ 4,455,043	
2	Materials and Supplies Inventory	15,000		15,000	
3	Customer Deposits	4,920	-	4,920	
4	ADIT - Regulated Plant	307,916	-	307,916	
5	Rate Base before Working Capital	4,157,207	-	4,157,207	line 1 + line 2 - line 3 - line 4
6	Working Capital Requirement				
7	Total Operating Expenses	2,155,474	-	2,155,474	
8	Less: Depreciation Expense	419,915	-	419,915	
9	Total WC Operating Expense	1,735,559	-	1,735,559	line 7 - line 8
10	WC OE Requirement	216,945	-	216,945	line 9 * 45 / 360
11	Commission-Ordered Cash Balance Requir	-	-	-	
12	Total Working Capital Requirement	216,945	-	216,945	line 10 + line 11
13	Total Rate Base	4,374,152	-	4,374,152	line 5 + line 12
14	Total Operating Revenues	2,951,240	42,144	2,993,384	
15	Less: Illinois High Cost Fund	614,816	-	614,816	
16	Net Operating Revenues	2,336,424	42,144	2,378,568	line 14 - line 15
17	Total Operating Expenses	2,155,474		2,155,474	
18	Other Operating Inc and Exp - Net	-	-	-	
19	Other Operating Taxes	14,061	-	14,061	
20	Net Op Inc before Income Taxes	166,889	42,144	209,033	line 16 - lines 17, 18, & 19
21	Income Tax Expense	64,651	16,326	80,977	line 34
22	Net Operating Income	102,238	25,818	128,056	line 20 - line 21
23	Return on Rate Base	2.34%		2.93%	line 22 / line 13
24	After-tax Cost of Capital	11.21%	11.21%	11.21%	
25	Target Net Operating Income	490,342	-	490,342	line 24 * line 13
26	Adj to Achieve Target Return on RB	388,104	(25,818)	362,286	line 25 - line 22
27	Gross Revenue Conversion Factor	1.6324	1.6324	1.6324	line 35
28	Staff ROR Deficiency	633,541	(42,145)	591,396	line 26 * line 27
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	166,889	42,144	209,033	line 20
31	Illinois Inc & Rep Tax Expense	11,983	3,026	15,009	line 30 * 7.18%
32	Net Op Inc before Fed Inc Tax	154,906	39,118	194,024	line 30 - line 31
33	Federal Income Tax Expense	52,668	13,300	65,968	line 32 * 34.00%
34	Total Imputed Income Tax Expense	64,651	16,326	80,977	line 31 + line 33
35	Gross Revenue Conversion Factor	1.6324	1.6324	1.6324	1 / ((1 - .0718) * (1 - .34))

Home Telephone Company  
Illinois Universal Service Funding Calculation  
Staff Calculated Funding Requirement

<u>Line #</u>	<u>Description</u>	
(a)	(b)	(c)
	Funding Difference-FTHCF Support	
1	2001 Annualized FTHCF Support	\$ 1,163,034
2	2000 Total FTHCF Support	<u>1,045,440</u>
3	Funding Difference	117,594
4	Reverse Company Adjustment	<u>(75,450)</u>
5	Adjustment	<u>\$ 42,144</u>

Sources:

Lines 1 and 2 -- ICC Staff Exhibit 7.0, Schedule 7.20, Page 1 of 2  
Line 4 -- Home Telephone Company Exhibit 1.0, Schedule 1.02

LaHarpe Telephone Company  
 Illinois Universal Service Funding Calculation  
 Staff Calculated Funding Requirement

<u>Line #</u>	<u>Description</u>	<u>Compan</u> <u>Amount</u>	<u>Staf</u> <u>Adjustment</u>	<u>Staff Adjusted</u> <u>Amount</u>	
(a)	(b)	(c)	(d)	(e)	
1	Net Regulated Plant	\$ 2,976,095		\$ 2,976,095	
2	Materials and Supplies Inventory	78,784		78,784	
3	Customer Deposits	8,062	-	8,062	
4	ADIT - Regulated Plant	-		-	
5	Rate Base before Working Capital	3,046,817	-	3,046,817	line 1 + line 2 - line 3 - line 4
6	Working Capital Requirement				
7	Total Operating Expenses	1,144,362		1,144,362	
8	Less: Depreciation Expense	<u>326,183</u>		<u>326,183</u>	
9	Total WC Operating Expense	<u>818,179</u>	-	<u>818,179</u>	line 7 - line 8
10	WC OE Requirement	102,272	-	102,272	line 9 * 45 / 360
11	Commission-Ordered Cash Balance Requir	-	-	-	
12	Total Working Capital Requirement	<u>102,272</u>	-	<u>102,272</u>	line 10 + line 11
13	Total Rate Base	<u>3,149,089</u>	-	<u>3,149,089</u>	line 5 + line 12
14	Total Operating Revenues	1,652,303	87,372	1,739,675	
15	Less: Illinois High Cost Fund	<u>225,900</u>	-	<u>225,900</u>	
16	Net Operating Revenues	1,426,403	87,372	1,513,775	line 14 - line 15
17	Total Operating Expenses	1,144,362	-	1,144,362	
18	Other Operating Inc and Exp - Net	-	-	-	
19	Other Operating Taxes	<u>3,181</u>	-	<u>3,181</u>	
20	Net Op Inc before Income Taxes	278,860	87,372	366,232	line 16 - lines 17, 18, & 19
21	Income Tax Expense	<u>108,027</u>	<u>33,847</u>	<u>141,874</u>	line 34
22	Net Operating Income	<u>170,833</u>	<u>53,525</u>	<u>224,358</u>	line 20 - line 21
23	Return on Rate Base	<u>5.42%</u>		<u>7.12%</u>	line 22 / line 13
24	After-tax Cost of Capital	<u>11.21%</u>	<u>11.21%</u>	<u>11.21%</u>	
25	Target Net Operating Income	<u>353,013</u>	-	<u>353,013</u>	line 24 * line 13
26	Adj to Achieve Target Return on RB	182,180	(53,525)	128,655	line 25 - line 22
27	Gross Revenue Conversion Factor	<u>1.6324</u>	<u>1.6324</u>	<u>1.6324</u>	line 35
28	Staff ROR Deficiency	<u>297,391</u>	<u>(87,374)</u>	<u>210,016</u>	line 26 * line 27
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	278,860	87,372	366,232	line 20
31	Illinois Inc & Rep Tax Expense	<u>20,022</u>	<u>6,273</u>	<u>26,295</u>	line 30 * 7.18%
32	Net Op Inc before Fed Inc Tax	258,838	81,099	339,937	line 30 - line 31
33	Federal Income Tax Expense	<u>88,005</u>	<u>27,574</u>	<u>115,579</u>	line 32 * 34.00%
34	Total Imputed Income Tax Expense	<u>108,027</u>	<u>33,847</u>	<u>141,874</u>	line 31 + line 33
35	Gross Revenue Conversion Factor	<u>1.6324</u>	<u>1.6324</u>	<u>1.6324</u>	1 / ((1 - .0718) * (1 - .34))

LaHarpe Telephone Company  
Illinois Universal Service Funding Calculation  
Staff Calculated Funding Requirement

<u>Line #</u>	<u>Description</u>	
(a)	(b)	(c)
	Funding Difference-FTHCF Support	
1	2001 Annualized FTHCF Support	\$ 677,874
2	2000 Total FTHCF Support	<u>590,502</u>
3	Adjustment	<u>\$ 87,372</u>

Source: ICC Staff Exhibit 7.0, Schedule 7.20, Page 1 of 2

Leaf River Telephone Company  
 Illinois Universal Service Funding Calculation  
 Staff Calculated Funding Requirement

<u>Line #</u>	<u>Description</u>	<u>Compan</u> <u>Amount</u>	<u>Staf</u> <u>Adjustment</u>	<u>Staff Adjusted</u> <u>Amount</u>	
(a)	(b)	(c)	(d)	(e)	
1	Net Regulated Plant	\$ 3,110,792		\$ 3,110,792	
2	Materials and Supplies Inventory	108,400		108,400	
3	Customer Deposits	11,283	-	11,283	
4	ADIT - Regulated Plant	11,701	-	11,701	
5	Rate Base before Working Capital	3,196,207	-	3,196,207	line 1 + line 2 - line 3 - line 4
6	Working Capital Requirement				
7	Total Operating Expenses	1,104,317	-	1,104,317	
8	Less: Depreciation Expense	360,488	-	360,488	
9	Total WC Operating Expense	743,829	-	743,829	line 7 - line 8
10	WC OE Requirement	92,979	-	92,979	line 9 * 45 / 360
11	Commission-Ordered Cash Balance Requir	-	-	-	
12	Total Working Capital Requirement	92,979	-	92,979	line 10 + line 11
13	Total Rate Base	3,289,186	-	3,289,186	line 5 + line 12
14	Total Operating Revenues	1,903,530	(26,310)	1,877,220	
15	Less: Illinois High Cost Fund	450,672	-	450,672	
16	Net Operating Revenues	1,452,858	(26,310)	1,426,548	line 14 - line 15
17	Total Operating Expenses	1,104,317		1,104,317	
18	Other Operating Inc and Exp - Net	-	-	-	
19	Other Operating Taxes	10,582	-	10,582	
20	Net Op Inc before Income Taxes	337,959	(26,310)	311,649	line 16 - lines 17, 18, & 19
21	Income Tax Expense	130,921	(10,192)	120,729	line 34
22	Net Operating Income	207,038	(16,118)	190,920	line 20 - line 21
23	Return on Rate Base	6.29%		5.80%	line 22 / line 13
24	After-tax Cost of Capital	11.21%	11.21%	11.21%	
25	Target Net Operating Income	368,718	-	368,718	line 24 * line 13
26	Adj to Achieve Target Return on RB	161,680	16,118	177,798	line 25 - line 22
27	Gross Revenue Conversion Factor	1.6324	1.6324	1.6324	line 35
28	Staff ROR Deficiency	263,926	26,311	290,237	line 26 * line 27
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	337,959	(26,310)	311,649	line 20
31	Illinois Inc & Rep Tax Expense	24,265	(1,889)	22,376	line 30 * 7.18%
32	Net Op Inc before Fed Inc Tax	313,694	(24,421)	289,273	line 30 - line 31
33	Federal Income Tax Expense	106,656	(8,303)	98,353	line 32 * 34.00%
34	Total Imputed Income Tax Expense	130,921	(10,192)	120,729	line 31 + line 33
35	Gross Revenue Conversion Factor	1.6324	1.6324	1.6324	1 / ((1 - .0718) * (1 - .34))

Leaf River Telephone Company  
Illinois Universal Service Funding Calculation  
Staff Calculated Funding Requirement

<u>Line #</u>	<u>Description</u>	
(a)	(b)	(c)
	Funding Difference-FTHCF Support	
1	2001 Annualized FTHCF Support	\$ 501,444
2	2000 Total FTHCF Support	<u>557,178</u>
3	Funding Difference	(55,734)
4	Reverse Company Adjustment	<u>29,424</u>
5	Adjustment	<u>\$ (26,310)</u>

Sources:

Lines 1 and 2 -- ICC Staff Exhibit 7.0, Schedule 7.20, Page 1 of 2

Line 4 -- Leaf River Telephone Company Exhibit 1.0, Schedule 1.02

Madison Telephone Company  
 Illinois Universal Service Funding Calculation  
 Staff Calculated Funding Requirement

<u>Line #</u>	<u>Description</u>	<u>Compan</u> <u>Amount</u>	<u>Staf</u> <u>Adjustment</u>	<u>Staff Adjusted</u> <u>Amount</u>	<u>Source</u>
(a)	(b)	(c)	(d)	(e)	
1	Net Regulated Plant	\$ 3,562,492		\$ 3,562,492	
2	Materials and Supplies Inventory	109,187		109,187	
3	Customer Deposits	22,087	-	22,087	
4	ADIT - Regulated Plant	<u>342,457</u>		<u>342,457</u>	
5	Rate Base before Working Capital	3,307,135	-	3,307,135	line 1 + line 2 - line 3 - line 4
6	Working Capital Requirement				
7	Total Operating Expenses	6,663,257	-	6,663,257	
8	Less: Depreciation Expense	<u>391,625</u>	<u>-</u>	<u>391,625</u>	
9	Total WC Operating Expense	<u>6,271,632</u>	<u>-</u>	<u>6,271,632</u>	line 7 - line 8
10	WC OE Requirement	783,954	-	783,954	line 9 * 45 / 360
11	Commission-Ordered Cash Balance Requir	-	-	-	
12	Total Working Capital Requirement	<u>783,954</u>	<u>-</u>	<u>783,954</u>	line 10 + line 11
13	Total Rate Base	<u>4,091,089</u>	<u>-</u>	<u>4,091,089</u>	line 5 + line 12
14	Total Operating Revenues	7,492,468	3,951	7,496,419	
15	Less: Illinois High Cost Fund	<u>798,744</u>	<u>-</u>	<u>798,744</u>	
16	Net Operating Revenues	6,693,724	3,951	6,697,675	line 14 - line 15
17	Total Operating Expenses	6,663,257	-	6,663,257	
18	Other Operating Inc and Exp - Net	-	-	-	
19	Other Operating Taxes	<u>8,281</u>	<u>-</u>	<u>8,281</u>	
20	Net Op Inc before Income Taxes	22,186	3,951	26,137	line 16 - lines 17, 18, & 19
21	Income Tax Expense	<u>8,595</u>	<u>1,531</u>	<u>10,125</u>	line 34
22	Net Operating Income	<u>13,591</u>	<u>2,420</u>	<u>16,012</u>	line 20 - line 21
23	Return on Rate Base	<u>0.33%</u>		<u>0.39%</u>	line 22 / line 13
24	After-tax Cost of Capital	<u>11.21%</u>	<u>11.21%</u>	<u>11.21%</u>	
25	Target Net Operating Income	<u>458,611</u>	<u>-</u>	<u>458,611</u>	line 24 * line 13
26	Adj to Achieve Target Return on RB	445,020	(2,420)	442,599	line 25 - line 22
27	Gross Revenue Conversion Factor	<u>1.6324</u>	<u>1.6324</u>	<u>1.6324</u>	line 35
28	Staff ROR Deficiency	<u>726,451</u>	<u>(3,950)</u>	<u>722,499</u>	line 26 * line 27
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	22,186	3,951	26,137	line 20
31	Illinois Inc & Rep Tax Expense	<u>1,593</u>	<u>284</u>	<u>1,877</u>	line 30 * 7.18%
32	Net Op Inc before Fed Inc Tax	20,593	3,667	24,260	line 30 - line 31
33	Federal Income Tax Expense	<u>7,002</u>	<u>1,247</u>	<u>8,248</u>	line 32 * 34.00%
34	Total Imputed Income Tax Expense	<u>8,595</u>	<u>1,531</u>	<u>10,125</u>	line 31 + line 33
35	Gross Revenue Conversion Factor	<u>1.6324</u>	<u>1.6324</u>	<u>1.6324</u>	1 / ((1 - .0718) * (1 - .34))

Madison Telephone Company  
Illinois Universal Service Funding Calculation  
Staff Calculated Funding Requirement

<u>Line #</u>	<u>Description</u>	
(a)	(b)	(c)
	Funding Difference-FTHCF Support	
1	2001 Annualized FTHCF Support	\$ 1,762,854
2	2000 Total FTHCF Support	<u>1,546,491</u>
3	Funding Difference	216,363
4	Reverse Company Adjustment	<u>(212,412)</u>
5	Adjustment	<u>\$ 3,951</u>

Sources:

Lines 1 and 2 -- ICC Staff Exhibit 7.0, Schedule 7.20, Page 1 of 2  
Line 4 -- Madison Telephone Company Exhibit 1.0, Schedule 1.0, line 14