Docket Nos. 00-0233 & 00-0335 (Cons.)
Leaf River Telephone Company
Exhibit 3.0
Redacted.

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

ILLINOIS INDEPENDENT TELEPHONE ASSOCIATION	)	
Petition for initiation of an investigation of the necessity of and the establishment of a Universal Service Support Fund in accordance with §13-301(d) of the Public Utilities Act	)	Docket No. 00-0233
Illinois Commerce Commission On Its Own	)	
Investigation into the necessity of and, if appropriate, the establishment of a Universal Support Fund pursuant to Section13-301(d) of the Public Utilities Act.	)	Docket No. 00-0335

00-0233/0335
3.0 Redacted

REBUTTAL TESTIMONY

OF

MICHAEL P. PETROUSKE

6/22/01

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ON BEHALF OF

LEAF RIVER TELEPHONE COMPANY

June 12, 2001

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Stricken Version

Q. Please state your name and business address.

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

Q. Are you the same Michael P. Petrouske who filed testimony in this proceeding for Leaf River Telephone Company on April 20, 2001? ok

A. Yes I am.

Q. What is the purpose of your rebuttal testimony?

A. I present the results of Leaf Rivers 2000 cost study limited to the 9 supported services previously agreed to by the parities in this docket. When I refer to "supported services," I mean the nine supported services adopted by the FCC. My testimony reflects a IUSF funding need of $375,827 for Leaf River Telephone Company. ~~I explain why embedded costs are more reliable than HAI results and why embedded costs should be used by this Commission for USF purposes.~~ Assuming, arguendo, that the Commission uses HAI as proposed by the Staff, I respond to the Staff's rejections of certain HAI input changes that are company-specific to Leaf River and explain why the use of those input changes are appropriate for Leaf River Telephone Company. The affordable rate proposals by various parties do not reflect the total customer costs and the loss of universal service funds for Leaf River Telephone Company will cause local rates to exceed the proposed affordable rates, thus both the customers and the company suffer. I also respond to ATT's proposal to deprive small companies of needed universal service funding if their intrastate access revenues exceed their intrastate access costs even though the carrier followed the

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Commission's mirroring policy on intrastate access rates. I identify Leaf River's implicit subsidy in intrastate ~~local~~ switched access. Lastly, I recommend that the Commission expand the list of supported services to include DSL based on the change made by the legislature and urge the Commission to support all rural access lines for universal service.

Q. Does Leaf River Telephone Company agree with the 2001 federal universal service funding adjustments to the Rate of Return proposals by Staff witnesses Smith and Voss?

A. No. Staff misunderstood the difference between support flows that equate to real revenue and support flows that contain timing differences. Leaf River Telephone Company will rely upon the rebuttal testimony of Mr. Schoonmaker to explain this in more detail. Leaf River maintains that its Exhibit 1.0, Schedule 1.01 is accurate.

Q. ~~Mr. Petrouske, what do you recommend as the appropriate funding methodology for Leaf River Telephone Company in this case?~~

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A. ~~Historical embedded costs are the appropriate funding tool for the carriers in this docket. On May 23, 2001, the Federal Communications Commission issued an order in CC No. 96-45 21st order on Rehearing and Docket No. 00-256 in which it found that forward-looking cost models are not reliable and will not be used for Federal Universal Service funding for rural telephone companies. The FCC directed that historical embedded costs be used for the next five years for Universal Service~~

funding for these companies. The Commission should follow the FCC's lead and use historical embedded costs as the basis for universal service funding.

Q. Does Leaf River Telephone Company have a cost separations study performed on an annual basis?

A. Yes.

Q. Has Gridley Consulting completed Leaf River Telephone Company's Year 2000 cost separations study?

A. Yes.

Q. What is the purpose of preparing an annually cost study for Leaf River Telephone Company?

A. The purpose of preparing the annual cost separations study is to determine the company's costs of operation for the year 2000. These costs are separated jurisdictionally using the Part 36 and Part 69 cost separations procedures as defined by the Federal Communications Commission ("FCC") in 47 CFR rules.

Q. How is this annual cost separations study used by Leaf River Telephone Company?

A. The use of the results of the annual cost separations study for Leaf River Telephone Company is three-fold. First, the cost separations study is used to develop interstate access rates, which need to be filed with the FCC in July. The information is used to develop intrastate access rates, which mirror interstate access rates for the state jurisdiction with limited adjustments, pursuant to the Fourth Interim Order of the Illinois Commerce Commission in Docket No. 83-0142. Second, the cost separations study will provide the cost information necessary for the company to finalize Carrier Common Line settlements with the NECA pool for the year 2000. Finally, certain information from the annual cost separations study is used in the calculation of federal universal service support mechanisms.

Q. Can Leaf River Telephone Company's Year 2000 cost study provide any information for developing an embedded cost study for determining the economic cost of the supported services provided by Leaf River Telephone Company in this proceeding?

A. Yes. Because the cost study generates a jurisdictional separation of costs, and the separation of costs in each jurisdiction into access element categories, it can be used to determine the company's revenue requirements for any of the three major jurisdictions. These jurisdictions are interstate, intrastate and local. The revenue requirement access element categories for the interstate and intrastate jurisdictions are: 1) carrier common line; 2) local switching; 3) transport; 4) special access and; 5) non-access.

Q. Referring to Schedule 3.01, attached to your testimony, what steps were **undertaken in the preparation of the embedded economic cost study?**

A. Schedule 3.01 was developed using Leaf River Telephone Company's year 2000 annual cost separations study. The annual cost separation study, for the above referenced purposes, is run using the FCC prescribed method of weighting the Dial Equipment Minutes factor which is three (3) times the interstate factor based on relative subscriber traffic usage. In preparing the schedule for use in this rebuttal testimony, the embedded cost study for Leaf River Telephone Company was completed by running a Part 36/69 cost separations study absent the factor weighting for interstate Dial Equipment Minutes ("DEM"). Running the cost separations study without the interstate DEM weighting factors reflects the appropriate separated costs for the local, intrastate and interstate jurisdictions based on the fact that the DEM local switching support has been removed from interstate access rates and placed into an explicit high cost support fund. Using the unweighted DEM factors properly moves the revenue requirement associated with local switching support from the interstate jurisdiction to the local jurisdiction.

Q. What does this Schedule 3.01 show?

A. This Schedule shows the accumulation of all the separated cost elements, from the cost study, which comprise the cost of providing local service. In developing the cost of supported services for this analysis, we have included the Part 36 local revenue requirement, the intrastate Part 69 carrier common line revenue requirement and the interstate Part 69 carrier common line revenue requirement. Since the carrier common line revenue requirements from a cost separations study are designed to recover a portion of the local loop costs, it is appropriate to include those costs in this analysis. In summary, this Schedule shows that Leaf River Telephone Company has economic costs of providing the supported local services that exceed the revenues received from an affordable local rate and federal universal service support mechanisms.

Q. Please explain the format of Schedules 3.01 and 3.02 in more detail.

A. Schedule 3.01 contains three pages. The first page shows the calculation of the total economic cost of the supported services and then the deduction of the appropriate current revenue streams that recover the cost of the supported local services. The product of this calculation is Leaf River Telephone Company's showing of need for State Universal Service Fund support related to the provision of supported local services. The second page of the analysis shows the calculation of costs related to local services that are not supported. The third page of the analysis compares the economic cost of state switched access to the state switched access revenues received in the year 2000.

Schedule 3.01, Page 1, Line 1 of the analysis displays the Interstate Carrier Common Line Revenue Requirement from the interstate Part 69 cost study output. Line 2 of the analysis displays the Intrastate Carrier Common Line Revenue Requirement from the intrastate Part 69 cost study output. Line 3 displays the state local switching access revenue requirement shift to the local jurisdiction based on the state local switching rate adjustment for non-traffic sensitive (line termination) costs. Line 4 displays the local jurisdiction revenue requirement from the Part 36 cost study output. Line 5 displays the amount of the local revenue requirement associated with the provision of ancillary services such as custom calling features and CLASS features. A detailed calculation of this cost is provided on Page 2 of this Schedule. Line 6 displays the total embedded cost of supported services. Line 7 displays the total access line count for the company as entered on Attachment # 5 of ITA Exhibit

2, which was associated with Mr. Schoonmaker's March 23, 2001 direct testimony. Line 8 displays the embedded cost per line per month, calculated by dividing Line 6 by Line 7, then dividing that result by 12 to arrive at a monthly amount. Line 9 displays the affordable rate for local service as entered in IITA Exhibit 2, Attachment #5, as mentioned previously. The affordable local rate figure includes the state subscriber line charge. Line 10 summarizes the total revenue sources for the supported local services. Line 11 summarizes the Federal support revenue sources for the supported services. These include the Federal High Cost Loop Support payments, Federal Local Switching Support payments and the company's interstate carrier common line revenue requirement. Line 12 displays the Illinois Universal Service Fund eligibility amount for the supported services based on this embedded cost analysis.

Schedule 3.02 contains the cost study output reports. Page 1 of the schedule is the Part 69 Interstate Revenue Requirement output from the cost study. Page 2 of the schedule is the Part 69 Intrastate Revenue Requirement output from the cost study. Page 3 of the schedule is the Part 36 Total Company Revenue Requirement output from the cost study.

Q. Does the annual cost study alone provide sufficient detail to show the economic cost of the supported services in the local revenue requirement?

A. No. We needed to make some additional modifications to the cost information produced by the separations study to eliminate the costs associated with ancillary services. This cost adjustment is incorporated in Line 5, Page 1 of Schedule 3.01. Schedule 3.01, Page 2 details the calculation for the removal of these costs. The result of the calculation on Schedule 3.01, Page 2 ties to the adjustment made to local revenue requirement on Line 5, Page 1 of Schedule 3.01.

Q. You've stated that, "we needed to make some additional modifications to the cost information produced by the separations study to eliminate the costs associated with ancillary services." Why is that?

A. The cost separations study separates local costs from interstate and intrastate access, but it does not break out the costs associated with each local service.

Q. What is the problem with that?

A. For the purposes of this proceeding, we are supposed to be determining the economic cost for the "supported services".

Q. Does Leaf River Telephone Company have a separate rate for each of the "supported services"?

A. No. Leaf River Telephone Company does not charge separately for each of the "supported services".

Q. Does Leaf River Telephone Company provide basic local service to its subscribers for a flat rate fee?

A. Yes.

Q. Does the basic local service which Leaf River Telephone Company offers for a flat fee to its subscribers include all of the supported services as identified in the FCC rules?

A. Yes. Leaf River Telephone Company's basic local service includes the following elements: Voice grade access ~~of~~ to the public switched network, local usage, dual-tone multi-frequency signaling, single party service, access to emergency services, access to operator services, access to interexchange service, access to directory assistance and toll control service for low income customers.

Q. Does Leaf River Telephone Company's basic local service, which it provides for a flat fee to its subscribers, include any additional telecommunication services that are not a part of the FCC's list of supported services?

A. No.

Q. Does Leaf River Telephone Company offer other telephone services to its subscribers for an additional fee?

A. Yes.

Q. Please briefly describe the other telephone services that Leaf River Telephone Company provides.

A. In addition to basic local service the company provides the following ancillary services: call waiting, call forwarding, three-way call service, speed calling, call transfer and distinctive ringing service.

Q. Please explain the calculation of the adjustment on Page 2 of Schedule 3.01.

A. The actual cost of these ancillary services was developed using information obtained from the equipment vendor. We have received initial investment costs for these services from the switch vendor of the company. We then used the relationship of the ancillary service investment to total investment to reduce the costs for these services from the total revenue requirement developed for local services by the cost separations study process. In reviewing the cost of providing these ancillary services, we conclude that the impact on the total local service cost is de minimis. Staff witness Koch has testified that the cost of these ancillary services is "close to zero."

Q. Mr. Petrouske, turning back to your Schedule 3.01 and focusing Page 1, Line 12, can you determine what Leaf River Telephone Company's IUSF need for supported services will be based on its Year 2000 embedded economic cost study?

A. Yes. The result of our analysis shows that Leaf River Telephone Company has an Illinois Universal Service Funding deficiency of $375,827.

Q. Does this Schedule reflect any current Illinois High Cost Fund or DEM Weighting Fund Support?

A. No. The existing state DEM Weighting and State High Cost Funds are scheduled to expire on September 30, 2001. Therefore, these funding amounts are not represented in the analysis.

Q. Does your Schedule 3.01 factor out the federal USF support funds which Leaf River Telephone Company receives on an annual basis for purposes of the Year 2000 embedded cost analysis?

A. Yes. Line 11, Page 1 of the schedule subtracts the appropriate federal support payments related to the local services per the statutory requirement for the economic cost test.

Q. After making these adjustments, what did you conclude?

~~A. After making these adjustments to the local loop costs, Leaf River Telephone Company has demonstrated that its economic costs exceed the Staff's recommended affordable~~ rate ~~plus federal universal service support and reflects a funding need in the amount of $375,827.~~

Q. Should the HAI model, as proposed by the Staff, be used to reduce universal service support for a carrier that shows a need under the Staff's Rate of Return Analysis?

A. No. Like Ameritech, we recommend that the model not be used by the Commission. There are too many inaccuracies, inconsistencies and wildly varied results for that model. In Mr. Hoagg's rebuttal testimony, page 5, Mr. Hoagg noted that the HAI was already an imprecise estimation tool so the Staff's recommendation does not use HAI for funding a Universal Service Fund, and it should not be used as a screening tool for Universal Service. Since the Staff concludes that the HAI is not appropriate for funding Universal Service, neither is it appropriate to use it to disqualify a carrier for funding which otherwise qualifies for funding under the rate of return analysis. The FCC has rejected the use of forward-looking cost models for determining universal service requirements for rural carriers. The Illinois Commerce Commission should follow the FCC's decision and policy in this area and reject forward-looking cost models for Universal Service for rural carriers and use embedded costs. OK

Q. Staff rejected all of the input changes you recommended earlier. Assuming the Commission adopts HAI as an screening tool despite its numerous problems, is it appropriate to use Leaf River Telephone Company's actual costs for input

adjustments to the HAI model, even though it is different than the HAI default values?

A. Yes. The model should be adjusted to ' ct Leaf River Telephone Company's costs similar to the company-specific circu' ns they exist today.

Q. Mr. Koch testified that the IITA ted that 100% of Leaf River Telephone Company's cable plant investment as of 1998 was buried cable. You have recommended using an input factor of 85% for the buried feeder and distribution plant, an input factor of 5% for aerial feeder and distribution plant and a 10% underground input factor for feeder and distribution cable plant. Due to this difference in data, Mr. Koch urged the Commission to reject your changes 1, 2 and 3. What is your explanation?

A. The IITA did not request the buried cable plant data directly from the company. Rather, it relied on a review of the 1998 plant investment information contained in Leaf River Telephone Company's ICC annual report. IITA's response did not correctly interpret the financial data reflected on the 1998 ICC annual report for Leaf River Telephone Company. The ICC Annual Report for 1998 did reflect the detail to determine the fact that approximately 10% of Leaf River Telephone Company's cable plant investment is in the conduit systems account. Therefore the IITA, not Leaf River Telephone Company, mistakenly furnished the Staff with erroneous information. The company has actual underground cable investment of approximately 10%. Also, based on discussions I had with company plant management, it was revealed that the company has some amount of aerial cable in its distribution and feeder plant (related to aerial inserts over rivers and along some of the bridges in the service territory), which was estimated at 5% of cable plant investment. These small portions of aerial plant are recorded as buried cable in the company's books. The changes we have made to the plant inputs closely reflect the actual plant composition as it exists for Leaf River Telephone Company and are valid for use as the cable plant inputs for the HAI model run. The Commission should not accept the Staff's position on this adjustment.

Q. Calling your attention to the other input changes you have recommended for Leaf River Telephone Company, would you describe generally what they are?

A. The other HAI model input adjustments that I recommend are known and measurable changes for corporate overhead loading, central office investment and customer and carrier billing expense, and a change in the cost of capital inputs. Data is available from the company to accurately reflect these input adjustments.

Q. Mr. Koch rejects input changes 4 through 9 in place of the default values because he feels they reflect the embedded costs of Leaf River Telephone Company. Why do you recommend making these input adjustments?

A. In this case, the actual company-specific inputs are far more appropriate than the default values resident in the model. And, for the foreseeable future, these cost changes are reflective of Leaf River Telephone Company's forward-looking costs for these expense elements. The model should be adjusted to reflect Leaf River Telephone Company's costs similar to the company-specific circumstances as they exist today. For example, Leaf River Telephone Company does not provide local number portability and because of that, the Staff agreed to adjust the local number portability expense in the HAI input to a value ~~to~~ of zero. The Commission should strive for greater accuracy when possible and allow the individual company input adjustments when more accurate company data is available. To do otherwise distorts the results. Despite Mr. Koch's criticisms, these changes in default values more closely reflect the circumstances of operating a telephone company in Leaf River.

I am familiar with the customer billing expenses of small telephone companies. I was Vice President and General Manager of Gensoft Systems, a billing vendor that served small telephone companies. In my tenure at Gensoft, I was responsible for the day-to-day operations of the company and I am intimately familiar with the costs associated with the billing functions. I priced billing services provided by Gensoft to the small telephone company customers. In my experience, monthly customer billing costs for a small company run in excess of $3.00 per bill just for bill production and billing system maintenance. The HAI model customer billing and inquiry cost default value is set at $1.22 per line per month. A large number of the small telephone companies do not have the economies of scale or the available personnel to justify supporting the billing function in-house. These companies rely on billing vendors to support and maintain their billing system. There are certain costs associated with maintaining a billing system on a per-company basis that are unavoidable regardless of the size of the company's customer base. These costs include the maintenance of the rating functions, regulatory programming updates, etc. In addition to the billing vendor costs, other company resources are required to provide customer billing and inquiry services to the end users. The HAI default value for customer billing costs of $1.22 would not even recover the billing company's costs of providing these services. This default value was obviously calculated using data from companies with large customer bases over which to spread the costs of the customer billing functions. This default value is completely inappropriate for a small company like Leaf River Telephone Company.

With regard to the carrier billing costs, the situation is similar. CABS billing systems are programmatically complex and require a significant amount of maintenance. A small telephone company would find it extremely difficult to financially support the programming talent required to maintain a CABS billing system in-house.

Corporate operations expenses tend to run proportionately higher in the small telephone companies since these companies hire outside firms to perform some of the functions that the company cannot justify supporting internally. For example, many small companies rely on outside firms for accounting, consulting, engineering and legal assistance. Many of these costs are recorded in the corporate operations expenses of the company's books. Many regulatory, legal and financial function costs are static regardless of the company's size. Yet, using outside firms for certain functions is still the most prudent economic choice. Very few small telephone companies could financially support having in-house legal counsel, for example.

One additional HAI input change we made to the defaults related to central office investment per line. In Leaf River Telephone Company's case, the default value for central office switching investment significantly understated the actual level of investment experienced by the company. The central office investment costs per line are higher at a small rural company because they do not enjoy the economies of scale and purchasing power of the larger LECs. This is the case with Leaf River Telephone Company. Consequently, we adjusted the central office switching investment per line input in the model to closely reflect the actual cost of switching experienced by Leaf River Telephone Company.

Q. Using the Staff's adjustments for the cost of capital inputs, 40% debt at a cost of 9% and 60% equity at a cost of 15%, and with the HAI input changes that you recommended, Staff's other adjustments to the HAI, and <u>with</u> the 3 additional adjustments from AT&T that Staff Witness Koch accepted, what would be the HAI result for Leaf River Telephone Company?

A. Leaf River Telephone Company would show a universal service funding need of $246,359.

Q. Using the Staff's adjustments for the cost of capital inputs, 40% debt at a cost of 9% and 60% equity at a cost of 15%, and with the HAI input changes that you recommended, Staff's other adjustments to the HAI, <u>without</u> the 3 additional adjustments from AT&T that Staff Witness Koch accepted, what would be the HAI result for Leaf River Telephone Company?

A. Leaf River Telephone Company would show a universal service funding need of $397,005.

Q. The Staff objected to the capital structure inputs that you recommended. What do you recommend be used as the adjustments for the capital structure inputs?

A. I recommend using the actual company debt to equity ratio of 10% debt / 90% equity, with the company's actual cost of debt (6.65%) and the Staff recommended cost of equity of 15%. If the Staff deems a 15% cost of equity to be appropriate for this analysis, I do not believe Leaf River Telephone Company should be punished for the fact that they do not have as much debt in their capital structure. For the reasons stated above, I believe the adjustments made to the default inputs in the HAI model are valid and appropriate for Leaf River Telephone Company and should be accepted.

Q. The Staff recommends a residential affordable rate of $24.00 and a business affordable rate of $27.00. Does that affordable rate reflect the total customer cost (TCC)?

A. No it does not. It presents an incomplete picture to be sure. It is Leaf River's position that the affordable rate must consider <u>all</u> aspects of a customer's telephone bill or the TCC. The Staff's affordable rate does not include the federal subscriber line charge of $3.50, nor does it apparently include 911 surcharges, the ITAC charge or applicable taxes. These items are not optional choices for the customers to pay or not pay. Therefore, to compare apples to apples, the affordable rate must be the TCC.

Q. For Leaf River Telephone Company, what is the 911 surcharge on a customer's bill?

A. The 911 surcharge is $1.25 per access line.

Q. Does Leaf River Telephone Company have an ITAC charge?

A. Yes. It is 3¢ per access line. The subscriber does not have the option of refusing to pay the ITAC charge.

Q. What is Leaf River Telephone Company's federal subscriber line charge?

A. It is \$3.50 per access line per residential or single-line business access line. The charge is \$6.00 per multi-line business line.

Q. What taxes does a customer pay on the Leaf River Telephone Company phone bill?

A. Like all customers, the Leaf River Telephone Company subscriber pays 3% federal excise tax, 7% state excise tax, a public utility tax of .1%, and a state infrastructure tax of .5%. The Village of Leaf River has a municipal tax of 5.15% In total, a Leaf River Telephone Company subscriber pays an additional 15.75% in taxes on his or her phone bill.

Q. Putting aside for the moment the Universal Service funding charge, what is the Total Customer Cost ("TCC") of the Staff's recommended \$24.00 affordable rate in Leaf River for residential?

A. The TCC for residential lines would be approximately \$33.00 per month, including federal subscriber line charges and taxes.

Q. What is the TCC for a business customer?

A. The TCC for business lines would be approximately \$38.00 per month, including federal subscriber line charges and taxes.

Q. If Leaf River Telephone Company had to raise its rates correspondingly to the amount of its reduction in Universal Service Funding over 5 years, what would the Leaf River Telephone Company local rate be, all other things being equal?

A. I calculate the rate to be $65.51, not including applicable taxes. These are revenues that the company cannot afford to lose. Furthermore, the company does not realistically have alternative funding sources. With the company raising basic local rates even further, customers will look to reduce non-supported services rather than increase them. At a certain point, customers will look for alternative provision of service from other providers like cellular. The company will have lost the customer entirely at that point.

Q. Have you done an investigation of Leaf River Telephone Company's access revenues to determine whether or not there are any implicit subsidies?

A. Yes. In the 2000 embedded cost study, Leaf River's intrastate switched access revenues are $209,416 over its embedded costs. These revenues are the result of usage sensitive intrastate switched access rates that mirror Leaf River Telephone Company's federal switched access rates. If we calculate the differential in revenues based on the revised access rates, to be filed with the Commission on July 3, 2001, the variance decreases significantly since the intrastate switched access rates will decrease significantly with this filing. The revenue versus cost difference for the year 2000, based on the updated 2001 switched access rates, would be in the amount of $105,752. The rates are set in this mirrored fashion based upon the policy decision of the Illinois Commerce Commission in the 4th Interim Order in ICC Docket No. 83-0142.

Q. Mr. Petrouske, does your Schedule 3.01 separate out the costs and revenues associated with intrastate access?

A. Yes. Schedule 3.01, Page 3, Line 1 of the analysis displays the intrastate switched access revenue requirement of the company. This total includes the revenue requirement totals for local switching, information and local transport from the intrastate Part 69 study report output. Line 2 shows the switched revenue requirement reduction associated with the intrastate local switching rate NTS costs shifted to the local jurisdiction (as described in the Page 1, Line 2 definition above). Line 3 calculates the net intrastate switched access revenue requirement, which consists of the gross switched revenue requirement less the local switching NTS cost shift. Line 4 displays the intrastate switched access revenues for Leaf River Telephone Company for the year 2000. Line 5 displays the difference between the net intrastate switched access revenue requirement and the switched access revenues received by the company.

Q. Mr. Petrouske, does your Schedule 3.01, Page 3 exclude the costs and revenues associated with interstate access?

A. Yes. However, the interstate carrier common line revenue requirement has been included as part of the local service cost in this analysis, since these costs are related to the local loop portion of the network.

Q. What do you recommend the Commission do about Leaf River Telephone Company's intrastate switched access revenue surplus?

A. Nothing at this time. Contrary to AT&T's position, the statute, 13-301 (d), does not disqualify a LEC from Universal Service Funding simply because its intrastate access revenues exceed intrastate access costs. Since the Commission's Fourth Interim Order in ICC Docket Number 83-0142, carriers have used the process of mirroring interstate access rates with some limited adjustments. This issue should be addressed in detail in next phase of this proceeding. The FCC is currently reviewing access changes and evaluating various proposals regarding access charge reform. I recommend that the Commission make no changes in access rates in this docket. In the meantime, no carrier should be denied Universal Service funds in the future for following the Illinois Commerce Commission's past mirroring policy.

Q. Would it serve the policy of the Universal Service Funding provision to adopt a pass-fail test for intrastate access subsidies as proposed by AT&T?

A. Absolutely not. Under the AT&T proposal, a carrier can have $1.00 in intrastate access subsidy and lose several hundred thousand dollars in needed support. It would completely defeat the purpose of Universal Service and run contrary to the Commission's policy in Fourth Interim Order of 83-0142 in which carriers were supposed to mirror interstate access rates in the intrastate jurisdiction. There is nothing in the Act that can be interpreted to deny funding to a carrier who otherwise demonstrates a need. Rather than remedy the situation, AT&T proposes to exacerbate it. Denying funding to a carrier whose intrastate access revenues exceed its intrastate access costs inflicts a disproportionate harm to the carrier and its rural customers and serves no useful purpose.

Q. Are there any other services that the Commission should include for Universal Service Support?

A. Yes there is. Recently the legislature has passed an amendment to the Public Utilities Act. While Governor Ryan has not signed the bill into law yet, it is almost assured that he will do so shortly after the hearings in this case have concluded. The legislature has expressed a strong public policy aimed at conquering the "digital divide." What will be new 220 ILCS 5/13-5-17 requires all carriers to provide advanced telecommunications services (DSL) to 80% of their customers by January 1, 2005. While the bill does contain a provision in which a carrier may seek a waiver from the Commission under a verified petition, the grant of a waiver cannot be assumed and we recommend that DSL be included on the list of supported services unless and until a carrier obtains a waiver for such a service. When enacted, this new law should alleviate several concerns of the Staff in their initial direct testimony. In Mr. Hoagg's May 11, 2000 testimony, he expressed some concern (on page 14) about rural companies that have deployed very costly networks capable of very high speeds of data transmission. He stated, and I quote: "The intent of this proceeding is to determine the required support for the costs associated with providing voice-grade basic services; it would be inappropriate here to require the general body of Illinois rate payers to support deployment of, for example, costly high-speed data networks." He concluded that the rate of return analysis as the sole criterion could present small carriers with significant incentives to deploy advanced network technologies supported in part by USF support. We believe that Staff's concerns are no longer valid in light of the strong, unambiguous message that the legislature has sent to the Commission about advanced services for all carriers.

Q. Some of the interexchange carriers (Verizon, MCI Worldcom and Ameritech) have suggested that not all of the access lines should be supported by Universal Service Funding. What is Leaf River Telephone Company's position on this issue?

A. The FCC has not found any rural access lines that are less valuable than others and neither should this Commission. If a customer is entitled to support for the first access line at the Staff's $24.00 affordable price and the second access lines is perhaps $35.00, it encourages other occupants of the household to have the second line in their individual name. Furthermore, there does not appear to be any valid policy reason to deny support to rural business customers. In Leaf River Telephone Company's case, it has six (6) access lines for the local school, seven (7) access lines for the volunteer fire department, and an access line for the local post office and all are considered business customers. I would recommend that the Commission not deprive local schools and other valuable public service entities such as the fire department and post office from Universal Service Support. Leaf River Telephone Company and several other rural carriers do not have large multi-line business customers in their service area. Many rural business owners cannot afford an independent location and often operate a business from their own homes. Leaf River Telephone Company recommends that all rural access lines be supported.

Q. Does this conclude your testimony?

A. Yes.

Leaf River Telephone Company
Embedded Cost Analysis
Based on Part 36/69 and Historical Data

Line #	IUSF ELIGIBILITY AMOUNT Description of Data	Source of Data	Total Amount
1	Interstate Carrier Common Line Rev. Req.	Interstate Part 69 Study, Sch. A-1, 1 of 1, Line 19	$235,295
2	*Intrastate Carrier Common Line Rev. Req.*	*Intrastate Part 69 Study, Sch. A-1, 1 of 1, Line 19*	$474,500
3	Line Termination Rev. Req. Shift for State SLC	Intrastate LS2 Rate Development	$52,892
4	Local Rev. Req.	Part 36 Study, Sch. S-1, 1 of 1, Line 19	$423,697
5	Cost of Unsupported Local Services	Page 2 of this Exhibit	$ 1,402
6	**Total Embedded Cost**	**Sum of Lines 1 through 4 less Line 5**	**$1,184,982**
7	Access Lines	IITA Exhibit #2, Attachment 5	610
8	Economic Cost per Line per Month	Line 6 divided by Line 7 ÷ 12	$161.88
9	Affordable Local Rate	IITA Exhibit #2, Attachment 5	$25.59
10	Total Local Revenues - Supported Services	Line 7 times Line 9 annualized	$187,319
11	Total Federal Support Funds	IITA Exhibit #2, Attachment 5 (REVISED)	$621,836
12	**IUSF Eligibility Amount**	**Line 6 minus Line 10 minus Line 11**	**$375,827**

Leaf River Telephone Company
Embedded Cost Analysis
Based on Part 36/69 and Historical Data

Docket Nos. 00-0233 & 00-0335 (Consolidated)
Leaf River Telephone Company Exhibit 3.0
Schedule 3.01

	COST OF UNSUPPORTED SERVICES **Description of Data**	**Source of Data**		**Total Amount**
1	Total CO Investment for Ancillary Services	Vendor cost information	$	13,300
2	Total Central Office Switching Investment	ICC Annual Report Page 6, Total CO Switching	$	937,324
3	Total Accumulated Reserve CO Switching Inv.	ICC Annual Report Page 20, Line 5 (j)	$	768,635
4	Net Central Office Switching Equip. Investment	Line 2 minus Line 3	$	168,689
5	Net Rate Base Percentage of CO Switching Inv.	Line 4 divided by Line 2		18.00%
6	Net Rate Base Portion of Ancillary Service Inv.	Line 1 multiplied by Line 5	$	2,394
7	Total Study Part 36 Rate Base - Local	*Part 36 Cost Study - Local Net Investment Total*	$	723,969
8	Percent of Expense for Local Rev. Req. Adj.	Line 6 divided by Line 7		0.33%
9	Total Local Operating Expenses	Part 36 Operating Exp. & Oth. Tax - Local	$	290,521
10	Expense Reduction for Ancillary Services	Line 9 multiplied by Line 8	**$**	**961**
11	Return Component Reduction - Local	Line 6 multiplied by 11.25%	$	269
12	Return Component Reduction w/tax gross up	Line 11 multiplied by 1.64	**$**	**442**
13	Total Local Revenue Requirement Reduction	Line 10 plus Line 12	**$**	**1,402**

Leaf River Telephone Company
Embedded Cost Analysis
Based on Part 36/69 and Historical Data

ACCESS SUBSIDY ANALYSIS

	Description of Data	Source of Data	Total Amount
1	Intrastate Switched Access Rev. Req.	Intrastate Part 69 Study, Sch. A-1, 1 of 1, Line 19	$136,331
2	Line Termination Shift for State SLC	Intrastate LS2 Rate Development	$52,892
3	Net Intrastate Switched Access Rev. Req.	Line 1 minus Line 2	$83,439
4	Current Intrastate Switched Access Revenues	Year 2000 Company CABS Data	$292,855
5	**Subsidy in Access (if negative)**	**Line 15 minus Line 16**	**($209,416)**

SUMMARY OF REVENUE REQUIREMENT BY ACCESS ELEMENT

A-1, 1 of 1

					COMMON LINE		TRAFFIC SENSITIVE									SPECIAL ACCESS			
			TOTAL		LIMITED	COMMON	LOCAL			OPERATOR		TANDEM SWITCHED TRANSPORT			CHANNEL	CHANNEL MILEAGE		TOTAL
LN	A/C	DESCRIPTION	COMPANY	SOURCE	PAY	LINE	SWITCHING	SS7	INFO	TRANSFER	BNA	SWITCHING	TERM	FACILITY	TERM	TERM	FACILITY	NON ACCESS
1		NET INVESTMENT FOR SETTLEMENTS	811,211	A-2,LN 34	0	516,563	216,367	0	0	0	0	0	56,052	14,592	8,775	661	201	0
2		RATE OF RETURN	11.2500%		11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	0.0000%
3		RETURN ON INVESTMENT	91,261	LN 1*LN 2	0	58,113	24,341	0	0	0	0	0	6,308	1,642	762	74	23	0
4		ALLOW FOR FUNDS USED DURING CONSTR	0	A-8,LN 28	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5		NET RETURN FOR SETTLEMENTS	91,261	LN 3-LN 4	0	58,113	24,341	0	0	0	0	0	6,306	1,642	762	74	23	0
6		FEDERAL INCOME TAX	49,524	LN 30	0	31,267	13,446	0	0	0	0	0	3,464	883	410	41	12	0
7		LESS: FEDERAL ITC AMORTIZATION	0	A-12,LN 23	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8		NET FEDERAL INCOME TAX	49,524	LN 6-LN 7	0	31,267	13,446	0	0	0	0	0	3,464	883	410	41	12	0
9		STATE AND LOCAL INCOME TAX	7,997	LN 36	0	5,049	2,171	0	0	0	0	0	559	143	66	7	2	0
10		STATE ITC AMORTIZATION	0	A-12,LN 24	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11		NET STATE AND LOCAL INCOME TAX	7,997	LN 9-LN 10	0	5,049	2,171	0	0	0	0	0	559	143	66	7	2	0
12		PROVISION FOR DEFERRED INCOME TAX	0	RECORDS	0	0	0	0	0	0	0	0	0	0	0	0	0	0
13		OPERATING EXPENSE & OTHER TAXES	341,846	A-8,LN 19	0	140,866	144,891	0	197	0	0	0	23,677	4,836	2,226	274	65	24,814
14		NONOPERATING EXP	0	A-8,LN 23	0	0	0	0	0	0	0	0	0	0	0	0	0	0
15		UNCOLLECTIBLES	0	A-8,LN 27	0	0	0	0	0	0	0	0	0	0	0	0	0	0
16		BASIS FOR GROSS RECEIPTS TAX	490,627		0	235,295	184,849	0	197	0	0	0	34,007	7,503	3,464	395	102	24,814
17		GROSS RECEIPTS TAX RATE	0.0000%		0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
18		GROSS RECEIPTS TAX	0	LN16*LN17	0	0	0	0	0	0	0	0	0	0	0	0	0	0
19		TOTAL REVENUE REQUIREMENT	490,627	LN16+LN18	0	235,295	184,849	0	197	0	0	0	34,007	7,503	3,464	395	102	24,814
		OPTIONAL GROSS UP INCOME TAX CALCULATION																
20		RETURN ON INVESTMENT	91,261	LN 3	0	58,113	24,341	0	0	0	0	0	6,306	1,642	762	74	23	0
21		INTEREST AND RELATED ITEMS	14,465	A-12,14+16	0	7,663	5,224	0	0	0	0	0	1,244	216	100	15	3	0
22		OTHER INCOME ADJUSTMENTS	-19,338	A-12,LN 21	0	-10,244	-6,984	0	0	0	0	0	-1,663	-289	-134	-20	-4	0
23		TOTAL INCOME ADJUSTMENTS	-4,873	LN21+LN22	0	-2,581	-1,760	0	0	0	0	0	-419	-73	-34	-5	-1	0
24		RETURN LESS INCOME ADJ	96,134	LN20-LN23	0	60,695	26,101	0	0	0	0	0	6,725	1,714	796	79	24	0
25		FEDERAL ITC AMORTIZATION	0	A-12,LN 23	0	0	0	0	0	0	0	0	0	0	0	0	0	0
26		FIT BASE	96,134		0	60,695	26,101	0	0	0	0	0	6,725	1,714	796	79	24	0
27		FEDERAL TAXABLE INCOME	145,658		0	91,962	39,547	0	0	0	0	0	10,189	2,598	1,206	120	36	0
28	34.00%	FEDERAL INCOME TAX	49,524	LN 27*FTR	0	31,267	13,446	0	0	0	0	0	3,464	883	410	41	12	0
29		FEDERAL SURTAX ALLOCATION	0	/LN 28	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30		NET FEDERAL TAX BEFORE ITC AMORT	49,524	LN28-LN29	0	31,267	13,446	0	0	0	0	0	3,464	883	410	41	12	0
31		STATE ITC AMORTIZATION	0	A-12,LN 24	0	0	0	0	0	0	0	0	0	0	0	0	0	0
32		SIT BASE	145,658		0	91,962	39,547	0	0	0	0	0	10,189	2,598	1,206	120	36	0
33		STATE TAXABLE INCOME	153,655		0	97,011	41,718	0	0	0	0	0	10,749	2,740	1,272	127	38	0
34	5.22%	STATE INCOME TAX	8,019	LN 33*STR	0	5,063	2,177	0	0	0	0	0	561	143	66	7	2	0
35		STATE SURTAX ALLOCATION	22	/LN 32	0	14	6	0	0	0	0	0	2	0	0	0	0	0
36		NET STATE INCOME TAX BEFORE ITC AMORT	7,997	LN34-LN35	0	5,049	2,171	0	0	0	0	0	559	143	66	7	2	0
37		FEDERAL TAX AT MAXIMUM RATE	51,765		0	32,682	14,054	0	0	0	0	0	3,621	923	429	43	13	0
38		ADDITIONAL INCOME ADJUSTMENT FOR FIT	4,162		0	2,627	1,130	0	0	0	0	0	291	74	34	3	1	0

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SUMMARY OF REVENUE REQUIREMENT BY ACCESS ELEMENT

A-1, 1 of 1

					COMMON LINE		TRAFFIC SENSITIVE								SPECIAL ACCESS			
			TOTAL		LIMITED	COMMON	LOCAL			OPERATOR		TANDEM SWITCHED TRANSPORT			CHANNEL	CHANNEL MILEAGE		TOTAL
LN	A/C	DESCRIPTION	COMPANY	SOURCE	PAY	LINE	SWITCHING	SS7	INFO	TRANSFER	BNA	SWITCHING	TERM	FACILITY	TERM	TERM	FACILITY	NON ACCESS
1		NET INVESTMENT FOR SETTLEMENTS	1,287,468	A-2,LN 34	0	1,108,469	88,665	0	0	0	0	0	57,213	14,781	17,112	2,687	541	0
2		RATE OF RETURN	11.2500%		11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	0.0000%
3		RETURN ON INVESTMENT	144,840	LN 1*LN 2	0	124,478	9,975	0	0	0	0	0	6,436	1,663	1,925	302	61	0
4		ALLOW FOR FUNDS USED DURING CONSTR	0	A-8,LN 28	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5		NET RETURN FOR SETTLEMENTS	144,840	LN 3-LN 4	0	124,478	9,975	0	0	0	0	0	6,436	1,663	1,925	302	61	0
6		FEDERAL INCOME TAX	76,678	LN 30	0	65,789	5,354	0	0	0	0	0	3,444	879	1,017	162	32	0
7		LESS: FEDERAL ITC AMORTIZATION	0	A-12,LN 23	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8		NET FEDERAL INCOME TAX	76,678	LN 6-LN 7	0	65,789	5,354	0	0	0	0	0	3,444	879	1,017	162	32	0
9		STATE AND LOCAL INCOME TAX	12,381	LN 36	0	10,623	865	0	0	0	0	0	556	142	164	26	5	0
10		STATE ITC AMORTIZATION	0	A-12,LN 24	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11		NET STATE AND LOCAL INCOME TAX	12,381	LN 9-LN 10	0	10,623	865	0	0	0	0	0	556	142	164	26	5	0
12		PROVISION FOR DEFERRED INCOME TAX	0	RECORDS	0	0	0	0	0	0	0	0	0	0	0	0	0	0
13		OPERATING EXPENSE & OTHER TAXES	474,417	A-8,LN 19	0	273,610	69,672	0	4,965	0	0	0	27,027	5,354	6,203	1,267	196	86,123
14		NONOPERATING EXP	0	A-8,LN 23	0	0	0	0	0	0	0	0	0	0	0	0	0	0
15		UNCOLLECTIBLES	0	A-8,LN 27	0	0	0	0	0	0	0	0	0	0	0	0	0	0
16		BASIS FOR GROSS RECEIPTS TAX	708,315		0	474,500	85,866	0	4,965	0	0	0	37,463	8,037	9,310	1,757	294	86,123
17		GROSS RECEIPTS TAX RATE	0.0000%		0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
18		GROSS RECEIPTS TAX	0	LN16*LN17	0	0	0	0	0	0	0	0	0	0	0	0	0	0
19		TOTAL REVENUE REQUIREMENT	708,315	LN16+LN18	0	474,500	85,866	0	4,965	0	0	0	37,463	8,037	9,310	1,757	294	86,123
		OPTIONAL GROSS UP INCOME TAX CALCULATION																
20		RETURN ON INVESTMENT	144,840	LN 3	0	124,478	9,975	0	0	0	0	0	6,436	1,663	1,925	302	61	0
21		INTEREST AND RELATED ITEMS	22,913	A-12,14+16	0	18,486	2,396	0	0	0	0	0	1,423	248	286	67	9	0
22		OTHER INCOME ADJUSTMENTS	-26,917	A-12,LN 21	0	-21,717	-2,814	0	0	0	0	0	-1,671	-289	-336	-79	-11	0
23		TOTAL INCOME ADJUSTMENTS	-4,005	LN21+LN22	0	-3,231	-419	0	0	0	0	0	-249	-43	-50	-12	-2	0
24		RETURN LESS INCOME ADJ	148,845	LN20-LN23	0	127,709	10,394	0	0	0	0	0	6,685	1,706	1,975	314	62	0
25		FEDERAL ITC AMORTIZATION	0	A-12,LN 23	0	0	0	0	0	0	0	0	0	0	0	0	0	0
26		FIT BASE	148,845		0	127,709	10,394	0	0	0	0	0	6,685	1,706	1,975	314	62	0
27		FEDERAL TAXABLE INCOME	225,522		0	193,498	15,748	0	0	0	0	0	10,129	2,585	2,993	476	95	0
28	34.00%	FEDERAL INCOME TAX	76,678	LN 27*FTR	0	65,789	5,354	0	0	0	0	0	3,444	879	1,017	162	32	0
29		FEDERAL SURTAX ALLOCATION	0	/LN 26	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30		NET FEDERAL TAX BEFORE ITC AMORT	76,678	LN28-LN29	0	65,789	5,354	0	0	0	0	0	3,444	879	1,017	162	32	0
31		STATE ITC AMORTIZATION	0	A-12,LN 24	0	0	0	0	0	0	0	0	0	0	0	0	0	0
32		SIT BASE	225,522		0	193,498	15,748	0	0	0	0	0	10,129	2,585	2,993	476	95	0
33		STATE TAXABLE INCOME	237,903		0	204,121	16,612	0	0	0	0	0	10,665	2,727	3,157	502	100	0
34	5.22%	STATE INCOME TAX	12,416	LN 33*STR	0	10,653	867	0	0	0	0	0	558	142	165	26	5	0
35		STATE SURTAX ALLOCATION	36	/LN 32	0	31	2	0	0	0	0	0	2	0	0	0	0	0
36		NET STATE INCOME TAX BEFORE ITC AMORT	12,381	LN34-LN35	0	10,623	865	0	0	0	0	0	556	142	164	26	5	0
37		FEDERAL TAX AT MAXIMUM RATE	80,147		0	68,766	5,597	0	0	0	0	0	3,600	919	1,064	169	34	0
38		ADDITIONAL INCOME ADJUSTMENT FOR FIT	6,443		0	5,529	450	0	0	0	0	0	289	74	86	14	3	0

REVENUE REQUIREMENT SUMMARY

S-1, 1 of 1

						INTERSTATE				INTRASTATE						
				TOTAL	ALLOCATION	MESSAGE TOLL		SPECIAL ACCESS		MESSAGE TOLL		SPECIAL ACCESS		EXCHANGE		EXCHANGE
LN	DESCRIPTION			OPERATING	BASIS	INTRALATA	INTERLATA	INTRALATA	INTERLATA	INTRALATA	INTERLATA	INTRALATA	INTERLATA	PVT LINE	EAS	MESSAGE
	REVENUE REQUIREMENT SUMMARY															
1	NET INVESTMENT FOR SETTLEMENTS			2,822,646	NOTE A	0	803,417	0	7,794	291,566	975,856	8,306	11,740	0	0	723,969
2	RATE OF RETURN			11.2500%		11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%
3	RETURN ON INVESTMENT			317,548	LN1*LN 2	0	90,384	0	877	32,801	109,784	934	1,321	0	0	81,447
4	ALLOW FOR FUNDS USED DUR CONSTR	(Normalized)		0	S-8,LN 31	0	0	0	0	0	0	0	0	0	0	0
5	NET RETURN FOR SETTLEMENTS			317,548	LN3-LN4	0	90,384	0	877	32,801	109,784	934	1,321	0	0	81,447
6	FEDERAL OPERATING INCOME TAX	(OPTIONAL)		170,738	LN 28	0	49,062	0	462	17,370	58,113	496	698	0	0	44,537
7	LESS: FEDERAL ITC AMORTIZATION			0	S-12,LN 29	0	0	0	0	0	0	0	0	0	0	0
8	NET FEDERAL INCOME TAX			170,738	LN 6-LN 7	0	49,062	0	462	17,370	58,113	496	698	0	0	44,537
9	STATE AND LOCAL INCOME TAX	(OPTIONAL)		27,569	LN 33	0	7,922	0	75	2,805	9,383	80	113	0	0	7,192
10	LESS: STATE ITC AMORTIZATION			0	S-12,LN 30	0	0	0	0	0	0	0	0	0	0	0
11	NET STATE INCOME TAX			27,569	LN 9-LN 10	0	7,922	0	75	2,805	9,383	80	113	0	0	7,192
13	OPERATING EXPENSE AND TAX			1,106,784	S-8,LN 20	7	339,841	0	1,997	134,030	334,977	2,296	3,111	0	0	290,521
14	OTHER ALLOWABLE EXPENSES			0	S-8,LN 22+23	0	0	0	0	0	0	0	0	0	0	0
15	UNCOLLECTIBLES			0	S-8,LN 30	0	0	0	0	0	0	0	0	0	0	0
16	BASIS FOR GROSS RECEIPTS TAX			1,622,639	5+8+11thru15	7	487,210	0	3,411	197,006	512,258	3,809	5,242	0	0	423,697
17a	GROSS RECEIPTS TAX RATE	(GROSS UP)				0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
17b	GROSS RECEIPTS TAX			0	LN 16*LN 17a	0	0	0	0	0	0	0	0	0	0	0
18	LESS: B-I EAS CREDIT			0											0	
19	TOTAL REVENUE REQUIREMENT			1,622,639		7	487,210	0	3,411	187,006	512,258	3,809	5,242	0	0	423,697

NOTE A: INCLUDES NET TEL PLANT FROM SCH S-2,LN 36 LESS A/C's 2006 ,2007 AND 1402 OTHER THAN RTB STOCK.

	OPTIONAL GROSS UP INCOME TAX CALC															
20	NET RETURN FOR SETTLEMENTS			317,548	LN 3	0	90,384	0	877	32,801	109,784	934	1,321	0	0	81,447
21	INTEREST AND RELATED ITEMS EXCL NON-OPER			50,496	S-12,LN 16+18	0	14,327	0	138	5,248	17,303	150	212	0	0	13,119
22	OTHER INCOME ADJUSTMENTS			-64,381	S-12,LN 25+26	0	-19,180	0	-158	-6,165	-20,328	-179	-246	0	0	-18,126
23	TOTAL INCOME ADJUSTMENTS			-13,885	LN 21+22	0	-4,853	0	-20	-917	-3,024	-28	-34	0	0	-5,007
24	FEDERAL ITC AMORTIZATION			0	S-12,LN 29	0	0	0	0	0	0	0	0	0	0	0
25	FEDERAL TAXABLE INCOME			502,171		0	144,299	0	1,359	51,089	170,922	1,459	2,053	0	0	130,991
26	FEDERAL INCOME TAX	@	34.00%	170,738	LN 25*FIT	0	49,062	0	462	17,370	58,113	496	698	0	0	44,537
27	FEDERAL SURTAX ALLOC- OPERATING			0	/S-2,LN 34	0	0	0	0	0	0	0	0	0	0	0
28	NET FED INCOME TAX BEFORE ITC			170,738	LN26-LN27	0	49,062	0	462	17,370	58,113	496	698	0	0	44,537
29	STATE ITC AMORTIZATION			0	S-12,LN 30	0	0	0	0	0	0	0	0	0	0	0
30	STATE TAXABLE INCOME			529,740		0	152,221	0	1,434	53,893	180,305	1,539	2,166	0	0	138,182
31	STATE INCOME TAX	@	5.22%	27,647	LN 30*SIT	0	7,944	0	75	2,813	9,410	83	113	0	0	7,212
32	STATE SURTAX EXEMPTION			78	/S-2,LN 34	0	22	0	0	8	27	0	0	0	0	20
33	NET STATE INCOME TAX BEFORE ITC	TAX:	A	27,569		0	7,922	0	75	2,805	9,383	80	113	0	0	7,192