

DIRECT TESTIMONY

OF

DR. QIN LIU

ECONOMIST  
POLICY DIVISION  
ILLINOIS COMMERCE COMMISSION

SHAWNEE COMMUNICATIONS, INC., MOULTRIE MULTICORP, INC. AND  
MOULTRIE INDEPENDENT TELEPHONE COMPANY

JOINT APPLICATION FOR THE APPROVAL OF A REORGANIZATION  
PURSUANT TO SECTION 7-204 OF  
THE PUBLIC UTILITIES ACT; AND THE GRANTING OF ALL OTHER NECESSARY  
AND APPROPRIATE RELIEF

DOCKET NO. 15-0636

MARCH 18, 2016

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

2 A. My name is Qin Liu, and I am employed as an economist by the Policy Division of  
3 the Illinois Commerce Commission (“Commission”). My business address is 160  
4 North LaSalle Street, Suite C-800, Chicago, Illinois 60601.

5

6 **Q. Please describe your educational background.**

7 A. I hold a PhD degree in economics from Northwestern University and a MA degree  
8 in economics from University of Alberta.

9

10 **Q Have you previously testified before the Commission?**

11 A. Yes. I have testified before this Commission in various proceedings.

12

13 **Q. What do the Joint Applicants seek in this proceeding?**

14 A. On November 25, 2015, Shawnee Communications, Inc. (“SCI”), Moultrie  
15 MultiCorp, Inc. (“MMI”) and Moultrie Independent Telephone Company (“MITC”)  
16 (collectively, “Joint Applicants”) entered into a Stock Purchase Agreement, under  
17 which “SCI will acquire all of the stock of MMI” and thus will take 100% ownership  
18 of MMI.<sup>1</sup> MITC is a wholly-owned subsidiary of MMI, and an incumbent local  
19 exchange carrier (“ILEC”) in Illinois.<sup>2</sup> As a result of this proposed transaction, SCI  
20 will indirectly take control of MITC’s operation in Illinois. The Joint Applicants  
21 believe that the proposed transaction constitutes a “reorganization” as

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<sup>1</sup> Verified Joint Application, 1.

<sup>2</sup> *Id.*

22 contemplated by the Public Utilities Act (“Act”).<sup>3</sup> Accordingly, the Joint Applicants  
23 submitted the Verified Joint Application (“Joint Application”) in this instant  
24 proceeding seeking approval from the Commission for the proposed transaction  
25 pursuant to Section 7-204 of the Act.<sup>4</sup>

26

27 **Q. What is the purpose of your testimony?**

28 A. The purpose of my testimony is to address issues related to Sections 7-204(b)(5)  
29 and (6) of the Act. I also present Staff’s overall position and recommendations  
30 regarding the Joint Applicants’ petition for approval of the proposed transaction  
31 between SCI and MMI.

32

33 **Q. Have you included any attachments to your direct testimony?**

34 A. Yes. I have included the following attachments to this testimony:

35 Attachment A Joint Applicants Response to Staff DR QL-1.02

36 Attachment B Joint Applicants Response to Staff DR QL-2.01

37 Attachment C Joint Applicants Response to Staff DR DGK-1.01

38 Attachment D Joint Applicants Response to Staff DR DGK-1.02

39

40 **Q. Please describe the Joint Applicants.**

41 A. SCI is a holding company and the sole owner of three subsidiaries: ShawneeLink,  
42 ShawneeLEC and Shawnee Telephone Company (“STC”).<sup>5</sup> ShawneeLink is a

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<sup>3</sup> 220 ILCS 5/ and Joint Applicants Ex. 1.0, 2-3.

<sup>4</sup> Verified Joint Application, 1.

<sup>5</sup> Staff Ex. 1.0, Attachments A and C.

43 provider of “intrastate and interstate long distance toll services, and internet service  
44 provider in the nine exchanges [Cave-In-Rock, Eddyville, Elizabethtown, Equality,  
45 Hicks, Leamington, Renshaw, Rosiclare, and Simpson] and in contiguous areas.”<sup>6</sup>

46  
47 ShawneeLEC is a competitive local exchange carrier (“CLEC”), certified by the  
48 Commission in Docket No. 06-0518 to provide competitive local exchange service  
49 throughout the State of Illinois. ShawneeLEC entered into an interconnection  
50 agreement with Citizens Telecommunications Company of Illinois, approved by the  
51 Commission in Docket No. 14-0131, which remains ShawneeLEC’s only  
52 interconnection agreement.<sup>7</sup> ShawneeLEC started to provide local voice service  
53 last year in the Anna, Eldorado, Golconda and Vienna exchanges, and is currently  
54 “beta testing” voice service only with “friendly” test customers and administrative  
55 test numbers, with line counts as follows:<sup>8</sup>

Rate Center	Assigned	Administrative
Anna	0	2
Eldorado	0	2
Golconda	4	7
Vienna	0	2

56  
57 STC is an ILEC in Illinois, with a service area composed of nine exchanges: Cave-  
58 In-Rock, Eddyville, Elizabethtown, Equality, Hicks, Leamington, Renshaw,  
59 Rosiclare and Simpson.<sup>9</sup> It serves approximately 3,300 access lines.<sup>10</sup>

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<sup>6</sup> *Id.*  
<sup>7</sup> Staff Ex. 1.0, Attachment B.  
<sup>8</sup> *Id.*  
<sup>9</sup> Verified Joint Application, 2.  
<sup>10</sup> *Id.* at 5.

60 MMI is a holding company and the sole owner of MITC. MITC is an ILEC in Illinois,  
61 with a service area comprised of one exchange: Lovington.<sup>11</sup> It serves  
62 approximately 500 access lines.<sup>12</sup>

63  
64 Aside from MITC, MMI is also the holding company of three other subsidiaries:  
65 Moultrie InfoComm, One-Eleven Internet Services, and SaMComm.<sup>13</sup> The Joint  
66 Applicants describe Moultrie InfoComm as a long distance service provider, One-  
67 Eleven Internet Services as a Broadband-ISP provider, and SaMComm as a  
68 management company.<sup>14</sup>

69

70 **Q. Please explain the scope of the Commission approval sought by the Joint**  
71 **Applicants.**

72 A. It is my understanding that the Joint Applicants seek Commission approval of the  
73 proposed transaction as it pertains to MMI's ILEC, MITC. As noted above, MMI is  
74 the holding company of MITC, Moultrie InfoComm and One-Eleven Internet  
75 Services (and SaMComm, a management company). In footnote 2 of the Joint  
76 Application, the Joint Applicants state that the proposed transaction also involves  
77 MITC's long distance affiliate, but that the Joint Applicants do not believe that  
78 Commission approval is required for that portion of the proposed transaction.  
79 Though the Joint Applicants make no similar specific statement pertaining to MMI's  
80 other subsidiaries in the Joint Application, it appears that the Joint Applicants take

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<sup>11</sup> Verified Joint Application, 1 and 3.

<sup>12</sup> Joint Applicants Ex. 1.0, 5.

<sup>13</sup> Staff Ex. 1.0, Attachment C.

<sup>14</sup> *Id.*

81 a similar view on MMI's other non-ILEC subsidiaries as Commission approval is  
82 not sought as to these entities. The Joint Applicants cite no legal authority to  
83 support their contention.

84

85 **Q. Do you agree that the Commission should limit its assessment and approval**  
86 **of the proposed transaction to the ILEC(s) involved?**

87 A. While I am not an attorney, it is my understanding that Section 7-204 of the Act  
88 does not apply to carriers of competitive telecommunications service if such  
89 carriers are not Electing Providers as the term is used in Section 13-506.2 of the  
90 Act.<sup>15</sup> To my knowledge, none of the operating companies involved in the  
91 proposed transaction are Electing Providers. Thus, the Commission should limit  
92 its evaluation and approval of the proposed transaction to the portion pertaining to  
93 the ILEC.

94

95 **Summary of Staff Positions**

96 **Q. Please provide a summary of Staff's conclusions and recommendations on**  
97 **Section 7-204 requirements.**

98 A. Section 7-204(b)(1) of the Act provides, in relevant part, that the Commission shall  
99 not approve a proposed reorganization unless it finds that: "the proposed  
100 reorganization will not diminish the utility's ability to provide adequate, reliable,  
101 efficient, safe and least-cost public utility service[.]"<sup>16</sup> In his verified statement,  
102 Staff witness George Light opines that the proposed transaction will not diminish

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<sup>15</sup> 220 ILCS 5/13-101 and 5/13-506.2(c)(6) and (j).

<sup>16</sup> 220 ILCS 5/7-204(b)(1).

103 the ability of the Joint Applicants to provide adequate, reliable, efficient, safe and  
104 least-cost public utility service as required by Section 7-204(b)(1).<sup>17</sup>

105  
106 Section 7-204(b)(2) of the Act provides, in relevant part, that the Commission shall  
107 not approve a proposed reorganization unless it finds that “the proposed  
108 reorganization will not result in the unjustified subsidization of non-utility activities  
109 by the utility or its customers[.]”<sup>18</sup> Staff witness Daniel Kahle concludes that the  
110 proposed reorganization will not result in unjustified subsidization of non-utility  
111 activities by the utility or its customers and thus satisfies Section 7-204(b)(2).<sup>19</sup>

112  
113 Section 7-204(b)(3) of the Act provides, in relevant part, that the Commission shall  
114 not approve a proposed reorganization unless it finds that “costs and facilities are  
115 fairly and reasonably allocated between utility and non-utility activities in such a  
116 manner that the Commission may identify those costs and facilities which are  
117 properly included by the utility for ratemaking purposes[.]”<sup>20</sup> In his direct testimony,  
118 Staff witness Mr. Kahle concludes that the costs and facilities of the Joint  
119 Applicants will be fairly and reasonably allocated between utility and non-utility  
120 activities in such a manner that the Commission may identify those costs and  
121 facilities that are properly included by the utility for ratemaking purposes, and  
122 therefore, the proposed reorganization complies with Section 7-204(b)(3).<sup>21</sup>

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<sup>17</sup> Staff Ex. 5.0, 2.  
<sup>18</sup> 220 ILCS 5/7-204(b)(2).  
<sup>19</sup> Staff Ex. 2.0, 3-4 and 7.  
<sup>20</sup> 220 ILCS 5/7-204(b)(3).  
<sup>21</sup> Staff Ex. 2.0, 3-4 and 7.

123 Section 7-204(b)(4) of the Act provides, in relevant part, that the Commission shall  
124 not approve a proposed reorganization unless it finds that “the proposed  
125 reorganization will not significantly impair the utility’s ability to raise necessary  
126 capital on reasonable terms or to maintain a reasonable capital structure[.]”<sup>22</sup> Staff  
127 witness Janis Freetly notes that MITC currently generates sufficient cash internally  
128 to support its operations and that SCI relies on retained capital and borrowing to  
129 meet its capital needs.<sup>23</sup> Ms. Freetly concludes that MITC’s ability to obtain capital  
130 should be enhanced, not impaired, by the proposed transaction, and therefore, the  
131 proposed transaction complies with Section 7-204(b)(4).<sup>24</sup>

132  
133 Section 7-204(b)(5) of the Act provides, in relevant part, that the Commission shall  
134 not approve a proposed reorganization unless it finds that “the utility will remain  
135 subject to all applicable laws, regulations, rules, decisions and policies governing  
136 the regulation of Illinois public utilities[.]”<sup>25</sup> As discussed later in this testimony, the  
137 proposed transaction satisfies Section 7-204(b)(5).

138  
139 Section 7-204(b)(6) of the Act provides, in relevant part, that the Commission shall  
140 not approve a proposed reorganization unless it finds that “the proposed  
141 reorganization is not likely to have a significant adverse effect on competition in  
142 those markets over which the Commission has jurisdiction[.]”<sup>26</sup> As discussed later

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22 220 ILCS 5/7-204(b)(4).  
23 Staff Ex. 3.0, 3-4.  
24 *Id.* at 4-5.  
25 220 ILCS 5/7-204(b)(5).  
26 220 ILCS 5/7-204(b)(6).

143 in this testimony, the proposed transaction satisfies the requirement of Section 7-  
144 204(b)(6).

145  
146 Section 7-204(b)(7) of the Act provides, in relevant part, that the Commission shall  
147 not approve a proposed reorganization unless it finds that: “the proposed  
148 regulation is not likely to result in any adverse rate impacts on retail customers[.]”<sup>27</sup>

149 In his direct testimony, Staff witness Samuel McClerren testifies that the Joint  
150 Applicants have not satisfactorily addressed the rate impacts of the proposed  
151 reorganization on retail customers.<sup>28</sup> Mr. McClerren notes that, in many prior  
152 telecommunications reorganization proceedings, it has been the practice of the  
153 surviving entity to affirmatively state that it will maintain the existing rates for one  
154 year after the close of the proposed transaction.<sup>29</sup> Mr. McClerren concludes that  
155 a firm commitment from the Joint Applicants that it will not raise retail rates for a  
156 period of one year is necessary for a finding that the proposed reorganization is  
157 not likely to have adverse rate impacts on retail customers and thus complies with  
158 Section 7-204(b)(7).<sup>30</sup>

159  
160 Section 7-204(c) of the Act provides that “[t]he Commission shall not approve a  
161 reorganization without ruling on: (i) the allocation of any savings resulting from the  
162 proposed reorganization; and (ii) whether the companies should be allowed to  
163 recover any costs incurred in accomplishing the proposed reorganization and, if

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<sup>27</sup> 220 ILCS 5/7-204(b)(7).

<sup>28</sup> Staff Ex. 4.0, 4.

<sup>29</sup> *Id.*

<sup>30</sup> *Id.* at 4-5.

164 so, the amount of costs eligible for recovery and how the costs will be allocated.”<sup>31</sup>  
165 With respect to Section 7-204(c)(i), Staff witness Mr. Kahle notes that the Joint  
166 Applicants did not identify any savings from the reorganization, though they  
167 acknowledged the possibility of future savings from the proposed reorganization.<sup>32</sup>  
168 Mr. Kahle concludes that the proposed reorganization complies with Section 7-  
169 204(c)(i).<sup>33</sup>

170  
171 With respect to Section 7-204(c)(ii), Mr. Kahle testifies that the Joint Applicants did  
172 not request recovery of any reorganization costs and thus the requirement of  
173 Section 7-204(c)(ii) does not apply.<sup>34</sup>

174  
175 **Q. Please summarize Staff position on accounting entries.**  
176 A. According to Staff witness Mr. Kahle, the Commission should review and approve  
177 accounting entries to record the proposed reorganization.<sup>35</sup> Using an amortization  
178 of ten years, Mr. Kahle developed accounting entries for the proposed  
179 reorganization, which he recommends that the Commission approve.<sup>36</sup>

180  
181 **Q. Please state Staff’s overall position on the proposed transaction.**  
182 A. Staff recommends that the Commission approve the proposed reorganization  
183 subject to the following conditions:

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<sup>31</sup> 220 ILCS 5/7-204(c).  
<sup>32</sup> Staff Ex. 2.0, 5.  
<sup>33</sup> *Id.* at 4-5.  
<sup>34</sup> *Id.* at 5.  
<sup>35</sup> *Id.* at 5-6.  
<sup>36</sup> Staff Ex. 2.0, 5-6.

- 184 1) The Joint Applicants shall commit to identify any future savings  
185 resulting from the proposed reorganization and to pass such savings  
186 to ratepayers.<sup>37</sup>
- 187 2) The Joint Applicants shall not recover from customers any  
188 reorganization costs incurred in accomplishing the proposed  
189 reorganization.<sup>38</sup>
- 190 3) The Joint Applicants shall record goodwill and any reorganization  
191 costs, along with the related amortization or expense, below the  
192 line.<sup>39</sup>
- 193 4) The Joint Applicants shall file the final accounting entries for the  
194 reorganization, showing the actual dollar values of all involved  
195 accounts, as a filing on the Commission's e-Docket system in this  
196 docket and also as an email to AccountingMgr@icc.illinois.gov within  
197 sixty (60) days of the reorganization date. If the reorganization has  
198 not occurred within six months of the Final Order in this proceeding,  
199 the Joint Applicants shall file a status report at six month intervals  
200 until the journal entries are filed on the Commission's e-Docket  
201 system and also as an email to AccountingMgr@icc.illinois.gov.<sup>40</sup>
- 202 5) The Joint Applicants shall make a firm commitment not to raise rates on  
203 retail customers for one year after the close of the proposed transaction.<sup>41</sup>

204  
205 In addition, Staff recommends that the Commission approve the accounting entries  
206 to record the proposed reorganization as developed by Mr. Kahle.

207

208 **Assessment of Sections 7-204(b)(5)–(6) Requirements**

209 **Q. Please assess whether the proposed transaction meets Section 7-204(b)(5).**

210 A. Section 7-204(b)(5) of the Act requires that, before approving a reorganization, the  
211 Commission must find that: “the utility will remain subject to all applicable laws,

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<sup>37</sup> Staff Ex. 2.0, 7.

<sup>38</sup> *Id.*

<sup>39</sup> *Id.* at 8.

<sup>40</sup> *Id.*

<sup>41</sup> Staff Ex. 4.0.

212 regulations, rules, decisions and policies governing the regulation of Illinois public  
213 utilities.”<sup>42</sup> The proposed transaction involves SCI (a holding company) acquiring  
214 100% of the stock of MMI (another holding company). According to the Joint  
215 Applicants, the ILECs of the Joint Applicants, STC and MITC, shall remain  
216 separate operating companies after the close of the proposed transaction.<sup>43</sup> The  
217 proposed transaction would not change the regulatory status of the ILECs. STC  
218 and MITC will remain ILECs, providing local exchange service in their respective  
219 service area, and thus, will remain subject to all applicable laws, regulations, rules,  
220 decisions and policies governing the regulation of telecommunications carriers in  
221 Illinois. Therefore, the proposed transaction satisfies Section 7-204(b)(5).

222

223 **Q. Please assess whether the proposed transaction complies with Section 7-**  
224 **204(b)(6) of the Act.**

225 A. Section 7-204(b)(6) of the Act requires that, before approving a reorganization, the  
226 Commission must find that “the proposed reorganization is not likely to have a  
227 significant adverse effect on competition in those markets over which the  
228 Commission has jurisdiction.”<sup>44</sup>

229

230 Generally speaking, when a transaction (such as merger) reduces the number of  
231 competitors in the market, it would *theoretically* reduce the degree of competition

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<sup>42</sup> 220 ILCS 5/7-204(b)(5).

<sup>43</sup> Staff Ex. 1.0, Attachments C-D.

<sup>44</sup> 220 ILCS 5/7-204(b)(6).

232 and raise the retail prices of the goods or services, thus having an adverse impact  
233 on competition. However, this is not this case in this instant proceeding.

234

235 As noted earlier, the acquiring company's ILEC, STC, operates in nine exchanges:  
236 Cave-In-Rock, Eddyville, Elizabethtown, Equality, Hicks, Leamington, Renshaw,  
237 Rosiclare and Simpson. The acquired company's ILEC, MITC, operates in one  
238 exchange: Lovington. Aside from these two ILECs, the acquiring company's  
239 CLEC, ShawneeLEC (certified by the Commission in Docket No. 06-0518 to  
240 provide local exchange service throughout the State of Illinois), is currently "beta  
241 testing" voice service with "friendly" test customers and administrative test  
242 numbers in four exchanges: Anna, Eldorado, Golconda, and Vienna. Given that  
243 STC and MITC have mutually exclusive service territories and given the limited  
244 operation of ShawneeLEC, the proposed transaction is not likely to have significant  
245 impact on the degree of competition in the affected areas. Therefore, the proposed  
246 transaction satisfies Section 7-204(b)(6).

247

248 **Q. Does this conclude your testimony?**

249 A. Yes, it does.

ICC Docket No. 15-0636

Staff Exhibit 1.0

Attachments A-D

**Shawnee Communications, Inc., Moultrie MultiCorp, Inc. and  
Moultrie Independent Telephone Company**

**Docket No. 15-0636**

**Responsible Witness: Michael Guffy, Vice President of Regulatory Compliance and  
Business Development**

**Joint Applicants' Responses to Staff Data Requests QL-1**

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- QL-1.02**      **The Joint Application states that “SCI, though its subsidiaries, is a full-service communications provider for the customers in Shawnee Telephone Company’s exchanges. Through its affiliates, SCI offers telephone and Internet services, as well as bundled offerings, and wireless Internet data access.” (Joint Application at 2-3.)**
- A.      Please identify every communications service SCI offers. Please also identify services as intra-state or interstate wherever applicable.**
  - B.      For each communications service offered by SCI, please identify the SCI subsidiary (i.e., operating company) that offers such communications service.**
  - C.      For each SCI subsidiary, please identify the operating company’s service area.**

Joint Applicants' Response:

Shawnee Communications Inc. (SCI) is a holding company and is 100% owner of three subsidiaries. Below is a general listing of the service offerings by company.

**Shawnee Telephone Company** – Regulated Local Exchange Carrier with a defined intrastate service territory and provider of carrier of last resort obligations and regulated services to the southern Illinois exchanges of Cave-In-Rock, Eddyville, Elizabethtown, Equality, Hicks, Leamington, Renshaw, Rosiclare, and Simpson. These state- and federally-regulated services include local voice service, 911 service, access to the toll network, operator services, directory services, CALEA, Line name and number identification, FCC title 2 broadband connectivity.

**ShawneeLink** – Provider of intrastate and interstate long distance toll services, and internet service provider in the nine exchanges listed above and in contiguous areas.

**ShawneeLEC** – Registered Competitive Local Exchange service provider (CLEC) in the State of Illinois, certificated to provide service throughout the State of Illinois.

**Moultrie Independent Telephone Company**

**Docket No. 15-0636**

**Responsible Witness: Michael Guffy, Vice President of Regulatory Compliance and Business Development**

**Joint Applicants’ Responses to Staff Data Requests QL-2**

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**QL-2.01** In response to Staff DR QL-1.02, the Joint Applicants state that ShawneeLEC is a “Registered Competitive Local Exchange service provider (CLEC) in the State of Illinois, certificated to provide service throughout the State of Illinois.” Please provide the following information:

- A.** Since it was certified as a competitive local exchange carrier throughout the State of Illinois in Docket No. 06-0518 in 2006, has ShawneeLEC *ever* provided local exchange service in any exchange in Illinois?
- B.** If the answer to (A) is “yes”, please identify the exchange(s) in which ShawneeLEC has *ever* provided local exchange service and also identify the respective number of local service access line(s) in the respective exchange(s).
- C.** Is ShawneeLEC *currently* providing local exchange service in any exchange in Illinois? If so, please identify the exchange(s) and the number of local service access line(s) in the respective exchange(s).

Joint Applicants’ Response to A. and B.:

Yes, in the past year ShawneeLEC has started to provide local voice services in the Frontier exchanges of Anna, Golconda, Eldorado and Vienna. In Docket 14-0131, the Illinois Commerce Commission approved a local interconnection agreement pursuant to 47 U.S.C. § 252, which remains ShawneeLEC only interconnection agreement. ShawneeLEC is currently “beta” testing voice service only with “friendly” test customers and administrative test numbers.

Joint Applicants’ Response to C.:

NPA-NXX	Rate Center	Assigned	Admin
618-683	Golconda	4	7
618-202	Anna	0	2
618-297	Eldorado	0	2
618-459	Vienna	0	2

**Shawnee Communications, Inc., Moultrie MultiCorp, Inc. and  
Moultrie Independent Telephone Company**

**Docket No. 15-0636**

**Responsible Witness: Michael Guffy, Vice President of Regulatory Compliance and  
Business Development**

**Applicants Responses to Staff Data Requests DGK-1**

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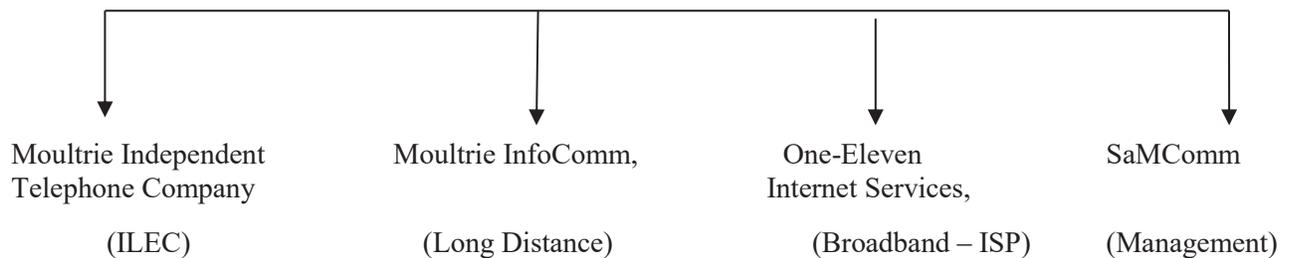
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**DGK-1.01 Please provide current organizational charts for each Joint Applicant and  
affiliate.**

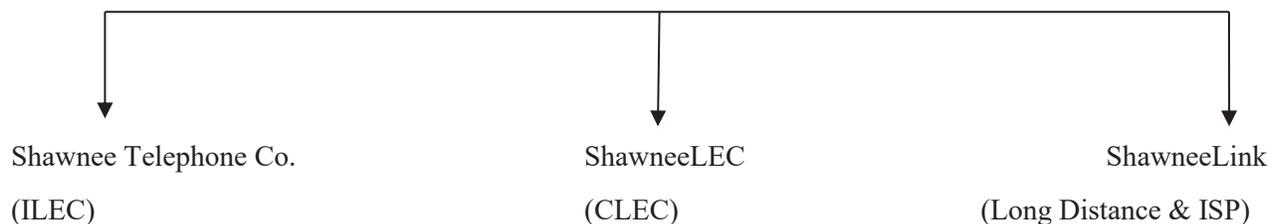
Joint Applicants' Response:

**Moultrie Telecommunications, Inc (Standalone CATV)**

**Moultrie MultiCorp, Inc. (Holding Company)**



**Shawnee Communications  
(Holding Company)**



**Shawnee Communications, Inc., Moultrie MultiCorp, Inc. and  
Moultrie Independent Telephone Company**

**Docket No. 15-0636**

**Responsible Witness: Michael Guffy, Vice President of Regulatory Compliance and  
Business Development**

**Applicants Responses to Staff Data Requests DGK-1**

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**DGK-1.02 Please provide proposed future organizational charts for each Joint Applicant  
and affiliate.**

Joint Applicants' Response:

