

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Kiesling Associates LLP on behalf of)
New Windsor Telephone Company)
)
)
)
Petition requesting an Emergency Order)
with regard to Intrastate Access Charges)
of Incumbent Local Exchange Carriers)
serving 35,000 or fewer Access Lines)
)
)

Docket No. 01-0808

DIRECT TESTIMONY
OF
GORDON J. KRAUT, JR.

ON BEHALF OF
NEW WINDSOR TELEPHONE COMPANY

ILLINOIS
COMMERCE COMMISSION
2002 OCT 29 P 3:11
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ILL. C. C. DOCKET NO. 01-0808
New Windsor Telephone Co. Exhibit No. 1
Witness _____
Date 1/5/03 Reporter Ad

October 29, 2002

Q. Please state your name and business address.

A. My name is Gordon J. Kraut, Jr. My business address is 993 Clocktower Dr., Ste A, Springfield, Illinois 62704.

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

A. I am employed as a manager with Kiesling Associates LLP and am also a Certified Public Accountant. In addition to our Springfield, Illinois office, the firm has offices located in Wisconsin, Iowa and Colorado. The firm was founded in 1952 in Madison, Wisconsin and is currently providing accounting, auditing, consulting and other financial services to over 200 telecommunications and public utility entities.

Q. Please describe your educational background and business experience.

A. I graduated from Edgewood College in May 1988 with a Bachelor of Science degree in business with an emphasis in accounting. I earned a Master's in Business Administration degree from Edgewood College in 1991.

Q. Please provide your background in telecommunications.

A. In 1988, I began my telecommunications career with TDS, Inc. as an internal auditor. In 1993, I was promoted to Senior Internal Auditor and in 1994 I was promoted to Associate Manager of Accounting at TDS Telecom, one of TDS's subsidiaries. Early in 1996 I was promoted to the position of Manager of Revenue and Earnings in the Government and Regulatory Affairs Group. I joined GVNW, Inc. on October 20, 1997 and consulted with independent telephone companies and provided financial analysis and management advice in the areas of concern to those companies. On October 1, 2001, I joined Kiesling Associates

LLP in the position of Manager, where I provide a wide variety of accounting and consulting services.

Q. What is your relationship with New Windsor Telephone Company?

A. As an independent CPA firm, we provide accounting, income tax, financial statement preparation, and many other related accounting and regulatory services to the Company.

Q. What is the purpose of your testimony?

A. I am providing testimony on behalf of New Windsor Telephone Company showing the impact of various scenarios and outcomes at the request of the Staff consistent with that provided by Illinois Independent Telephone Association (IITA). New Windsor Telephone Company is not a member of the IITA and is therefore providing this information separately.

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

A. Yes, my testimony includes Kiesling Exhibit 1 which was prepared under my direction.

Q. Please describe New Windsor Telephone Company's current method of determining both Interstate and Intrastate Access charges.

A. New Windsor Telephone Company is an Average Schedule company for both Interstate and Intrastate access charge development. For Interstate access charge development, New Windsor Telephone Company is a member of the National Exchange Carrier Association (NECA) Carrier Common Line and Traffic

Sensitive pools. NECA develops the algorithms used to determine a companies Interstate revenue requirement and also sets the access rates to be used by companies. New Windsor Telephone Company's access rates are filed in the National Exchange Carrier Association, Inc. Tariff F.C.C. No. 5. For Intrastate settlements and access charge development, New Windsor Telephone Company is a member of the Illinois Small Company Exchange Carrier Association (ISCECA) pool. ISCECA determines the access rates and maintains the algorithm to determine New Windsor's revenue requirement.

Q. Please describe how the attached schedules were developed.

A. These schedules were developed based on the methodology described in Robert C. Schoonmaker's testimony filed on behalf of the IITA pursuant to the Administrative Law Judge's Scoping Order.

Q. Have you prepared a schedule summarizing the State Revenue Requirement for New Windsor Telephone Company in the format presented by the IITA?

A. Yes, Kiesling Exhibit 1, Attachment 1 is a schedule that I have prepared showing New Windsor Telephone Company's revenue requirement calculation consistent with that provided by the IITA. As outlined on Exhibit 1, line 36, the state switched access revenue requirement is \$163,374.

Q. Have you prepared a schedule summarizing the state revenue requirements for New Windsor Telephone Company.

A. Yes, Kiesling Exhibit 1, Attachment 2 (Proprietary) is a summary schedule that I have prepared. The schedule shows the overall state switched access revenue requirement that has been developed and an estimated average intrastate access rate that would result from that access requirement.

Q. Do the attached schedules demonstrate that (but for the freeze pursuant to the Interim Order) that New Windsor would have sustained reductions in intrastate carrier access revenues by “mirroring with adjustments” interstate access rates filed pursuant to the MAG Order?

A. Yes. While the information and schedules presented pursuant to the Scoping Order only provide estimated impacts based on applying individual company 2001 minutes of use to relevant interstate and intrastate access charge rate elements, they provide useful information concerning the relative impact on intrastate access revenues under various “mirroring” scenarios. Attachment 3.02 shows an estimated intrastate access charge revenue reduction of \$24,251 if current interstate access rates were mirrored with all adjustments pursuant to prior Illinois orders. Attachment 3.03 shows the impact to be \$24,251 if interstate access charges were mirrored with adjustments, but there was no longer an adjustment provided for in the Forty-Sixth Interim Order in Docket No. 83-0142. Attachment 3.01 estimates an intrastate access revenue reduction of \$60,387 if there were a complete mirroring of interstate access rates (which would include mirroring the interstate CCL rate element) with no Illinois adjustments.

Q. Do you have any comments concerning the 10 issues that are set forth on pages 2 – 4 of the scoping order?

A. Yes, I feel the Commission should adopt the IITA’s interim proposal in this phase of the docket.

Q. Do you have any comments concerning the various Scenarios and Outcomes that are outlined on pages 4 through 6 of the Scoping Order, either in general or as it pertains to information that will be presented in your testimony?

A. Not at this time, but I reserve the right to comment later in this proceeding.

Q. Are there any of the outcomes in the attachments that differ from the IITA or that are incomplete?

A. Yes. Outcome #6 of the state small company subscriber line charge for all scenarios was not calculated.

Q. Can you identify the Attachments to your testimony that contain the Scenario and Outcome results as identified in Administrative Law Judge's Scoping Order entered on September 13, 2002?

A. Yes, I can. They are as follows:

1. Scenario 1 – Kiesling Exhibit 1, Attachment 3.01
2. Scenario 2 – Kiesling Exhibit 1, Attachment 3.02
3. Scenario 3 – Kiesling Exhibit 1, Attachment 3.03
4. Scenario 4 – Kiesling Exhibit 1, Attachment 3.04
5. Scenario 5 – Kiesling Exhibit 1, Attachment 3.05
6. Scenario 6 – Kiesling Exhibit 1, Attachment 3.06
7. Scenario 7 – Kiesling Exhibit 1, Attachment 3.07

Q. Does this conclude your direct testimony?

A. Yes, it does.

New Windsor Telephone Company
 IITA Proposed Access Requirement Calculation
 Based on Rate of Return Filing in Docket 00-0233 as Adjusted by Staff

Line #	Description	Source	Amount	Adjustment	Adjusted Amount
Calculation of Total Revenue Requirement					
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 1,448,549	\$ -	\$ 1,448,549
2	Materials and Supplies Inventory	Page 2, 13-Month Average	11,359		11,359
3	Customer Deposits	Form 23A, P 8, 4040	7,446	-	7,446
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	168,699	-	168,699
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			1,283,763
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 14, Total	436,531	-	436,531
8	Less: Depreciation Expense	Form 23A, P 13, 6560	124,476	-	124,476
9	Total WC Operating Expense	line 7 - line 8	312,055	-	312,055
10	WC OE Requirement	line 9 * 45 / 360			39,007
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			39,007
13	Total Rate Base	line 5 + line 12			1,322,770
14	After-tax Cost of Capital				11.21%
15	Target Net Operating Income	line 24 * line 13			148,283
16	Gross Revenue Conversion Factor	line 37			1.6324
17	Return & Tax Requirement	line 15 * line 16			242,057
18	Total Operating Expenses	Form 23A, P 14, Total	436,531	-	436,531
19	Other Operating Inc and Exp - Net	Form 23A, P 15, 7100	-	-	-
20	Other Operating Taxes	Form 23A, P 15, 7240	1,845	-	1,845
21	Total Expense Requirement	lines 17, 18, & 19	438,376	-	438,376
22	Total Revenue Requirement	line 17+ line 21			680,433
Calculation of Interstate Revenue/Revenue Requirement					
23	Total Federal Revenue Requirement	Cost Study or Avg Sched Calc			\$ 222,931
Calculation of State Revenue Requirement					
24	State Revenue Requirement	Line 22-line 23			\$ 457,502
Calculation of Revenue Sources					
25	Local Revenues	Form 23A, P 10, Total Local Network Service Revenues			\$ 57,471
26	State Subscriber Line Charges	Trial Balance 12/31/00			88,740
27	State High Cost Support	Approved Support-1st year			101,104
28	Imputed Local-1st Yr Local USF Increase	Approved USF schedule			6,385
29	Federal High Cost Loop Support	Trial Balance 12/31/00			21,318
30	Miscellaneous Revenues	Trial Balance 12/31/00			15,137
31	less Interstate B&C Revenues	Trial Balance 12/31/00			-
33	Total Revenue Sources				\$ 290,155
Calculation of State Access Requirement					
34	Total State Access Requirement	Line 24-Line 33			\$ 187,347
35	State special access-(w/mirrored rates)	Trial Balance 12/31/00			3,973
36	State Switched Access Requirement	Line 34-Line 35			\$ 183,374
37	Gross Revenue Conversion Factor	$1 / ((1 - .0718) * (1 - .34))$			1.6324

Attachment 2 - Public

Kiesling Associates LLP
Summary of Illustrative Schedules
Calculating Switched Access Revenue Requirement
Under the IITA Interim Proposal

Company Name (a)	Switched Access Minutes-Local Switching (b)	Switched Access Revenue Requirement (c)	Estimated Switched Access Rate per Minute (d)
New Windsor Telephone Company	*1	*1	*1

*1 PROPRIETARY information not provided.

Kiesling Associates LLP
 Calculation of Scenario #1 - Full Mirroring including Interstate CCL
 Based on CY 2001 Data

Company Name:	Average Schedule/ Cost	CCL	Transport (Residual) Interconnection Charge	Local Switching	Information Surcharge	Tandem Switched Transport per minute	Tandem Switched Facility (per minute per mile)	Tandem Switching
1 New Windsor	a	5,169	0	52,882	538	3,174	7,091	0

Kiesling Associates LLP
 Calculation of Scenario #1 - Full Mirroring including Interstate CCL
 Based on CY 2001 Data

Company Name:	Average Schedule/ Cost	Total	Outcome #1 - Full Impact		Outcome #2 - Full Recovery from Local Rates		Outcome #3 - Full Recovery from IUSF		Outcome #4 - Revenue from New Fund		Outcome #5 - Half recovery from local Rates		Outcome #5 - Half recovery from IUSF	
1 New Windsor	a	68,853	\$	(60,387)	\$	7.59	\$	60,387	\$	60,387	\$	3.80	\$	30,194

	Company Name:	Average Schedule/ Cost	Outcome #6 - Small Co SLC Recovery
1	New Windsor	a	

Kiesling Associates LLP
 Calculation of Scenario #3 - Mirror interstate except CCL, willinois Adjustments except NTS COE
 Based on CY 2001 Data

Company Name:	Average Schedule/ Cost	CCL	Transport (Residual) Interconnection Charge	Local Switching	Information Surcharge	Tandem Switched Transport per minute	Tandem Switched Facility (per minute per mile)	Tandem Switching	Total
1 New Windsor	a	0	0	89,841	0	15,149	0	0	104,989

Kiesling Associates LLP
 on of Scenario #3 - Mirror interstate except CCL, w/Illinois Adjustments except NTS COE
 Based on CY 2001 Data

Average Schedule/ Cost	Outcome #1 - Full Impact	Outcome #2 - Full Recovery		Outcome #3 - Full Recovery		Outcome #4 - Revenue from New Fund		Outcome #5 - Half recovery from local Rates		Outcome #5 - Half recovery from IUSF		Outcome #6 - Small Co SLC Recovery
		from Local Rates	from Local Rates	from IUSF	from IUSF	Revenue from New Fund	Revenue from New Fund	Half recovery from local Rates	Half recovery from IUSF	Half recovery from IUSF	Small Co SLC Recovery	
a	\$ (24,251)	\$ 3.05	\$ 3.05	\$ 24,251	\$ 24,251	\$ 24,251	\$ 24,251	\$ 1.52	\$ 1.52	\$ 12,125	\$ 12,125	

Company Name:
 1 New Windsor

Kiesling Associates LLP
 Calculation of Scenario #4 - Mirror interstate including CCL, w/Illinois Adjustments
 Based on CY 2001 Data

Company Name:	Average Schedule/ Cost	CCL	Transport (Residual) Interconnection Charge	Local Switching	Information Surcharge	Tandem Switched Transport per minute	Tandem Switched Facility (per minute per mile)	Tandem Switching	Total
1 New Windsor	a	5,169	0	89,841	0	15,149	0	0	110,158

Kiesling Associates LLP
 Calculation of Scenario #4 - Mirror interstate including CCL, w/Illinois Adjustments
 Based on CY 2001 Data

Average Schedule/ Cost	Outcome #1 - Full Impact	Outcome #2 - Full Recovery from Local Rates	Outcome #3 - Full Recovery from IUSF	Outcome #4 - Revenue from New Fund	Outcome #5 - Half recovery from local Rates	Outcome #5 - Half recovery from IUSF	Outcome #6 - Small Co SLC Recovery
a	\$ (19,082)	\$ 2.40	\$ 19,082	\$ 19,082	\$ 1.20	\$ 9,541	

Company Name:
 1 New Windsor

Kiesling Associates LLP
 Calculation of Scenario #5 - Mirror interstate including CCL, w/ Illinois Adjustments except NTS COE
 Based on CY 2001 Data

Company Name:	Average Schedule/ Cost	CCL	Transport (Residual) Interconnection Charge	Local Switching	Information Surcharge	Tandem Switched Transport per minute	Tandem Switched Facility (per minute per mile)	Tandem Switching
1 New Windsor	a	5,169	0	89,841	0	15,149	0	0

Kiesling Associates LLP

Calculation of Scenario #5 - Mirror interstate including CCL, w/Illinois Adjustments except NTS CCL

Based on CY 2001 Data

Company Name:	Average Schedule/ Cost	Total	Outcome #1 - Full Impact	Outcome #2 - Full Recovery from Local Rates	Outcome #3 - Full Recovery from IUSF	Outcome #4 - Revenue from New Fund	Outcome #5 - Half recovery from local Rates	Outcome #5 - Half recovery from IUSF	Outcome #6 - Small Co SLC Recovery
1 New Windsor	a	110,158	\$ (19,082)	\$ 2.40	\$ 19,082	\$ 19,082	\$ 1.20	\$ 9,541	

Kiesling Associates LLP
 Calculation of Scenario #6 - Rates halfway between frozen intrastate
 & mirrored interstate w/illinois Adjustments, with no CCL,
 Based on CY 2001 Data

Company Name:	Average Schedule/ Cost	CCL	Transport (Residual) Interconnection Charge	Local Switching	Information Surcharge	Tandem Switched Transport per minute	Tandem Switched Facility (per minute per mile)	Tandem Switching
1 New Windsor	a	0	0	98,996	0	18,118	0	0

Kiesling Associates LLP
 Calculation of Scenario #6 - Rates halfway between frozen intrastate
 & mirrored interstate w/ Illinois Adjustments, with no CCL,
 Based on CY 2001 Data

Average Schedule/ Cost	Company Name:	Outcome #1 - Full Impact	Outcome #2 - Full Recovery from Local Rates	Outcome #3 - Full Recovery from USF	Outcome #4 - Revenue from New Fund	Outcome #5 - Half recovery from local Rates	Outcome #5 - Half recovery from IUSF	Outcome #6 - Small Co SLC Recovery
a	1 New Windsor	117,115 \$	(12,125) \$	1.52 \$	12,125 \$	12,125 \$	0.76 \$	6,063
	Total							

Kiesling Associates LLP
 Calculation of Scenario #7 - Rates halfway between frozen intrastate &
 mirrored interstate w/llinois Adjustments except NTS-COE, with no CCL,
 Based on CY 2001 Data

Company Name:	Average Schedule/ Cost	CCL	Transport (Residual) Interconnection Charge	Local Switching	Information Surcharge	Tandem Switched Transport per minute	Tandem Switched Facility (per minute per mile)	Tandem Switching	Total
1 New Windsor	a	0	0	89,841	0	15,149	0	0	104,989

Kiesling Associates LLP
 Calculation of Scenario #7 - Rates halfway between frozen intrastate &
 mirrored interstate w/llinois Adjustments except NTS-COE, with no CCL,
 Based on CY 2001 Data

Company Name:	Average Schedule/ Cost	Outcome #1 - Full Impact	Outcome #2 - Full Recovery from Local Rates	Outcome #3 - Full Recovery from IUSF	Outcome #4 - Revenue from New Fund	Outcome #5 - Half recovery from local Rates	Outcome #5 - Half recovery from IUSF	Outcome #6 - Small Co SLC Recovery
1 New Windsor	a	\$ (24,251)	\$ 3.05	\$ 24,251	\$ 24,251	\$ 1.52	\$ 12,125	

