

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

GENESEO TELEPHONE COMPANY,)
CAMBRIDGE TELEPHONE COMPANY and)
HENRY COUNTY TELEPHONE COMPANY) Docket 11-0210
)
Petition for Universal Service.)

ILLINOIS INDEPENDENT TELEPHONE)
ASSOCIATION)
) Docket No. 11-0211
Petition to update the Section 13-301(1)(d) Illinois)
Universal Service Fund and to implement Intrastate)
Switched Access Charge reform as described herein)
and for other relief.)

DIRECT TESTIMONY OF MICHAEL W. STOKES
ON BEHALF OF ONEIDA TELEPHONE EXCHANGE

May 9, 2011

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

2 A. Michael W. Stokes. My business address is 2141 W. WhiteOaks Dr., Suite A,
3 Springfield, Illinois 62704.

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

5 A. I am employed as an accountant/CPA for Stokes and Co., CPA's, LLC.

6 **Q. Please outline your educational background and business experience.**

7 A. I graduated from the University of Illinois - Springfield in 1989 with a Bachelor degree in
8 Accountancy. Upon graduation, I became employed with Kiesling Associates LLP and
9 worked there for over 4 years. My experience at the firm involved providing accounting,
10 auditing, regulatory reporting, budgeting, costing, and individual & corporate income tax
11 preparation primarily to small independent telephone companies. From 1993 through
12 1996, I was employed by McGladrey & Pullen CPA's (a big eight CPA firm) as a
13 certified public accountant and later for Growmark FS. In 1996, I began practicing as a
14 sole practitioner CPA. I built a practice from 1996 to 2000 to include four employees
15 which primarily provided audit, tax and accounting services to telephone, cellular, cable
16 TV, and contractor clients.

17 In 2001, I merged my practice and my employees with my previous employer Kiesling
18 Associates LLP and was appointed partner-in-charge of their existing Springfield,
19 Illinois, branch office. In 2004, I sold my accounting practice to Kiesling Associates
20 LLP and took the following four years working on a limited basis for only a few clients
21 (including a Telephone Company located in Missouri). Starting in 2009, following the

22 expiration of a non-compete, I began to expand Stokes & Co., CPA's, LLC and currently
23 provide services to approximately 20 telephone and cable TV clients as well as several
24 non-telephony clients such as contractors and manufacturers.

25 **Q. How did you come to be involved in gathering of evidence for the IUSF?**

26 A. The Company received a request from the IITA a number of months ago to complete the
27 form referred to as the Form 1.01. I understand that the form is essentially the same form
28 capturing the same information established by agreement between the IITA and
29 Commission Staff in consolidated Docket Nos. 00-0233 and 00-0335 and relied upon by
30 the Illinois Commerce Commission in establishing the current Illinois Universal Service
31 Fund ("IUSF"). I also understand that Mr. Schoonmaker who is testifying on behalf of
32 the IITA will be describing the general format of the form in greater detail and will
33 explain the use of the results from the form in establishing the proposed revision to the
34 IUSF.

35 **Q. Did you complete the Schedule 1.01 for the Company in accordance with its**
36 **instructions and based on the Company's Schedule 23A or other information filed**
37 **by the Company with the Commission for the year 2009?**

38 A. Yes, I completed Schedule 1.01 for the Company based on the Company's Compiled
39 Financial Statements for the Year Ended December 31, 2009. The Company is a
40 cooperative in this State and is not required to file an ICC Form 23A or Form RUS 479
41 (debt free). That Schedule 1.01 is attached as Exhibit 1.01 to this testimony.

42 **Q. Have you provided the Company's Schedule 1.01 with all the requisite information**
43 **to Mr. Schoonmaker for his use in compiling the composite results for all companies**
44 **seeking updated IUSF funding in connection with his testimony in this docket?**

45 A. Yes. The Company initially provided this information to Mr. Schoonmaker for use in
46 negotiating the Stipulation and Agreement between the IITA and AT&T. The Company
47 has confirmed this information for use in this docket.

48 **Q. Is the Company's Schedule 1.01 (Exhibit 1.01 to this testimony) true and correct to**
49 **the best of your knowledge, information and belief?**

50 Yes. A substantial part of the information included in Schedule 1.01 comes directly from
51 the December 31, 2009 Compiled accountant's report prepared by myself, as an
52 independent C.P.A. and other Company records such as their trial balance. The
53 Company's financial statements and any supplementary information included in the
54 Compiled Financial Statements are prepared in accordance with Standards for
55 Accounting and Review Services issued by the American Institute of Certified Public
56 Accountants. The Company's financial statements and records are kept in accordance
57 with Generally Accepted Accounting Principles (GAAP) and FCC Part 32 accounting
58 rules. In addition, additional information that is presented in the Schedule 1.01 that did
59 not come from these sources, but from the Company's records is also true and correct to
60 the best of my knowledge, information, and belief.

61

62 **Q. Did you make any of the standard adjustments as directed by the instructions to the**
63 **Schedule 1.01 which Mr. Schoonmaker describes in his testimony?**

64 A. Yes. Mr. Schoonmaker removed/decreased Net Op Income taxes expenses of \$24,786,
65 on Page 1 of Schedule 1.01, line 30. Also, Illinois Inc & Rep Tax expense of \$1,809
66 were also removed/decreased on Page 1 of Schedule 1.01, line 31. Both of these income
67 tax expense amounts were removed by Mr. Schoonmaker after he realized this entity was
68 a cooperative and therefore not subject to income taxes.

69 **Q. Standard Adjustment #1 of the described standard adjustments is an adjustment to**
70 **normalize approved regulatory changes. Did the Company have this type of**
71 **adjustment?**

72 A. Yes. See #3

73 **Q. Standard Adjustment #2 is related to out of period or extraordinary revenue and**
74 **expense adjustments. Did the Company have this type of adjustment?**

75 A. Yes. The Company decreased operating revenues by \$16,995 for prior period revenue
76 recognized in 2009. This adjustment decreased revenues by \$16,995 and is reflected on
77 the Company's Schedule 1.01, Page 1, Line 14 (net of a \$28,791 increase described in
78 Adjustment #4 set forth below). This adjustment is also shown on Page 4 of Schedule
79 1.01, which is attached to my testimony.

80 **Q. Standard Adjustment #3 relates to significant or extraordinary changes in plant**
81 **investment. Did the Company make this type of adjustment?**

82 A. Yes. The Company has removed an adjustment to plant additions to reflect the
83 change/removal of an addition originally reported for fiber to the home plant anticipated
84 to be in-service during 2010. This investment was made, however, the Company was
85 unable to place the plant addition in service during 2010. The result of the rate base
86 adjustments is a decrease to net rate base of \$196,956. This adjustment is shown on Page
87 4 of Schedule 1.01. The net rate base decreased in the amount of \$196,956 and is no
88 longer shown on Page 1 of Schedule 1.01 in the adjustment column for Line 1, Net
89 Regulated Plant, which is attached to my testimony.

90 **Q. Standard Adjustment #4 relates to adjustments made to Federal USF amounts. Did**
91 **the Company make any of this type of adjustment?**

92 A. Yes. The Company made an adjustment to reflect the difference between high cost loop
93 (HCL) revenues booked in 2009 and the known and measurable amount of HCL revenues
94 for 2010 provided to the Company by NECA. This difference is an increase in revenues
95 in the amount of \$28,791. This adjustment is shown on Page 4 of Schedule 1.01. This
96 amount is also shown (net of a \$16,995 decrease described in Adjustment #2 set forth
97 above) on Page 1 of Schedule 1.01 as a portion of the amount in the adjustment column
98 for Line 14, Total Operating Revenues, which is attached to my testimony.

99 **Q. Standard Adjustment #5 refers to adjustments made to reflect non-regulated**
100 **revenue or expense items that may have been reflected in the Company's regulated**

101 **accounts as shown in Schedule 23A. Did the Company make this type of**
102 **adjustment?**

103 A. Yes. Included in the Company's regulated accounts, in accordance with the format used
104 to report operating expenses, the Company included \$28,523 of non-regulated expenses.
105 The Company has decreased Total Operating Expenses by this adjustment of \$28,523.
106 This adjustment is shown on Page 4 of Schedule 1.01. This amount is also shown on
107 Page 1 of Schedule 1.01 as the amount in the adjustment column for Line 7, Total
108 Operating Expenses, which is attached to my testimony.

109 **Q. Has your Company reviewed and does your Company support the Stipulation and**
110 **Agreement between the IITA and AT&T?**

111 A. Yes. As I mentioned above, we provided our Schedule 1.01 information to
112 Mr. Schoonmaker and the IITA in support of the Stipulation and Agreement negotiation
113 process. The Company supports the Stipulation and Agreement taken in its entirety.
114 Although the Company believes that the agreed 9.34% after-tax cost of capital is
115 inadequate in the long run to attract sufficient capital to high cost areas like those the
116 Company serves, the Company believes the approval of the Stipulation and Agreement
117 will provide a needed and timely interim updating of the IUSF better reflecting the
118 current financial circumstances and needs of individual companies pending further action
119 by the FCC. The Company also supports the creation of an access restructuring element
120 for the IUSF that will allow small carriers in Illinois to mirror their intrastate switched
121 access rates to their interstate switched access rates by replacing the revenues lost from a

122 reduction in intrastate switched access rates on a dollar-for-dollar basis as set forth in the
123 Stipulation and Agreement.

124 **Q. Were the Oneida results initially presented in the Stipulation Schedules 2 and 3 as**
125 **extracted from Form 1.01 impacted by the error in the treatment of income taxes**
126 **for cooperatives discussed by Mr. Schoonmaker in his testimony?**

127 A. Yes, they were. The Form 1.01 I have filed corrects this error and shows correctly no
128 income tax expense for Oneida.

129 **Q. Does that conclude your testimony?**

130 A. Yes it does.

**Oneida Telephone Exchange
Exhibit 1.01
Docket No. 11-0211 Cons.**

**Oneida Telephone Exchange
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2009**

<u>Line #</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>	<u>Adjustment*</u>	<u>Adjusted Amount</u>
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 1,109,026	\$ -	\$ 1,109,026
2	Materials and Supplies Inventory	Page 2, 13-Month Average	32,167		32,167
3	Customer Deposits	Form 23A, P 8, 4040	3,500	-	3,500
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	-	-	-
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			1,137,693
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 11, Total	780,612	(28,523)	752,089
8	Less: Depreciation Expense	Form 23A, P 11, 6560	258,671	(28,523)	230,348
9	Total WC Operating Expense	line 7 - line 8	521,741	-	521,741
10	WC OE Requirement	line 9 * 45 / 360			65,218
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			65,218
13	Total Rate Base	line 5 + line 12			1,202,911
14	Total Operating Revenues	Form 23A, P 9, Total	895,246	11,796	907,042
15	Less: Illinois Universal Service Fund	Page 3, Line 4	122,486	-	122,486
16	Net Operating Revenues	line 14 - line 15	772,760	11,796	784,556
17	Total Operating Expenses	Form 23A, P 11, Total	780,612	(28,523)	752,089
18	Other Operating Inc and Exp - Net	Form 23A, P 12, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 12, 7240	7,681	-	7,681
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	(15,533)	40,319	24,786
21	Income Tax Expense	line 34			-
22	Net Operating Income	line 20 - line 21			24,786
23	Return on Rate Base	line 22 / line 13			2.06%
24	After-tax Cost of Capital				12.60%
25	Target Net Operating Income	line 24 * line 13			151,567
26	Adj to Achieve Target Return on RB	line 25 - line 22			126,781
27	Gross Revenue Conversion Factor	line 35			1.0000
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			126,781
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			24,786
31	Illinois Inc & Rep Tax Expense	line 30 * 0.0%			-
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			24,786
33	Federal Income Tax Expense	line 32 * 0%			-
34	Total Imputed Income Tax Expense	line 31 + line 33			-
35	Gross Revenue Conversion Factor	1/((1 - 0)*(1 - 0))			1.0000

* Provide detail on Page 4 for all adjustments.

Oneida Telephone Exchange
 Illinois Universal Service Funding Calculation
 Based upon ICC Form 23A Report Data for December 31, 2009
 Operating Revenues By Category

<u>Line #</u>		<u>Source</u>	<u>Amount</u>
1	Local Revenues	Form 23A, P 9, Total Local	
		Network Service Revenues	\$ 135,813
2	State Subscriber Line Charges	Trial Balance 12/31/09	\$ -
3	State Access Revenues	Trial Balance 12/31/09	\$ 52,009
4	State Universal Service Support	Trial Balance 12/31/09	\$ 122,486
5	State Special Access Revenues	Trial Balance 12/31/09	\$ 41,915
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	<u>\$ 352,223</u>
7	Federal Subscriber Lines Charges	Trial Balance 12/31/09	\$ 39,245
8	Federal Access Revenues	Trial Balance 12/31/09	\$ 368,064
9	Federal High Cost Loop Support	Trial Balance 12/31/09	\$ 7,163
10	Federal Special Access Revenues	Trial Balance 12/31/09	\$ 92,219
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	<u>\$ 506,691</u>
12	Misc Revenues	Trial Balance 12/31/09	\$ 36,332
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u><u>\$ 895,246</u></u>

Oneida Telephone Exchange
 Illinois Universal Service Funding Calculation
 Based upon ICC Form 23A Report Data for December 31, 2009
 Description of Adjustments

Description of Adjustment	Calc	Debit	Credit
<u>Rate Base Adjustments</u>			
2010 Plant Additions (In TPUC at Year End 2009)		\$196,956	Originally Reported
		-\$196,956	NOTE: Adjusted to Zero: Amount not placed in service in 2010, still under construction
 <u>Revenue Adjustments</u>			
Remove Prior Period Amounts		\$16,995	
Local Rate Adjustment \$20.39 Local Rates are at \$20.39			
2009 HCL USF	\$7,695		
2010 Projected HCL USF	\$36,486		
Change	\$28,791		\$28,791
 <u>Expense Adjustments</u>			
Remove Non-Regulated Depreciation Expense			\$28,523

Note: Carry all adjustments forward to Page 1

CERTIFICATE OF SERVICE

Docket No. 11-0211 (Consolidated)

The undersigned certifies that a copy of the foregoing instrument was served upon all parties to the above cause at their address as follows:

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/s/ Gary L. Smith
