

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

2 A. My name is Robert R. Abrams. I am employed by Kiesling Associates LLP (KA) as
3 Senior Telecommunications Consultant. My business address is 8517 Excelsior Dr.,
4 Suite 301, Madison, WI 53717.

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

6 A. I am providing this testimony in support of Reynolds Telephone Company (the
7 “Company”) obtaining funding from an updated Illinois Universal Service Fund
8 (“IUSF”) in the referenced docket.

9 **Q. Please describe your professional background.**

10 A. Prior to my work at KA, I held various regulatory and product positions at TDS Telecom
11 in Madison, WI, and before that, with Ameritech, Inc. in Hoffman Estates, IL, and
12 Wisconsin Bell Inc. in Milwaukee, WI. I have a Masters degree in Economics from
13 Michigan State University and a Bachelor of Arts degree in Economics from the
14 University of Wisconsin.

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

16 A. The Company received a request from the IITA a number of months ago to complete the
17 form referred to as the Schedule 1.01. I understand that the form is essentially the same
18 form capturing substantially the same information established by agreement between the
19 IITA and Commission Staff in consolidated Docket Nos. 00-0233 and 00-0335 and relied
20 upon again by the Illinois Commerce Commission in establishing the current interim
21 Illinois Universal Service Fund (“IUSF”) in Docket Nos. 11-0210 and 11-0211. I also

22 understand that Mr. Meredith, who is testifying on behalf of the IITA, will be describing
23 the general format of the form in greater detail and will explain the use of the results from
24 the form in establishing the proposed revision to the IUSF.

25 **Q. Is the Company one of the local exchange telecommunications carriers who received**
26 **funding pursuant to the Twenty-Seventh Interim Order of the Commission in**
27 **Docket No. 83-0142 or the orders of the Commission in Docket No. 97-0621 and**
28 **Docket No. 98-0679 as referenced in Section 13-301(1)(d) of the PUA?**

29 A. Yes.

30 **Q. Did you complete the Schedule 1.01 for the Company in accordance with its**
31 **instructions and based on the Company's Form 23A or other information filed by**
32 **the Company with the Commission for the year 2015?**

33 A. Yes. My firm completed Schedule 1.01 for the Company based on the Company's Form
34 23A filed with the Commission for the year 2015. For certain information that was not
35 available from the Form 23A, filed with the Commission, we used Company records as
36 the source of information. That Schedule 1.01 is attached as Exhibit 1.01 to this
37 testimony.

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

41 A. Yes. The Company provided information to Mr. Meredith for use in negotiating the
42 Stipulation and Agreement between the IITA and AT&T.

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

45 A. Yes.

46 **Q. What information was used as the basis for completing the Company's Schedule**
47 **1.01?**

48 A. A substantial part of the information included in Schedule 1.01 comes directly from the
49 2015 Form 23A. The Company's financial statements and records are kept in accordance
50 with the Generally Accepted Accounting Principles (GAAP) and FCC Part 32 accounting
51 rules. Also, additional information presented in the Schedule 1.01 that did not come from
52 these sources, but from the Company's business records, is true and correct to the best of
53 my knowledge, information, and belief.

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

56 A. Yes.

57 **Q. Standard Adjustment #1 of the described standard adjustments is an adjustment to**
58 **normalize for the reduction of intrastate originating access rates to interstate rate**
59 **levels. Did the Company have this type of adjustment?**

60 A. No adjustment related to the reduction of originating intrastate access rates to interstate
61 rate levels was necessary for the Company's Schedule 1.01.

62 **Q. Standard Adjustment #2 is related to revenue adjustments to impute the affordable**
63 **rate, if the Company's local service rate elements are not at the affordable rate level.**
64 **Did the Company have this type of adjustment?**

65 A. No. This adjustment was not applicable to the Company's Schedule 1.01.

66 **Q. Standard Adjustment #3 relates to the known change in Federal High Cost Loop**
67 **Support a company may receive between the year 2015 and 2016. Did the Company**
68 **make this type of adjustment?**

69 A. Yes. The anticipated change in Federal High Cost Loop Support ("HCLS") was
70 calculated by comparing the actual 2015 HCLS received by the company to the expected
71 amount of HCLS to be received in 2016. The 2016 estimate for HCLS was based on the
72 disbursement summary available from the Universal Service Administrative Company
73 website for the first six months of 2016. The remainder of the 2016 estimate for HCLS
74 was calculated from two additional sources. The first source was the revised estimate of
75 2016 support received from the National Exchange Carrier Association ("NECA")
76 provided to the Company via email on June 29, 2016. The revision to the calculated
77 support, for the second six months of 2016, reduces the rate of return to an 11% level for
78 the balance of 2016. The second data source for the estimate of HCLS, for the remainder
79 of 2016, was the Budget Control Analysis for rate of return carriers provided by the
80 USAC in conjunction with the June 29, 2016 Public Notice from the FCC, reference
81 number DA 16-736. This analysis from USAC provides the Budget Control adjustment
82 to calculated support for the rate of return carriers which will be implemented for the last
83 four months of 2016. The difference in support from 2015 to 2016 was calculated to be a

84 reduction of \$904. This adjustment to revenue is reflected on the Company's Schedule
85 1.01, Page 1, Line 14.

86 **Q. Standard Adjustment #4 refers to adjustments made to reflect non-regulated**
87 **revenue, expense or investment items that may have been reflected in the**
88 **Company's regulated accounts as shown in Form 23A. Did the Company make any**
89 **adjustments for these items?**

90 A. No.

91 **Q. Were there any other adjustments made to the Company's Schedule 1.01?**

92 A. No.

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

95 A. Yes. The Company has reviewed the Stipulation and Agreement, and Reynolds
96 Telephone Company specifically limits its support of the Stipulation and Agreement only
97 if a Commission order implements the Stipulation and Agreement in its entirety. As I
98 mentioned above, we provided our Schedule 1.01 information to Mr. Meredith and the
99 IITA in support of the Stipulation and Agreement negotiation process. Specifically, the
100 Company believes that the 9.34% after-tax cost of capital resulting from the Stipulation
101 and Agreement between IITA and AT&T is inadequate in the long run to attract
102 sufficient capital to high cost service areas like those the Company serves and should not
103 be viewed as establishing a benchmark. The Company does believe the approval of the
104 Stipulation and Agreement, in its entirety, will provide a much needed long term update

105 of the IUSF, better reflecting the current financial circumstances and requirements of
106 individual companies pending further action by the FCC.

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

108 **A.** Yes it does.

Reynolds Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2015

<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	\$ 1,634,594	\$ -	\$ 1,634,594
2	Materials and Supplies Inventory	Page 2, 13-Month Average	32,189		32,189
3	Customer Deposits	Form 23A, P 8, 4040	3,700	-	3,700
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	-	-	-
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			1,663,083
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 11, Total	548,036	-	548,036
8	Less: Depreciation Expense	Form 23A, P 11, 6560	245,423	-	245,423
9	Total WC Operating Expense	line 7 - line 8	302,613	-	302,613
10	WC OE Requirement	line 9 * 45 / 360			37,827
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			37,827
13	Total Rate Base	line 5 + line 12			1,700,910
14	Total Operating Revenues	Form 23A, P 9, Total	659,274	(904)	658,370
15	Less: Illinois Universal Service Fund	Page 3, Line 4	211,312	-	211,312
16	Net Operating Revenues	line 14 - line 15	447,962	(904)	447,058
17	Total Operating Expenses	Form 23A, P 11, Total	548,036	-	548,036
18	Other Operating Inc and Exp - Net	Form 23A, P 12, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 12, 7240	3,681	-	3,681
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	(103,755)	(904)	(104,659)
21	Income Tax Expense	line 34			(38,823)
22	Net Operating Income	line 20 - line 21			(65,836)
23	Return on Rate Base	line 22 / line 13			-3.87%
24	After-tax Cost of Capital				9.34%
25	Target Net Operating Income	line 24 * line 13			158,865
26	Adj to Achieve Target Return on RB	line 25 - line 22			224,701
27	Gross Revenue Conversion Factor	line 35			1.5897
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			357,207
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			(104,659)
31	Illinois Inc & Rep Tax Expense	line 30 * 7.75%			(8,111)
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			(96,548)
33	Federal Income Tax Expense	line 30 * 31.81%			(30,712)
34	Total Imputed Income Tax Expense	line 31 + line 33			(38,823)
35	Gross Revenue Conversion Factor	1 / ((1 - 0.0775) * (1 - 0.3181))			1.5897

* Provide detail on Page 4 for all adjustments.

Reynolds Telephone Company
 Illinois Universal Service Funding Calculation
 Based upon ICC Form 23A Report Data for December 31, 2015
 Material & Supplies Worksheet and Other Information

Line #		
1	December-14	\$32,910
2	January-15	\$9,010
3	February-15	\$9,400
4	March-15	\$12,773
5	April-15	\$12,836
6	May-15	\$22,432
7	June-15	\$32,698
8	July-15	\$34,479
9	August-15	\$36,048
10	September-15	\$50,184
11	October-15	\$53,032
12	November-15	\$56,316
13	December-15	\$56,343
14	13 Month Average	\$32,189

Sale/Lease Back Arrangement

- The company does not have any sale(s)/lease back arrangement.
 The company does have sale(s)/lease back arrangement.

Lease or Rental Agreement with Affiliates

- The company does not have any lease or rental agreements with affiliates.
 The company does have lease or rental agreements with affiliates.

Tax Filing Status (1=C Corp, 2=Coop, 3=S Corp) 1

After Tax Return 9.34%

Effective Tax Rates

Federal State

Reynolds Telephone Company
 Illinois Universal Service Funding Calculation
 Based upon ICC Form 23A Report Data for December 31, 2015
 Federal Tax Rate Supporting Schedule

Federal					Income Taxable in this Bracket	Tax Rate	Tax
0	50,000	15%			50,000	15%	7,500
50,000	75,000	25%	50,000	7,500	25,000	25%	6,250
75,000	100,000	34%	75,000	13,750	25,000	34%	8,500
100,000	335,000	39%	100,000	22,250	132,975	39%	51,860
335,000	10,000,000	34%	335,000	113,900	0	34%	0
					<u>232,975</u>		<u>74,110</u>
State Tax Rate							
0	All	7.75%			<u>252,548</u>	7.75%	<u>19,572</u>

Total Rate Base (Cell F21-Schedule 1.01)	\$	1,700,910	
Net Op Inc before Income Taxes (Cell F29)	\$	(104,659)	
Income Tax Expense	\$	93,683	
Net Operating Income	\$	(198,342)	
After Tax Cost of Capital		9.34%	
Target Net Operating Income	\$	158,865	
Adjustment to Achieve Return	\$	357,207	
Target Net Operating Income including Taxes		252,548	0
State Tax Deduction (for State Taxes paid)		19,572	
Federal Net Operating Income (less State Taxes Paid)		232,975	
Effective Federal Income Tax Rate		<u><u>31.810%</u></u>	

Reynolds Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2015
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	\$ 77,522
2	State Subscriber Line Charges	Trial Balance 12/31/15	\$ 18,418
3	State Access Revenues	Trial Balance 12/31/15	\$ 30,603
4	State Universal Service Support	Trial Balance 12/31/15	\$ 207,975
5	State Special Access Revenues	Trial Balance 12/31/15	\$ 349
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	\$ 334,867
7	Federal Subscriber Lines Charges	Trial Balance 12/31/15	\$ 47,338
8	Federal Access Revenues ¹	Trial Balance 12/31/15	\$ 108,150
9	Federal High Cost Loop Support ²	Trial Balance 12/31/15	\$ 23,473
10	Federal Spec. Acc. Rev-excl. DSL/Internet Trans.	Trial Balance 12/31/15	\$ 69,061
11	Federal Spec. Acc. Rev-DSL/Internet Trans.	Trial Balance 12/31/15	\$ 61,391
12	Total Federal Access Revenues	Sum (Ln 7 - 11)	\$ 309,413
13	Misc Revenues	Trial Balance 12/31/15	\$ 18,431
14	Total Operating Revenues	Ln 6 + Ln 12 + Ln 13	\$ 662,711

¹ Includes switched access revenue, ICLS, and CAF-ICC

² As booked in company ledgers. Because of timing differences and NECA pooling procedures, revenues in the company's books may not match USAC disbursement reports for federal support revenues.

Reynolds Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2015
Description of Adjustments

Description of Adjustment	Debit	Credit
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Rate Base Adjustments

Revenue Adjustments

HCL USF adjustment for Budget Control and ROR Change
Forecasted amount July-Dec 2016: \$15,246
Adjusted amount July-Dec 2016: \$13,890
4 month impact of the change: (\$904)

Expense Adjustments

Note: Carry all adjustments forward to Page 1

Reynolds Telephone Company
 Illinois ILECs and Affiliates
 Accounting Procedures

Place an X in the box

Yes	No	#	Accounting Procedure
X		1	Our company's records are kept using the FCC's Part 32 Uniform System of Accounts.
X		2	Our company's accounting procedures are consistent with an up-to-date Cost Accounting Manual and/or with Part 712 of the ICC Rules and Part 64 of the FCC Rules.
X		3	Our company's accounting procedures allocate an appropriate portion of Support Assets (vehicles, buildings, computers, furniture, etc.) to non-regulated accounts and to affiliated companies or include rental or lease fees for using such equipment.

CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the **DIRECT TESTIMONY OF ROBERT R. ABRAMS ON BEHALF OF REYNOLDS TELEPHONE COMPANY** was served upon the following persons by email this 7th day of September, 2016:

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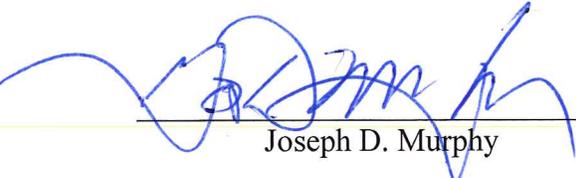
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