

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

2 A. Leigh C. Sickinger. My business address is 119 East Main Street, PO Box 188, Grafton,
3 Illinois 62037. I am a Vice President of Grafton Telephone Company in charge of
4 accounting, financial and regulatory matters.

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

6 A. I am providing this testimony in support of Grafton 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. I am a Certified Public Accountant. I graduated from the University of Wisconsin-
11 Madison in June of 1966 with a Bachelor of Business Administration degree with a major
12 in accounting. Prior to my employment with Grafton Telephone Company in November,
13 2001, I was a partner in the CPA Partnership of Kiesling Associates LLP, first in their
14 Madison, Wisconsin office and then relocating to their Springfield, Illinois office as
15 partner-in-charge in July, 1978. While with Kiesling Associates, I was involved in
16 providing accounting, auditing, financing and other financial services including testifying
17 before the Wisconsin Public Service Commission and the Illinois Commerce
18 Commission on numerous occasions as an expert witness regarding financing, rate
19 matters and other financial matters. In addition, I was the principal compiler of the draft
20 of the small companies cost allocation manual, which was submitted by the Illinois
21 Telephone Association to the Illinois Commerce Commission’s staff for review, revision

22 and finalization prior to the subsequent issuance of an order by this Commission
23 establishing 83 Ill. Code Part 712, Cost Allocation for Small Local Exchange Carriers.

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

25 A. The Company received a request from the IITA a number of months ago to complete the
26 form referred to as the Schedule 1.01. I understand that the form is essentially the same
27 form capturing substantially the same information established by agreement between the
28 IITA Commission Staff in consolidated Docket Nos. 00-0233 and 00-0335 and relied
29 upon again by the Illinois Commerce Commission in establishing the current interim
30 Illinois Universal Service Fund (“IUSF”) in Dockets Nos. 11-0210 and 11-0211. I also
31 understand that Mr. Meredith, who is testifying on behalf of the IITA, will be describing
32 the general format of the form in greater detail and will explain the use of the results from
33 the form in establishing the proposed revision to the IUSF.

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

38 A. Yes.

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

42 A. Yes. I completed Schedule 1.01 for the Company based on the Company’s Form 23A
43 filed with the Commission for the year 2015. For certain information that was not

44 available from the Form 23A, filed with the Commission, I used Company records as the
45 source of information. That Schedule 1.01 is attached as Exhibit 1.01 to this testimony.

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

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

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

53 A. Yes.

54 **Q. What information was used as the basis for completing the Company's Schedule**
55 **1.01?**

56 A. A substantial part of the information included in Schedule 1.01 comes directly from the
57 2015 Form 23A. The Company's financial statements and records are kept in accordance
58 with the Generally Accepted Accounting Principles (GAAP) and FCC Part 32 accounting
59 rules. Also, additional information presented in the Schedule 1.01 that did not come from
60 these sources, but from the Company's records, is true and correct to the best of my
61 knowledge, information, and belief.

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

64 A. Yes.

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

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

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

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

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

77 A. No. The Company did not receive Federal High Cost Loop Support ("HCLS") during the
78 year 2015.

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

83 A. Yes. With the submission of the Schedule 1.01 to the IITA, the company has finalized its
84 2015 annual cost study. In the cost study process the company has calculated the
85 necessary adjustments to operating investment and expenses to allocate for non-regulated
86 activities.

87 The first adjustment was to General Support Facilities (“GSF”) asset investment and
88 depreciation reserve. The net impact of the adjustment is a reduction to the Net Plant
89 Investment in the amount of \$858. This adjustment is reflected on Page 1, Line 1 of the
90 Company’s Schedule 1.01.

91 The second adjustment for non-regulated activities was made to operating expenses. The
92 non-regulated expense adjustment for GSF related depreciation expense was \$40. No
93 other adjustments for non-regulated activities were necessary as the amounts are not
94 included in the total operating expenses in the 2015 Annual Report. The amount of
95 Nonregulated Net Income is shown on page 12, line 18 of the Company’s 2015 Annual
96 Report.

97 **Q. Standard Adjustment #5 refers to adjustments made to reflect rate base**
98 **adjustments for deferred income taxes required as a result of a company electing**
99 **“S” Corporation status for federal and state taxes. Did the Company make any**
100 **adjustments for this item?**

101 A. Yes. Grafton Telephone Company has elected “S” Corporation status for federal and
102 state income taxes. While deferred income taxes related to book/tax depreciation
103 differences are not recorded on the Company’s books, the amount is computed by
104 utilizing the effective weighted tax rates of the shareholders of the Company for the
105 annual NECA cost study for inclusion in the Company’s rate base. This is the method
106 prescribed by NECA and the FCC for interstate settlement calculation purposes. The
107 Commission order in the interim fund Docket Nos. 11-0210 and 11-0211 denied this
108 S Corporation adjustment for income tax effects. New NECA and FCC policy regarding

109 the treatment of S Corporation income tax effects has developed since the interim fund
110 order. Mr. Meredith will expand on this issue and the updated method as prescribed by
111 NECA and the FCC.

112 At the present time, the amount of deferred taxes is a deferred tax asset and is added to
113 the Company's rate base.

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

115 A. Yes. In the initial stages of collecting information for the Company's Schedule 1.01
116 funding calculation, the concept was for a funding mechanism that would be reviewed
117 and updated periodically going forward through time. After additional work with the
118 industry group involved in the Commission sponsored workshops and discussions with
119 AT&T, the concept of an adjustable funding mechanism based on updating funding need
120 calculations could not be agreed upon by the participants. The Stipulation is structured to
121 set a static funding amount that will be place for a set period of time. After reviewing its
122 2015 operations, the Company recognized the financial data reported for 2015 had some
123 significant items that would not be representative, and is therefore providing adjustments
124 to normalize the financial presented.

125 During the year 2015, the Company was involved with a major construction project.
126 State Highway 3 from the top of the Grafton bluff to its connection with Highway 109
127 was under construction. As a result of the highway widening, all of the Company's
128 facilities along the highway needed to be moved (rebuilt). As a result of our facilities
129 being located on private right-of-way, the State and federal government paid for the
130 relocation of our facilities. We performed all of the necessary construction with our own

131 construction crew. A portion of our general manager's time was charged to this project;
132 normally this time would have been charged to maintenance and general office expense
133 accounts. The amount charged to the construction project has been added back to the
134 Company's operating expense accounts. Also, as a result of this construction, our normal
135 plant maintenance was understated for the year 2015 as compared to the normal
136 maintenance expenses of the two previous years. An adjustment was made to increase
137 2015 maintenance expense to the average amount of the past two previous years (2013
138 and 2014). One other adjustment was made to 2015 maintenance expenses. During the
139 year 2015, we received reimbursement of damages to our facilities which had occurred
140 during 2012 which had been credited to our outside plant maintenance account.

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

143 A. Yes. The Company has reviewed the Stipulation and Agreement and Grafton Telephone
144 Company specifically limits its support of the Stipulation and Agreement only if a
145 Commission order implements the Stipulation and Agreement in its entirety. As I
146 mentioned above, we provided our Schedule 1.01 information to Mr. Meredith and the
147 IITA in support of the Stipulation and Agreement negotiation process. Specifically, the
148 Company believes that the 9.34% after-tax cost of capital resulting from the Stipulation
149 and Agreement between IITA and AT&T is inadequate in the long run to attract
150 sufficient capital to high cost areas service areas like those the Company serves and
151 should not be viewed as establishing a benchmark. The Company does believe the
152 approval of the Stipulation and Agreement, in its entirety, will provide a much needed

153 long term update of the IUSF, better reflecting the current financial circumstances and
154 requirements of individual companies pending further action by the FCC.

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

156 **A.** Yes it does.

Grafton 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	\$ 1,503,858	\$ (858)	\$ 1,503,000
2	Materials and Supplies Inventory	Page 2, 13-Month Average	23,031		23,031
3	Customer Deposits	Form 23A, P 8, 4040	1,800	-	1,800
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	-	(25,055)	(25,055)
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4	<u>1,525,089</u>	<u>24,197</u>	<u>1,549,286</u>
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 11, Total	999,612	79,402	1,079,014
8	Less: Depreciation Expense	Form 23A, P 11, 6560	<u>194,032</u>	-	<u>194,032</u>
9	Total WC Operating Expense	line 7 - line 8	<u>805,580</u>	<u>79,402</u>	<u>884,982</u>
10	WC OE Requirement	line 9 * 45 / 360			110,623
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			<u>110,623</u>
13	Total Rate Base	line 5 + line 12			<u>1,659,909</u>
14	Total Operating Revenues	Form 23A, P 9, Total	1,026,135	(3,138)	1,022,997
15	Less: Illinois Universal Service Fund	Page 3, Line 4	<u>178,740</u>	-	<u>178,740</u>
16	Net Operating Revenues	line 14 - line 15	847,395	(3,138)	844,257
17	Total Operating Expenses	Form 23A, P 11, Total	999,612	79,402	1,079,014
18	Other Operating Inc and Exp - Net	Form 23A, P 12, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 12, 7240	<u>16,246</u>	-	<u>16,246</u>
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	<u>(168,463)</u>	<u>(82,540)</u>	<u>(251,003)</u>
21	Income Tax Expense	line 34			<u>(64,263)</u>
22	Net Operating Income	line 20 - line 21			<u>(186,740)</u>
23	Return on Rate Base	line 22 / line 13			<u>-11.25%</u>
24	After-tax Cost of Capital				<u>9.34%</u>
25	Target Net Operating Income	line 24 * line 13			<u>155,036</u>
26	Adj to Achieve Target Return on RB	line 25 - line 22			341,776
27	Gross Revenue Conversion Factor	line 35			<u>1.3441</u>
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			<u>459,381</u>
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			(251,003)
31	Illinois Inc & Rep Tax Expense	line 30 * 5.25%			<u>(13,178)</u>
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			(237,825)
33	Federal Income Tax Expense	line 32 * 21.48%			<u>(51,085)</u>
34	Total Imputed Income Tax Expense				<u>(64,263)</u>
35	Gross Revenue Conversion Factor				<u>1.3441</u>

* Provide detail on Page 4 for all adjustments.

Grafton 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	\$13,681
2	January-15	\$19,231
3	February-15	\$19,406
4	March-15	\$19,406
5	April-15	\$19,406
6	May-15	\$19,406
7	June-15	\$19,406
8	July-15	\$19,406
9	August-15	\$19,406
10	September-15	\$19,406
11	October-15	\$19,406
12	November-15	\$19,406
13	December-15	\$72,431
14	13 Month Average	\$23,031

Sale/Lease Back Arrangement

- X 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

- X 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) 3

After Tax Return 9.34%

Effective Tax Rates

	Federal	State
C Corp	31.6110%	7.7500% (Federal Calculated, State Input)
S Corp	21.4800%	5.2500% (Both Input)

Grafton 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	126,698	39%	49,412
335,000	10,000,000	34%	335,000	113,900	0	34%	0
					<u>226,698</u>		<u>71,662</u>
					<u>239,259</u>		<u>12,561</u>
State Tax Rate							
0	All					5.25%	
					<u>239,259</u>		<u>12,561</u>

Total Rate Base (Cell F21-Schedule 1.01)	\$	1,659,909
Net Op Inc before Income Taxes (Cell F29)	\$	(251,003)
Income Tax Expense	\$	84,223
Net Operating Income	\$	(335,226)
After Tax Cost of Capital		9.34%
Target Net Operating Income	\$	155,036
Adjustment to Achieve Return	\$	490,262
Target Net Operating Income including Taxes		239,259
State Tax Deduction (for State Taxes paid)		12,561
Federal Net Operating Income (less State Taxes Paid)		226,698
Effective Federal Income Tax Rate		<u><u>31.611%</u></u>

Grafton 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	\$ 120,633
2	State Subscriber Line Charges	Trial Balance 12/31/15	\$ 110,202
3	State Access Revenues	Trial Balance 12/31/15	\$ 126,576
4	State Universal Service Support	Trial Balance 12/31/15	\$ 178,740
5	State Special Access Revenues	Trial Balance 12/31/15	\$ 25,744
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	<u>\$ 561,895</u>
7	Federal Subscriber Lines Charges	Trial Balance 12/31/15	\$ 61,719
8	Federal Access Revenues ¹	Trial Balance 12/31/15	\$ 360,863
9	Federal High Cost Loop Support ²	Trial Balance 12/31/15	\$ -
10	Federal Spec. Acc. Rev-excl. DSL/Internet Trans.	Trial Balance 12/31/15	\$ 6,712
11	Federal Spec. Acc. Rev-DSL/Internet Trans.	Trial Balance 12/31/15	\$ 2,772
12	Total Federal Access Revenues	Sum (Ln 7 - 11)	<u>\$ 432,066</u>
13	Misc Revenues	Trial Balance 12/31/15	\$ 32,174
14	Total Operating Revenues	Ln 6 + Ln 12 + Ln 13	<u>\$ 1,026,135</u>

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.

Grafton 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
Adjustment #1 - Normalization for Reducing Intrastate Originating Access to Interstate Levels. Not Applicable		
Adjustment #2 - Adjustment for Affordable Rate. Not Applicable		
Adjustment #3 - Federal Universal Service Funding (HCL). Not Applicable		
<u>Adjustment #4 - Non-Regulated Cost Study Adjustments</u>		
Net reduction in rate base - Pg 1, Line 1		\$858
Net reduction in operating expenses - See below		\$40
 <u>Adjustment #5 - Rate Base Adjustments</u>		
Grafton Telephone Co has elected "S" Corporation status for federal and state income taxes; deferred income taxes related to book/tax depreciation differences are not recorded on the Company's books; however, the amount is computed for the annual cost study. The current amount is a deferred tax asset - Pg 1, Line 4		\$25,055
 <u>Revenue Adjustments</u>		
Over payment of interstate revenues for 2015 - Pg 1, Line 14		\$3,138
 <u>Expense Adjustments</u>		
Reversal of General Manager's payroll and benefits charged to a major 2015 construction project - State Highway 3 rebuild which required the relocation and rebuild of the Company' facilities; amount charged to the project which otherwise would have been charged to operating expense accounts		\$34,288
Reimbursement of repairs of outside plant received during 2015; damages incurred and repairs made in 2012		\$14,609
Adjustment to Plant Specific Operations Expenses due to Highway 3 relocation project.		
Total Plant Specific Operations Expenses in Annual Reports:		
2013	292,112	
2014	311,245	
Total	<u>603,357</u>	
Average of Above 2 Years	<u>301,679</u>	
2015	238,815	
Amount included above in GM's Adjustment	17,710	
Reimbursement of damages received in 2015	14,609	
Pro forma 2015 Amount	<u>271,134</u>	
Difference between adjusted 2015 and 2 year average	<u>30,545</u>	
Add to 2015 adjusted amount		\$30,545
		\$79,442
Net Reduction in Cost Study Expenses - Adj #4 Above		(\$40)
Net Increase in Operating Expenses - Pg 1, Line 7 and Line 17		<u>\$79,402</u>

Note: Carry all adjustments forward to Page 1

Grafton 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 LEIGH C. SICKINGER ON BEHALF OF GRAFTON TELEPHONE COMPANY** was served upon the following persons by email this 7th day of September, 2016:

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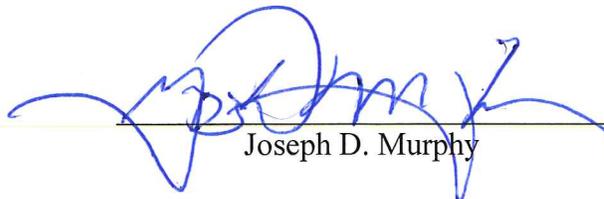
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