

APPENDIX A

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

ILLINOIS INDEPENDENT TELEPHONE)
ASSOCIATION)
)
Petition to update the Section 13-301(1)(d) Illinois) Docket No. 16-0378
Universal Service Fund and for other relief.)

STIPULATION AND AGREEMENT

The signatories to this “Stipulation and Agreement” and those who express concurrence on the record (the “Stipulating Parties”) agree that certain principles, findings and conclusions be adopted by the Illinois Commerce Commission (the “Commission”) to resolve issues related to updating the Section 13-301(1)(d) Illinois Universal Service Fund (“IUSF”) and to adopt related proposals which will ensure the continued provision of voice telephony and further encourage the spread of broadband in high cost areas in the State of Illinois.

The IUSF

1. Section 13-301(1)(d) of the Illinois Public Utilities Act (the “Act”) provides that the Commission “shall investigate the necessity of and, if appropriate, establish a universal service support fund” from which local exchange telecommunications carriers which meet the criteria described in that section “may be eligible to receive support, less any federal universal service support received for the same or similar costs of providing the supported service.” One of the criteria for eligibility is that the carriers’ “economic costs of providing service for which universal service support may be made available exceed[s] the affordable rate established by the Commission for such services.”

2. Following an investigation pursuant to the provisions of Section 13-301(1)(d) of the Public Utilities Act (“Act”), the Commission established an IUSF in Consolidated Docket Nos. 00-0233 and 00-0335 (the “Consolidated Dockets”), through the Commission’s Second Interim Order, entered September 18, 2001, with the effective date of the fund being October 1, 2001.

3. In the Second Interim Order in the Consolidated Dockets, the Commission concluded that the use of a forward-looking cost model was appropriate in determining the legislatively permitted proxy cost and that the HAI model results for all of the group of participating small ILECs as a whole were appropriate to use to determine the proxy cost of providing the supported services. Because the proxy cost for the group of participating small ILECs as a whole was significantly more than their embedded costs as demonstrated through company-specific rate of return showings on a so-called Schedule 1.01, the Commission capped the funding for each participating small ILEC at its Schedule 1.01 embedded cost using 2000 as the base year.

4. The IUSF was updated on an interim basis through the Commission’s March 6, 2013 Order in Docket Nos. 11-0210 and 11-0211 (Consol.) (the “2013 Interim Order”). In the 2013 Interim Order, the Commission again used HAI model results for the group of participating small ILECs as a whole to determine the proxy cost for the group of providing the supported services. The Commission again capped each ILEC’s funding by requiring each participating small ILEC to submit a Schedule 1.01 that indicated its need using 2009 as base year. The current IUSF total fund size amount is \$18,984,631 (plus administrative expenses).

5. In the 2013 Interim Order, the Commission directed that one or more eligible recipients of the IUSF, or an organization representing them such as the IITA, file, by March of 2015, a petition for approval of a longer-term IUSF to replace the Interim Fund. Subsequently, in an order dated September 30, 2014, the Commission extended the date for filing such a petition to July 31, 2016. The Commission also ordered that any proposed longer-term IUSF be: (i) compliant with the terms and requirements of Section 13-301 of the Act, (ii) consistent with and fully reflect the Commission's concerns and admonitions, as stated in its several Orders in Docket Nos. 00-0233/0335 and 04-0354 regarding continued use of a rate-of-return based methodology to determine IUSF support levels, and (iii) consistent with FCC policies and rules applicable on an interstate level to Illinois ILECs potentially eligible for IUSF support pursuant to Section 13-301(1)(d) of the Act.

6. For the purpose of developing a proposal to comply with the Commission's directive in the 2013 Interim Order, the IITA conducted an exhaustive review of funding formats for state universal service funds as well as the federal universal service fund. The IITA's review concluded that establishing the need for a fund through a forward-looking cost model of the type that the Commission has previously used to calculate "economic costs" as required by section 13-301(1)(d) of the Act will commonly generate a fund size in excess of what the participating small ILECs need to obtain a reasonable rate of return on investment. Accordingly, the IITA concluded that the amount of the fund should ultimately be computed based on a company-by-company analysis of revenue requirements using embedded costs and an established rate of return, as adjusted and capped through the use of a fund-size control factor.

7. The IITA identified a cost model called the Alternative Connect America Cost Model or “A-CAM,” developed by CostQuest Associates in conjunction with the Federal Communications Commission (“FCC”) and recently adopted for voluntary federal universal service reform. The A-CAM is widely viewed as the best available model for developing the forward-looking economic cost for rate-of-return service providers.

8. Consistent with the 2013 Interim Order, the IITA intends to introduce the cost module of the A-CAM, which has been licensed by the Commission for the use of the parties discussing the long-term IUSF, that develops the forward-looking economic costs for specific areas. The Stipulating Parties agree that the updated forward-looking economic cost model results for all participating small ILECs as a whole be used solely for the purpose of determining whether the carriers’ “economic cost of providing services” exceeds the affordable rate for such services, which is one of the requirements under section 13-301(d)(1) for eligibility to obtain support from the IUSF. More specifically, the Stipulating Parties agree that the updated forward-looking cost model results will be used to establish that a need exists for state USF support but it will not be used for establishing the total IUSF fund size and/or individual company qualifying amounts.

9. Appendix A to the 2013 Interim Order (the “Appendix”) sets forth a list of the companies that applied for and qualified for IUSF funding in the Interim Dockets. Those companies made their application based upon year 2009 embedded financial results as adjusted.

10. The Stipulating Parties agree that the same embedded cost, rate-base/rate-of-return methodology shall be used by individual ILECs that meet the eligibility criteria set forth in paragraph 17, below (“Eligible Small Rate-of-Return ILECs”) to establish a need to receive funding from the updated IUSF. For purposes of this proceeding, such rate base/rate-of-return methodology is considered most appropriate as IITA member companies are regulated by the ICC under rate base/rate-of-return principles under Article IX of the Illinois Public Utilities Act subject to the limitations of Section 13-504. In order to update the elements of the IUSF, the Eligible Small Rate-of-Return ILECs will present the information and evidence based upon 2015 actual results with allowable adjustments for 2016. The Form and Schedule of Adjustments attached to the Stipulation as Exhibit 1 (the “Form 1.01”) reflects the appropriate information to be presented by individual Eligible Small Rate-of-Return ILECs in the proposed updating of the IUSF using 2015 results and a description of adjustments for 2016.

11. These Form 1.01 filings use an after-tax cost of capital of 9.34% for the Eligible Small Rate-of-Return ILECs. The Commission accepted this rate as a reasonable after-tax cost of capital in the 2013 Interim Order in establishing the current IUSF fund in the Interim Dockets. Use of this 9.34% after-tax cost of capital for purposes of the analysis in paragraph 13, below, represents a compromise by the Stipulating Parties.

12. In the 2013 Interim Order, the Commission reaffirmed its use of \$20.39 per month as the affordable rate for the purpose of making any and all determinations connected with the IUSF size and individual company qualifying amounts, consistent with the requirements of Section 13-301(1)(d) and 13-301(2)(c).

13. The Stipulating Parties acknowledge that applying the inputs discussed in paragraphs 10 through 12 – *i.e.* (a) the Eligible Small Rate-of-Return ILECs’ 2015 financial results with adjustments for 2016; (b) an after tax cost of capital of 9.34%; and (c) an affordable rate of \$20.39 per month – to compute an updated IUSF, would result in an updated IUSF fund size in excess of \$28,500,000. This acknowledgment reflects a compromise by the Stipulating Parties and shall not be construed as an agreement by the Stipulating Parties as to the reasonableness and appropriateness of the specific elements set forth above.

14. Notwithstanding the calculation discussed in Paragraph 13 above, the Stipulating Parties agree that an updated IUSF fund size of \$25,500,000 (plus administrative expenses) is a reasonable compromise that satisfies the public interest and should be approved by the Commission. The Stipulating Parties further agree that this updated fund size of \$25,500,000 should remain in effect without adjustment until the Commission has completed a subsequent review of the IUSF, to be commenced by July of 2023, and that an increase (if any) in the fund size supported by the results of such review shall not occur prior to July 31, 2023.

15. A fund-size control factor should be imputed to reduce the amount calculated as described in paragraph 13 to the agreed total fund level of \$25,500,000. That same fund-size control factor would be imputed to the Schedule 1.01 showing of each Eligible Small Rate-of-Return ILEC.

16. The increase of the IUSF size by approximately \$6,600,000 resulting in an updated IUSF of \$25,500,000 (which will not be further increased prior to July 31, 2023), plus administrative expenses, is a principal understanding of this Stipulation and

Agreement and a basis for requesting Commission approval of this Stipulation and Agreement in its entirety. While the stipulated amount of the updated fund represents a significant increase in the fund size established three years ago, it represents a base year five years later than the Interim fund and it is less than the amount calculated based on adjusted 2015 data and the rate of return and affordable rate inputs previously approved by the Commission. The Stipulating Parties agree that the proposal set forth herein represents a reasonable compromise and is in the public interest as it will avoid costs and uncertainty of litigation regarding the establishment of a longer-term fund and will provide for certainty and stability in the fund size for a period of at least seven years.

17. To be eligible to receive support from the IUSF, a local exchange carrier (“LEC”) should be required to meet all of the following requirements:

- (a) the LEC must be a carrier who pursuant to the Twenty-Seventh Interim Order of the Commission in Docket No. 83-0142 or the orders of the Commission in Docket No. 97-0621 and Docket No. 98-0679 received funding as identified in Section 13-301(1)(d);
- ~~(b) the LEC must not be an “Electing Provider” as defined in Section 13-506.2(a)(1) of the Act; and~~
- (c) the LEC must charge for its monthly basic local rate the higher of
 - (i) \$20.39 or
 - (ii) the national federal affordable benchmark used for the federal High Cost Loop Support mechanism less charges for IUSF and any mandatory extended area service (EAS) (47 C.F.R. § 51.313(h)). If an increase in the basic local rate to an amount higher than \$20.39 would be required under subsection (ii), above, and such an increase would cause

the IUSF recipient's overall rates¹ to exceed the rate ceiling used in the determination of the federal Access Recovery Charge (ARC) that is a component of federal CAF ICC (47 C.F.R. § 51.915(b)(12)) (the "Federal ARC Rate Ceiling"), then the IUSF recipient would be allowed to reduce the required increase in the basic local rate by the minimum amount necessary to avoid causing the recipient's overall rates to exceed the Federal ARC Rate Ceiling. For purposes of this subsection 17(c), the term "basic local rate" means the monthly rate (or combination of rates) charged for residential flat rated local service (1FR or R1) or residential local measured service but does not include mandatory extended area service charges, 911 fees, federal and state TRS and USF surcharges or other fees, taxes and regulatory surcharges. Eligible Small Rate-of-Return ILECs should be required to actually charge - not impute - these rates to all residential customers, except for current unique-line handling situations (including without limitation Safety Line type service, employee concession service or any limited or restricted class of residential local service). A LEC that otherwise meets the eligibility requirements under this paragraph 17 but fails to conform to the requirements of this subparagraph 17(c) should lose eligibility on a month-by-month basis until it brings its rates into conformity with the requirement of this subparagraph 17(c).

¹ "Overall Rates" for purposes of this sentence include the federal end user common line charge and the Access Recovery Charge; the flat rate for residential local service (sometimes known as the 1FR or R1 rate), mandatory extended area service charges, and state subscriber line charges; per-line state high cost and/or state access replacement universal service contributions, state E911 charges, and state TRS charges.

Funding IUSF

18. In accordance with the administrative procedures approved in the Consolidated Dockets, the Stipulating Parties agree that the Commission should order that all costs of the updated IUSF (including administrative expenses) continue to be recovered in accordance with Section 13-301(1)(d) of the Act. The basis for assessment of funding carriers will remain the same as contained in the Administrative Procedures approved by the Commission in the Consolidated Dockets.²

Implementation

19. The Stipulating Parties agree that the Illinois Small Company Exchange Carrier Association (“ISCECA”) should continue to administer the updated IUSF. The Stipulating Parties agree to work cooperatively with the ISCECA, the Commission Staff and other parties to determine if any revisions to the existing Administrative Procedures are necessary and/or appropriate.

20. The Stipulating Parties agree that the Commission should approve the updated IUSF at the levels described above. The Stipulating Parties specifically agree and advocate that the Commission should not postpone consideration and approval of the updated IUSF or await possible resolution of related issues at the federal level as a result of actions taken by the FCC or as a result of changes in federal law.

21. The Stipulating Parties agree that the updated IUSF remain in place at the same annual fund amounts and individual Eligible Small Rate-of-Return ILEC qualifying amounts until there is a review and updating of all fund sizes, individual company qualifying amounts and terms as discussed below.

² The Stipulating Parties expect a transitional period during which the Administrator will anticipate the changes in IUSF cost with subsequent true-ups of the amount until the transition is complete.

22. The Stipulating Parties specifically agree that the Eligible Small Rate-of-Return ILECs, or a representative group such as the IITA, should file an update of this fund by July of 2023 by filing a petition with the Commission seeking a review. The Stipulating Parties further specifically agree that no increase in the fund size resulting from such a review shall occur prior to July, 31, 2023.

23. The agreements contained in this Stipulation and Agreement are the result of negotiations and compromise and do not represent the position of any Stipulating Party, including AT&T Illinois, the IITA and/or individual IITA member companies on specific issues. This Stipulation is presented to the Illinois Commerce Commission for adoption in its entirety. If not adopted in its entirety, this Stipulation shall be void and no party shall be bound by any of the stipulations, agreements or provisions hereof.

24. This Stipulation and Agreement sets forth the agreements which have been reached, but does not attempt to address all of the policy or other reasons that support the understandings or why the approvals should be granted by the Commission. The Stipulating Parties will address those issues in the petition and/or in testimony.

25. The IITA will petition for the approval of the agreements contained in this Stipulation and Agreement and the Stipulating Parties will cooperate in presenting evidence in support of the agreements contained in this Stipulation and Agreement.

DATED this 14th day of March, 2017.

Exhibit 1: Form of Schedule 1.01

Test 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 | \$ - | \$ - | \$ - |
| 2 | Materials and Supplies Inventory | Page 2, 13-Month Average | - | - | - |
| 3 | Customer Deposits | Form 23A, P 8, 4040 | - | - | - |
| 4 | ADIT - Regulated Plant | Form 23A, P 8, 4100 + 4340 | - | - | - |
| 5 | Rate Base before Working Capital | line 1 + line 2 - line 3 - line 4 | | | - |
| 6 | Working Capital Requirement | | | | |
| 7 | Total Operating Expenses | Form 23A, P 11, Total | - | - | - |
| 8 | Less: Depreciation Expense | Form 23A, P 11, 6560 | - | - | - |
| 9 | Total WC Operating Expense | line 7 - line 8 | - | - | - |
| 10 | WC OE Requirement | line 9 * 45 / 360 | | | - |
| 11 | Commission-Ordered Cash Balance Requirement | | - | - | - |
| 12 | Total Working Capital Requirement | line 10 + line 11 | | | - |
| 13 | Total Rate Base | line 5 + line 12 | | | - |
| 14 | Total Operating Revenues | Form 23A, P 9, Total | - | - | - |
| 15 | Less: Illinois Universal Service Fund | Page 3, Line 4 | - | - | - |
| 16 | Net Operating Revenues | line 14 - line 15 | - | - | - |
| 17 | Total Operating Expenses | Form 23A, P 11, Total | - | - | - |
| 18 | Other Operating Inc and Exp - Net | Form 23A, P 12, 7100 | - | - | - |
| 19 | Other Operating Taxes | Form 23A, P 12, 7240 | - | - | - |
| 20 | Net Op Inc before Income Taxes | line 16 - lines 17, 18, & 19 | - | - | - |
| 21 | Income Tax Expense | line 34 | | | - |
| 22 | Net Operating Income | line 20 - line 21 | | | - |
| 23 | Return on Rate Base | line 22 / line 13 | | | #DIV/0! |
| 24 | After-tax Cost of Capital | | | | 9.34% |
| 25 | Target Net Operating Income | line 24 * line 13 | | | - |
| 26 | Adj to Achieve Target Return on RB | line 25 - line 22 | | | - |
| 27 | Gross Revenue Conversion Factor | line 35 | | | #DIV/0! |
| 28 | ROR Funding Deficiency Including Inc Taxes | line 26 * line 27 | | | #DIV/0! |
| 29 | Calculation of Income Tax Expense | | | | |
| 30 | Net Op Inc before Inc Taxes | line 20 | | | - |
| 31 | Illinois Inc & Rep Tax Expense | line 30 * 7.75% | | | - |
| 32 | Net Op Inc before Fed Inc Tax | line 30 - line 31 | | | - |
| 33 | Federal Income Tax Expense | line 30 * 100% | | | - |
| 34 | Total Imputed Income Tax Expense | line 31 + line 33 | | | - |
| 35 | Gross Revenue Conversion Factor | 1 / ((1 - 0.0775) * (1 - 1)) | | | #DIV/0! |

* Provide detail on Page 4 for all adjustments.

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

| <u>Line #</u> | | |
|---------------|------------------|-----|
| 1 | December-14 | \$0 |
| 2 | January-15 | \$0 |
| 3 | February-15 | \$0 |
| 4 | March-15 | \$0 |
| 5 | April-15 | \$0 |
| 6 | May-15 | \$0 |
| 7 | June-15 | \$0 |
| 8 | July-15 | \$0 |
| 9 | August-15 | \$0 |
| 10 | September-15 | \$0 |
| 11 | October-15 | \$0 |
| 12 | November-15 | \$0 |
| 13 | December-15 | \$0 |
| 14 | 13 Month Average | \$0 |

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

Test 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% | | | 0 | 15% | 0 | |
| 50,000 | 75,000 | 25% | 50,000 | 7,500 | 0 | 25% | 0 | |
| 75,000 | 100,000 | 34% | 75,000 | 13,750 | 0 | 34% | 0 | |
| 100,000 | 335,000 | 39% | 100,000 | 22,250 | 0 | 39% | 0 | |
| 335,000 | 10,000,000 | 34% | 335,000 | 113,900 | 0 | 34% | 0 | |
| | | | | | <u>0</u> | | <u>0</u> | |
| | | | | | <u>0</u> | | <u>0</u> | |
| State Tax Rate | | | | | | | | |
| 0 | All | 7.75% | | | | 0 | 7.75% | 0 |
| | | | | | <u>0</u> | | <u>0</u> | |

| | | | |
|------------------------------------------------------|----|------------------------|---|
| Total Rate Base (Cell F21-Schedule 1.01) | \$ | - | |
| Net Op Inc before Income Taxes (Cell F29) | \$ | - | |
| Income Tax Expense | \$ | 0 | |
| Net Operating Income | \$ | (0) | |
| After Tax Cost of Capital | | 9.34% | |
| Target Net Operating Income | \$ | - | |
| Adjustment to Achieve Return | \$ | 0 | |
| Target Net Operating Income including Taxes | | 0 | 0 |
| State Tax Deduction (for State Taxes paid) | | 0 | |
| Federal Net Operating Income (less State Taxes Paid) | | 0 | |
| Effective Federal Income Tax Rate | | <u><u>100.000%</u></u> | |

Test 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 | \$ - |
| 2 | State Subscriber Line Charges | Trial Balance 12/31/15 | \$ - |
| 3 | State Access Revenues | Trial Balance 12/31/15 | \$ - |
| 4 | State Universal Service Support | Trial Balance 12/31/15 | \$ - |
| 5 | State Special Access Revenues | Trial Balance 12/31/15 | \$ - |
| 6 | Total State Access & Local Revenues | Sum (Ln 1 - 5) | <u>\$ -</u> |
| 7 | Federal Subscriber Lines Charges | Trial Balance 12/31/15 | \$ - |
| 8 | Federal Access Revenues ¹ | Trial Balance 12/31/15 | \$ - |
| 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 | \$ - |
| 11 | Federal Spec. Acc. Rev-DSL/Internet Trans. | Trial Balance 12/31/15 | \$ - |
| 12 | Total Federal Access Revenues | Sum (Ln 7 - 11) | <u>\$ -</u> |
| 13 | Misc Revenues | Trial Balance 12/31/15 | \$ - |
| 14 | Total Operating Revenues | Ln 6 + Ln 12 + Ln 13 | <u>\$ -</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.

Test 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 |
|---------------------------|-------|--------|
|---------------------------|-------|--------|

Rate Base Adjustments

Revenue Adjustments

Expense Adjustments

Note: Carry all adjustments forward to Page 1

Test Telephone Company
Illinois ILECs and Affiliates
Accounting Procedures

Place an X in the box

| Yes | No | # | Accounting Procedure |
|-----|----|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | 1 | Our company's records are kept using the FCC's Part 32 Uniform System of Accounts. |
| | | 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. |
| | | 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. |