

GOLLER, HEDRICK & LAKE
Professional Corporation
ATTORNEYS AND COUNSELORS AT LAW
Third Floor Suite
131 East High Street
Jefferson City, Missouri 65101

DAVID R. GOLLER
ROBERT W. HEDRICK
JOHN H. LAKE
JOHN W. KUEBLER

TELEPHONE
314-635-6181

December 6, 1978

FILED

DEC 6 1978

PUBLIC SERVICE COMMISSION

Mr. R. Michael Jenkins, Secretary
Missouri Public Service Commission
P. O. Box 360
Jefferson City, Missouri 65102

Re: TR-79-116 - Ellington Telephone
Company

Dear Mr. Jenkins:

On November 13, 1978, Ellington Telephone Company of Ellington, Missouri, submitted revised tariffs reflecting increased rates to be effective December 15, 1978.

By Order of the Commission dated November 30, 1978, the tariff sheets were suspended for a period of 120 days to April 14, 1979, unless otherwise ordered by the Commission.

Enclosed with this letter are fifteen copies of the accounting exhibits of the Applicant Company as of June 30, 1978, with pro forma entries.

Your attention is invited to the fact that in the transmittal letter accompanying the rate sheets and dated November 13, 1978, I indicated the proposed annual increase in rates before taxes was approximately \$23,000.00. This was a typographical error I did not catch as the proposed increase will be a total of \$35,647.80. (See Statement E in the accounting exhibit).

You will further note the Company has made sizable loans to improve its plant facilities with the Balance Sheet showing long term debt in the amount of \$526,041.00 as of June 30, 1978 (See Statement B) with interest expense on long term debt of \$53,059.00. (Statement D).

Statement D shows a net income loss of \$3,149.00 as of June 30, 1978. This with a principal payment requirement of \$16,250.00 on Loan No. 8 (See Statement B) shows the precarious financial situation this Company is in.

H.D.

Mr. R. Michael Jenkins, Secretary
December 6, 1978
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For the reasons indicated a prompt hearing in this matter is of grave importance. I have therefore enclosed with this letter the accounting exhibit referred to above.

Very truly yours,



R. W. Hedrick
Attorney for Ellington Telephone
Company

RWH:dkj

cc: Mr. William Barvick

Encl.

ELLINGTON TELEPHONE COMPANY

ELLINGTON, MISSOURI

FILED

DEC 6 1978

PUBLIC SERVICE COMMISSION

SCHEDULES IN SUPPORT OF APPLICATION
TO MISSOURI PUBLIC SERVICE COMMISSION
FOR GENERAL INCREASE IN RATES

Test Year Ending June 30, 1978

Ellington Telephone Company
Ellington, Missouri
INDEX TO RATE CASE EXHIBITS

STATEMENT A	- STATEMENT OF STATISTICAL INFORMATION
STATEMENT B	- EMBEDDED COST OF INVESTED CAPITAL
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STATEMENT E	- STATION AND RATES SCHEDULE

Ellington Telephone Company
Ellington, Missouri
Statistical Information
Twelve Months Ended June 30, 1978 and Pro Forma

	<u>June 30</u> <u>1978</u>	<u>Pro Forma</u>
<u>Telephone Plant and Equipment</u>	\$ 1,145,624	\$ 1,145,624
<u>Reserve for Depreciation</u>	251,716	251,716
Net Plant	\$ 893,908	\$ 893,908
<u>Total Equity</u>	\$ 272,001	\$ 272,001
<u>Long Term Debt</u>	526,041	526,041
Total Invested Capital	\$ 798,042	\$ 798,042
<u>Operating Revenues</u>	\$ 279,004	\$ 351,324
<u>Total Operating Expenses</u>	\$ 228,593	\$ 247,025
<u>Net Operating Income</u>	\$ 52,211	\$ 94,075
<u>Interest Expense</u>	\$ 57,009	\$ 55,835
 <u>Ratios</u>		
<u>Debt to Net Plant</u>	58.8	58.9
<u>Gross Revenues to Gross Plant</u>	24.4	29.4
<u>Return on Common Equity</u>	Loss	13.4
<u>Times Interest Earned</u>	0.88	1.7
<u>Rate of Return</u>	5.6	10.5

STATEMENT A

Ellington Telephone Company, Inc.
Ellington, Missouri
Embedded Cost of Invested Capital
Pro Forma

	Balance June 30, 1978	Balance	Average	Average Rate	Interest
Loan #2	\$ 6,250.00	\$ 4,750.00	\$ 5,550.00	6 1/4%	\$ 347
Loan #3	9,000.00	7,500.00	8,250.00	6%	516
Loan #4	21,367.00	18,867.00	20,117.00	6	1,207
Loan #5	56,215.00	51,211.00	53,713.00	6 3/4	3,626
Loan #6	43,500.00	40,500.00	42,000.00	9 1/2	3,990
Loan #7	89,575.00	84,571.00	87,073.00	9 1/2	8,272
Loan #8	300,133.98	325,000.00	320,938.00	(1) 11	<u>35,303</u>
					<u>\$ 53,261</u>
Short Term Notes					<u>\$ 2,574</u>
\$5,000 Preferred Stock				5 1/4%	<u>\$ 263</u>
Common Equity, June 30, 1978				13.4%	<u>35,873</u>
		267,001.00			<u>\$ 91,971</u>

- (1) Funding date 12/31/78 principal requirement for year \$16,250.00
Average balance pro forma \$320,938.00. Interest computed at 11%.
This loan is not funded as yet, and the final note rate of interest
is based upon the "A" rated utility bond rate. At this date, manage-
ment feels it will be very near 11%

STATEMENT B

Ellington Telephone Company
Ellington, Missouri
Balance Sheet
June 30, 1978

ASSETS

<u>Telephone Plant and Equipment</u>	\$ 1,145,624	
Less: Reserve for depreciation	<u>251,716</u>	\$ 893,908
Net Plant		
<u>Current Assets:</u>		
Cash on hand and in banks	\$ 9,196	
Due from subscribers	43,746	
Material and supplies	<u>8,448</u>	
Total Current Assets		61,390
<u>Deferred Charges and Prepayments</u>		10,410
<u>Other Assets</u>		<u>30</u>
Total Assets		<u>\$ 965,738</u>

LIABILITIES AND CAPITAL

<u>Capital Stock:</u>		
Common	\$ 15,000	
Preferred	<u>5,000</u>	\$ 20,000
Total Capital Stock		
<u>Long Term Debt</u>		526,041
<u>Current and Accrued Liabilities:</u>		
Notes payable	\$ 27,600	
Accounts payable	74,622	
Accrued taxes	18,516	
Other current and accrued liabilities	<u>10,692</u>	
Total Current and Accrued Liabilities		131,430
<u>Contributions in Aid of Construction</u>		9,140
<u>Unamortized Investment Tax Credit</u>		27,126
<u>Surplus:</u>		
Capital	\$ 17,097	
Earned	<u>234,904</u>	
Total Surplus		<u>252,001</u>
Total Liabilities and Capital		<u>\$ 965,738</u>

Ellington Telephone Company
Ellington, Missouri
Operating Statements
Twelve Months Ended June 30, 1978 and Pro Forma

	Twelve Months Ended June 30, 1978	Pro Forma Adjustments		Pro Forma
		Db.	Cr.	
<u>Operating Revenues:</u>				
Exchange service revenues	\$ 99,738	\$	(1) \$ 37,075	\$ 136,813
Toll service revenues	144,890		(2) 7,244	152,134
Miscellaneous revenues	39,852		(3) 28,000	67,852
Less: Uncollectibles	5,475		(4)	5,475
Total Operating Revenues	<u>\$ 279,005</u>			<u>\$ 351,324</u>
<u>Operating Expenses:</u>				
Maintenance expenses	\$ 71,533	(5) 13,778		\$ 85,311
Depreciation	52,296		(6) 75	52,221
Traffic expenses	1,473			1,473
Commercial expenses	21,336	(7) 1,489		22,825
General expenses	57,123	(8) 1,192		58,315
Operating taxes	24,461	(9) 2,419		26,880
Total Operating Expenses	<u>\$ 228,222</u>			<u>\$ 247,025</u>
Net Operating Revenues	\$ 50,783			\$ 104,299
Provision for Income Taxes	(1,428)	(10) 11,652		10,224
Net Operating Income	<u>\$ 52,211</u>			<u>\$ 94,075</u>
<u>Other Income Deductions:</u>				
Interest-long term debt	\$ 53,059	(11) 202		\$ 53,261
Other interest	3,950		(12) 1,376	2,574
Non-operating income	(2,284)	(13) 2,284		-0-
Amortization of debt expense	372			372
Preferred stock dividends	263			263
Total Other Income Deductions	<u>\$ 55,360</u>			<u>\$ 56,470</u>
Net Income (Loss)	<u>\$ (3,149)</u>			<u>\$ 32,605</u>

Ellington Telephone Company
Ellington, Missouri
Notes to Pro Forma Operating Statement

- (1) Exchange service revenues shown on the pro forma operating statement are as set out on the attached Schedule of Present and Proposed rates.
- (2) Pro forma toll revenues gives effect to an estimated 5% increase over recorded toll for the test year.
- (3) Pro forma miscellaneous revenues were increased \$28,000.00 which was management's estimate of the increase in line haul settlement from Southwestern Bell due to additional investment in toll facilities installed by the Ellington Telephone Company.
- (4) Uncollectibles were kept the same as shown for the test year.
- (5) Pro forma maintenance expenses are as set out on the attached schedule showing the computation.
- (6) Pro forma depreciation was computed at the rates for each class of plant as approved by the Missouri Public Service Commission in its order #88. A schedule showing computation is attached.
- (7) Pro forma commercial expenses are detailed in the attached schedule.
- (8) General expenses were increased to allow for a three year amortization of \$6,000.00 and decreased \$808.00 to eliminate a non-recurring training school expense that appears on the operating statement for the test year.
- (9) Pro forma operating taxes are detailed in the attached schedule.
- (10) Pro forma State and Federal income taxes are detailed on a schedule attached.
- (11) Pro forma interest expense computation is shown on the attached schedule setting out embedded cost of invested capital.
- (12) Other interest was computed on the June 30, 1978 balance of \$27,600 of notes payable. ($\$18,000 \times 9\frac{1}{2}\%$ — $\$9,600 \times 9\%$)
- (13) Non-operating income of \$2,284.00 shown on the June 30, 1978 Operating Statement was eliminated. This represents a profit realized on the purchase and sale of a leased vehicle.

STATEMENT D
SCHEDULE 1

Ellington Telephone Company
Ellington, Missouri
Computation of Pro Forma Payroll and Associated Payroll Taxes

<u>Name</u>	<u>Salary Computation</u>		<u>Payroll Tax Computation</u>		<u>Fed. Excise on Wages</u>
	<u>Gross Salary</u>		<u>FICA</u>	<u>State Unemp.</u>	
	<u>Plant</u>	<u>Office</u>			
Wm. McCormack	\$ 21,000	\$	\$ 16,500	\$ 6,000	\$ 6,000
Dee McCormack	21,000		16,500	6,000	6,000
Terry Hill	10,262		10,262	6,000	6,000
Don Perriguey	13,892		13,892	6,000	6,000
John Ijames	10,861		10,861	6,000	6,000
John McCormack	5,763		5,763	5,763	6,000
Scott Jacques	7,907		7,907	6,000	6,000
Dorothy McCormack		10,500	10,500	6,000	6,000
June Wakefield		6,025	6,025	6,000	6,000
	<u>\$ 90,685</u>	<u>\$ 16,525</u>	<u>\$ 98,210</u>	<u>\$ 53,763</u>	<u>\$ 54,000</u>
Less: 30% Capitalized	<u>27,206</u>		<u>6.05%</u>	<u>2.4%</u>	<u>.7%</u>
Pro Forma Maintenance Labor	<u>\$ 63,479</u>	<u>\$ 16,525</u>	<u>\$ 5,942</u>	<u>\$ 1,290</u>	<u>\$ 378</u>

SCHEDULE D
SCHEDULE 2

Ellington Telephone Company
Ellington, Missouri
Computation of Pro Forma Maintenance Expenses

<u>Labor</u> (as shown on attached Pro Forma salary computation	\$ 90,685	
Less: Capitalization 30%	<u>27,206</u>	\$ 63,479
<u>Vehicle and work equipment expense</u> (same as test year)	\$ 15,068	
Less: Capitalization of 30%	<u>4,520</u>	10,548
<u>Materials used in maintenance</u> (same as test year)		8,784
<u>Transmission Power</u> (increased \$191.00 over test year)	<u>2,500</u>	
		<u>\$ 85,311</u>

Ellington Telephone Company
Ellington, Missouri
Pro Forma Depreciation Computation

<u>Depreciable Plant</u>		<u>Rate</u>	<u>Depreciation</u>
Building	\$ 44,481	3.0	\$ 1,334
COE	399,688	4.5	17,986
Station equipment	73,973	5.0	3,699
Station installs	56,124	5.5	3,087
PBX	42,520	6.0	2,551
Poles, etc.	432,356	4.0	17,294
Furniture and Fixtures	3,981	4.5	179
Vehicles and work equipment	<u>87,013</u>	10.0	<u>8,701</u>
	<u>\$1,140,136</u>		<u>\$ 54,831</u>
Less 30% Capitalized Vehicle depreciation			<u>2,610</u>
			<u>\$ 52,221</u>

STATEMENT D
SCHEDULE 4

Ellington Telephone Company
Ellington, Missouri
Computation of Pro Forma Commercial Expenses

	<u>Actual</u>	<u>Pro Forma</u>
Customer billing (Columbia Billing Service) \$	5,884	\$ 6,300
Office Salaries	14,747	
Office salaries Pro Forma (as shown on Pro Forma payroll computation)		16,525
Directory expense	<u>705</u>	<u>-0-</u>
	<u>\$ 21,337</u>	<u>\$ 22,825</u>

Ellington Telephone Company
Ellington, Missouri
Computation of Pro Forma Operating Taxes

F.I.C.A. (as set out on Payroll and Associated Tax schedule)	\$ 5,942
State unemployment (as set out on Payroll and Associated Tax Schedule)	1,290
Federal excise on wages (as set out on Payroll and Associated Tax Schedule)	378
Franchise Tax (increased \$67.00 over test year)	510
City Sales tax (estimated at \$88.00 per month)	1,056
Public Service Commission fees (increased \$15.00 over test year)	500
Corporation tax (same as test year)	20
Ad valorem (Plant in service \$1,145,624 times 1.5% based on 1976 plant and taxes paid for 1977)	17,184
	<hr/>
	<u>\$ 26,880</u>

STATEMENT D
SCHEDULE 6

Ellington Telephone Company
Ellington, Missouri
Computation of Pro Forma Federal and State Income Tax Expense

	<u>Federal</u>	<u>State</u>
Pro Forma Net Income	\$ 37,869	\$ 37,869
Add: Pro Forma Federal Income Tax	9,658	
Add: Pro Forma State Income Tax		1,922
Deduct: Amortization of Investment Tax Credit	<u>1,356</u>	<u>1,356</u>
Taxable Income	<u>\$ 46,171</u>	<u>\$ 38,435</u>

Federal Computation

20% of \$25,000	\$ 5,000
22% of \$21,171	<u>4,658</u>
	<u>\$ 9,658</u>

State Computation

\$ 38,435
<u>.05 rate</u>
<u>\$ 1,922</u>

Pro Forma Provision for Income Tax Computation

Federal Income Tax	\$ 9,658
State Income Tax	<u>1,922</u>
Total Tax	\$ 11,580
Less: Amortization of Investment Tax Credit	<u>1,356</u>
	<u>\$ 10,224</u>