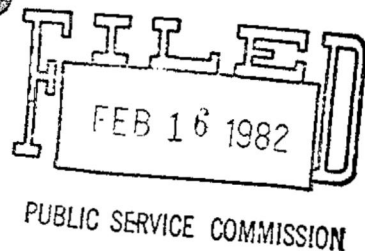


BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI



In the Matter of the Filing By )  
Southwestern Bell Telephone Company )  
of New Intrastate Rates, Tolls and )  
Charges Applicable to Intrastate )  
Telecommunication Services Furnished )  
Within the State of Missouri )

Case No. TR-82-199

APPLICATION

Comes now Southwestern Bell Telephone Company (hereinafter referred to as "Southwestern Bell"), and pursuant to Chapter 392, RSMo. 1978, and Commission Rule 4 CSR 240-2.060 and 4 CSR 240-2.080, files herewith its Application for new rates, tolls and charges for its intrastate telecommunication services in the State of Missouri and requests that such rates, tolls and charges be permitted to become effective within thirty days, or no later than as permitted by law. In support thereof, Southwestern Bell respectfully alleges and states as follows:

1. Corporate Information: Southwestern Bell is a corporation duly organized and existing under and by virtue of the laws of the State of Missouri. It is authorized to conduct and is engaged in conducting a common carrier telecommunications business in Missouri and other states, having its principal place of business at 1010 Pine Street, St. Louis, Missouri, 63101. It is a telephone public utility and, as such, is subject to the jurisdiction of this Commission.

2. Communications: Communications in regard to this Application should be addressed to Jack C. Lorenz, Southwestern Bell's General Solicitor-Missouri, whose address is 100 North Tucker Boulevard, Room 630, St. Louis, Missouri, 63101.

3. Present Rates are Unreasonably Low: The rates, tolls and charges presently charged by Southwestern Bell for intrastate telecommunications services it renders in Missouri, as approved by the Commission in Case No. TR-81-208, are not producing and will not produce sufficient revenues to afford Southwestern Bell a just and reasonable return on the value of its property devoted to its Missouri intrastate operations. As a result, the rates, tolls and charges presently in effect are now, and will in the future, be unreasonable and unjust.

4. Last General Rate Case: The matter of the just and reasonable rates, tolls and charges for Southwestern Bell's intrastate telecommunication services in Missouri was last before this Commission in Case No. TR-81-208 filed on January 9, 1981, which case utilized a one-year test period ending April 30,

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1981, with a true-up through September 30, 1981. The Commission Order was dated November 27, 1981 and the Order effective date was December 9, 1981. As a result of this Order, the Company received authority to earn in the area of 14% on its common equity and at the 11.92% level on its Missouri intrastate net book rate base. These authorized levels are not only too low, but Southwestern Bell will be unable to earn at these levels on a going forward basis.

5. The Telecommunications Policy Change and Regulatory Lag: The changes in national communications policy now in process at the federal level, in Congress, at the Federal Communications Commission and otherwise have now and will continue to create new accounting, capital recovery and separations changes which will adversely impact Southwestern Bell's ability to earn at its authorized level. In addition, should the Commission take the entire period allowed by law to act upon this Application, Southwestern Bell will receive no general rate relief until January, 1983. During this waiting period, it will have had to absorb all price and wage increases occurring in 1982. This regulatory lag in today's inflationary environment, combined with the necessary regulatory changes taking place, will make it impossible for Southwestern Bell to earn at the level authorized by the Commission in its latest general order, let alone at the higher levels required on a 1982 operating basis. To the extent the Commission recognizes and permits revenue recovery for some of these changes in the generic dockets it has established to consider them, the revenue requirement will be reduced from the asking amount herein.

6. Inflation: Southwestern Bell continues to be adversely affected by inflation which has caused, and will continue to cause, Southwestern Bell's investment, expenses and earnings requirements in Missouri to increase rapidly by historic standards. The 1980 CPI increased 13.5% and in 1981 it increased another 10.4%. Professional economists, analysts and investors expect inflation to continue at near these historically high levels. Such inflationary increases will exceed Southwestern Bell's ability to offset them with productivity increases, even though the Company's productivity improvement in Missouri continues to increase at a much higher level than the nation's economy. Each of these indicators of price increases reflects Southwestern Bell's increased cost of doing business and will prohibit its earning even at its previously authorized level. In addition, for the test year the Company's FICA taxes and its property taxes will increase significantly.

The effects of inflation continue to be reflected in Southwestern Bell's operating results. Through December, 1981, the Company's return on total

average net plant was only 9.19%. Without the rate relief requested, but fully reflecting the revenues authorized in TR-81-208, the Company expects its return on total average net plant to be 10.04% for 1982. This is considerably below the 12.93% authorized earnings level requested in this case. These results reflect the continued impact of inflation on the Company's financial integrity. Southwestern Bell has been able to maintain its present high level of service through the aid of the previous rate awards, rigid expense control and productivity increases. For example, the Company's Missouri operations had zero force growth in 1980, and again in 1981, despite continued growth in service demand. In 1982 our force level will again be at a zero growth level. However, these expense control efforts are insufficient to deal with the devastating effect of inflation.

7. Service Demand: The demand by Southwestern Bell's customers for new and improved service has required the Company to continue to spend large sums of money for capital improvements in order to improve and expand service, to prevent shortages of facilities, to weatherproof toll facilities, to improve its central office switching and to maintain the quality of its present service. The Company's customers continue to be quite mobile. In 1981, we installed or moved twenty-two (22) main or equivalent main telephones (at less than cost) in order to gain just one main or equivalent main phone. Southwestern Bell's total construction expenditures in Missouri will be approximately \$300.6 million during the test period herein proposed.

8. Service Improvements: Southwestern Bell continues to improve the service it provides and, in addition, continues to make available new services to its customers. During 1981, Southwestern Bell installed five additional electronic switching systems, bringing the percentage of its total customers in Missouri receiving this service to approximately 76%. During 1982, the Company will have to replace and stormproof 1,600 conductor miles of open wire toll facilities to provide more outage-free service. Since beginning its program in 1977 to replace outside toll open wire, the Company has stormproofed nearly 16,700 conductor miles of wire.

Southwestern Bell's total plant in service per telephone in Missouri was \$843 as of May 1, 1981. This will rise to over \$910 per telephone by April 30, 1982. This plant investment per telephone will continue to rise as new, higher priced facilities replace older plant purchased at lower prices with more valuable dollars. Consequently, to finance its construction programs, Southwestern Bell must continue to raise large sums of money in the financial market.

9. Test Year: The filed test year herein is from May 1, 1981 to April 30, 1982, utilizing seven months of actual data and five months projected data filed with this Application. Southwestern Bell will update its test year data to provide 12 months actual data and will also request the Commission to consider certain known and measurable changes which are anticipated to occur after the end of the test period but before the Commission Order herein. Company specifically requests the Commission to authorize a true-up audit and hearing to be held similar to that performed in TR-81-208. This will permit the inclusion of actual 12-month data through at least September, 1982, to be considered in the Commission's Order.

10. Rate Base: The fair value of Southwestern Bell's property used in its intrastate business in Missouri is expected to be \$2.6 billion on April 30, 1982. The April 30, 1982 original cost intrastate rate base of Southwestern Bell in Missouri is expected to be \$1.5 billion.

11. Rate of Return for Test Period: On the fair value rate base, the rate of return from Southwestern Bell's Missouri intrastate operations as of April 30, 1982, the end of the test period, is estimated to be 4.9% after adjusting for changes in revenues, expenses and taxes. At the end of the test year herein adopted, Southwestern Bell estimates that, based on intrastate operating results adjusted for known changes, it will be earning at a going level of 8.45% on its projected original cost rate base without the requested rate relief. Neither of these returns is a reasonable, fair, just or equitable rate of return. On the contrary, such rates of return are unreasonable, unjust, inequitable and confiscatory.

12. An Authorized Earnings Level of 15.1% on AT&T Equity or 11.92% on Southwestern Bell Intrastate Rate Base is Inadequate: This Commission's recent general rate order in TR-81-208 indicated that Southwestern Bell would have an opportunity to earn 11.92% on its original cost rate base predicated upon a return on AT&T equity of 15.1% (14.3% on Southwestern Bell equity). AT&T stock currently and for some period of time has been selling below book value and continues to sell at 10-15% below its book value. This market price prevents AT&T from attracting new equity capital without dilution and results in confiscation of the equity of its existing stockholders. Inflation is expected to continue to erode earnings and force investors to demand higher returns on their investments.

Furthermore, the Company's cost of long term debt has risen at an alarming rate. In March, 1979, Southwestern Bell issued debt at a cost to the Company of 9.74%. In January of 1980, it issued debt at an annual cost to the Company of 11.58%, 184 basis points higher than its 1979 issue. In December of 1980, Southwestern Bell issued long term debt at an annual cost to the Company of 14.38%, or 280 basis points higher than its January, 1980 issue. In September, 1981, Southwestern Bell issued long term debt at an annual cost to the Company of 16.89%. This 16.89% cost to the Company paid by Southwestern Bell on its 1981 debentures is 179 basis points higher than the Commission allowed return on AT&T equity of 15.1%. This demonstrates the dramatic increase in the cost of debt and equity which Southwestern Bell has experienced in the face of the inadequacy of the cost of capital determinations in prior cases. The overall rate of return currently authorized by the Commission was then, and is now, insufficient to allow Southwestern Bell to protect its financial integrity, maintain its credit, and attract capital without dilution.

13. Service Affected in Absence of Increase: In view of Southwestern Bell's increased expenses, investment and costs, including the high costs of capital, the additional revenues described in the following paragraph are necessary if Southwestern Bell is to earn a reasonable and lawful rate of return on its property used to provide the intrastate telecommunication services needed and desired by its customers in the State of Missouri. Without an adequate rate of return, Southwestern Bell's ability to raise the capital required to meet the needed and desired demands for telecommunication service of its Missouri customers could be severely limited.

14. Revenue Deficiency: In view of the foregoing, Southwestern Bell proposes to establish the rates, tolls and charges set forth in the schedules attached hereto as Exhibit 2, made a part hereof, and filed herewith. These schedules are designed to produce approximately \$147.1 million in additional annual operating revenues based on Southwestern Bell's projected operations as of April 30, 1982, exclusive of surcharges resulting from municipal and county gross receipts taxes and inclusive of independent company settlements. Of this \$147.1 million in additional operating revenues, Southwestern Bell will realize \$67.5 million after income taxes and independent company settlements. The revenues realized from these schedules will provide recovery of the revenue deficiency set forth herein including contractual wage increases due in August, 1982, and certain capital recovery and separations changes which will take effect

prior to the implementation of the requested rates herein. Full recovery on all issues is required if Southwestern Bell is to earn sufficiently to maintain its financial integrity, to maintain its ability to attract capital on reasonable terms, to provide the owners of Southwestern Bell's property with earnings comparable to the earnings which can be realized by those who invest in other businesses with comparable investment risks, and sufficient to maintain and provide needed and necessary intrastate telecommunication services in Missouri. The rate of return which Southwestern Bell must earn to achieve these results on the determined fair (current replacement) value of its property stated herein and used in its intrastate business in Missouri as of April 30, 1982 should be at least 7.49% or 12.93% on its original cost rate base used in its intrastate business in Missouri as of April 30, 1982.

15. Rate Structure and Proposed Tariff Increases: Filed herewith as Exhibit 1 are the Company's existing tariffs sheets which are affected by this filing. Exhibit 2 contains the proposed tariff sheets which are designed to produce the filed revenue requirement of \$147,147,000.

The Company is proposing to increase the rate for Local Coin calls from \$.20 to \$.25, and to revise the Directory Assistance Charge Plan. Under the proposed Directory Assistance Plan, customers will still receive a five call allowance. The proposed rates for calls in excess of five are as follows:

| <u>CALLS</u>  | <u>CHARGE</u>  |
|---------------|----------------|
| 6-10 calls    | \$.25 per call |
| 11-17 calls   | \$.30 per call |
| 18-over calls | \$.35 per call |

Both the Coin and Directory Assistance increases are based on the results of recently completed cost studies.

The Company has conducted over 1200 Incremental Unit Cost Studies (IUC's) and is proposing rate changes based on the results of those studies. Most of the Company's Vertical Service offerings are covered by those studies including PBX Services, Key Telephone Service, Centrex (CO) Service and Miscellaneous Equipment. Increases and rate restructuring will also apply to certain Centrex (CU) Services, Package PBX Services, Local Conference Services and Directory Listings. In addition, the Company has proposed to discontinue commission payments made to hotels and motels in connection with toll calls made by their guest patrons. This change will be accompanied by an elimination of tariff restrictions on resale and shared use of intrastate toll services.

The Company has conducted a LRIA study of items in the Private Line Tariff and increases are proposed throughout that Tariff.

No increases are proposed in Long Distance rates, however; a restructuring of WATS rates (inward and outward) is proposed. Under the proposed WATS restructure, the existing WATS 173, 50 and 10 offerings are replaced and all customers are billed on a schedule depending upon their hours of usage.

Residual increases are proposed for the Company's Local Exchange Services and Outside Base Rate Area (OBRA) mileage. As a basis for these Local Exchange proposals, the Company has continued to rely largely on the Local Exchange relationships which have been previously approved by the Commission and developed from previously submitted Exchange Class of Service (ECS) and Rate Group Analysis (RGA) studies. Due to growth, Rate Group reclassifications will be proposed for four exchanges.

16. Accounting Considerations: Accounting support for this Application generally comports with procedures previously accepted by the Commission. Southwestern Bell will also again request recognition and acceptance of those accounting issues presently on appeal. These include among other issues normalization of certain book/tax timing differences in accordance with the Uniform System of Accounts and supported by generally accepted accounting principles; reconsideration of the exclusion and the elements of proof required prior to acceptance of short term telephone plant under construction in rate base; reconsideration of expensing station connections; reconsideration of the treatment of tax savings resulting from certain interest expenses; and reconsideration of the expense nature of its license contract costs as opposed to the Staff's capitalization of a portion thereof, as well as reconsideration of other license contract expenses.

Southwestern Bell has included in this filing the first year revenue requirement impact of the Joint Board's recommendation that terminal equipment be phased out of the separations process over a five year period. In addition, Company has included the subscriber plant factor being frozen at the 1981 level in conformance with a separate joint board recommendation. Southwestern Bell will request the Commission to also consider in this proceeding the revenue requirement impact of other significant changes in regulatory policy and modifications to the Uniform System of Accounts to the

extent that those changes or modifications become known and quantifiable during the course of this proceeding.

Southwestern Bell has reduced the revenue requirement in this proceeding in recognition of the proposed discontinuance of Commission payments to hotels which has been included in this filing. Therefore, if these changes are not approved, Southwestern Bell revenue requirements will be understated.

17. Rule Compliance: Pursuant to 4 CSR 240-2.060 of the Rules of Practice and Procedure before the Public Service Commission of the State of Missouri, Southwestern Bell attaches hereto and makes a part hereof the following:

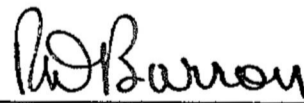
- Exhibit 1 - Schedules (Tariffs) showing the present rates and charges affected by this Application;
- Exhibit 2 - Schedules (Tariffs) showing the proposed rates and charges;
- Exhibit 3 - An income statement with adjustments for ratemaking purposes and on a pro forma basis giving effect to the proposed increase; and
- Exhibit 4 - The original cost rate base with adjustments for ratemaking purposes.

WHEREFORE, Southwestern Bell Telephone Company prays that the Commission approve and authorize the tariffs attached hereto and the intrastate rates, tolls and charges therein set forth to become effective as soon as reasonably possible, but no later than as permitted by operation of law, and that it grant Southwestern Bell such other and further relief to which it may be entitled.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

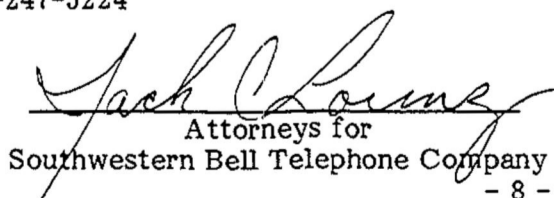
By



Vice President-Missouri Operations

JACK C. LORENZ  
JAMES E. TAYLOR  
JAMES S. GOLDEN  
100 N. Tucker Boulevard, Room 630  
St. Louis, Missouri 63101  
314-247-5224

By



Attorneys for  
Southwestern Bell Telephone Company



DUE TO THEIR VOLUMINOUS NATURE, EXHIBITS 1 AND 2  
ARE NOT ATTACHED TO THIS APPLICATION.

SOUTHWESTERN BELL TELEPHONE COMPANY  
STATE OF MISSOURI - INCOME STATEMENT

INTRASTATE OPERATIONS

12 MONTHS ENDING APRIL 30, 1982  
("000" Omitted)

|   | (A)                              | (B)<br>Pro Forma<br>Adjustments                 | (C)<br>Adjusted<br>Intrastate<br>Operations   | (D)<br>Projected<br>Adjusted Intrastate<br>Operations Reflecting<br>Proposed Rev. Increase |
|---|----------------------------------|---|---|--|
| <u>OPERATING REVENUES</u>                       | <u>Intrastate<br/>Operations</u> | <u>Pro Forma<br/>Adjustments<br/>(Decrease)</u> | <u>Adjusted<br/>Intrastate<br/>Operations</u> | <u>Adjusted Intrastate<br/>Operations Reflecting<br/>Proposed Rev. Increase</u>            |
| 1. Local Service                                | \$573,690                        | \$ 47,942                                       | \$621,632                                     | \$ 775,045   |
| 2. Toll Service                                 | 177,949                          | 24,557  | 202,506                                       | 192,164  |
| 3. Miscellaneous                                | 72,604                           | 6,908   | 79,512  | 79,512   |
| 4. Uncollectible                                | 4,274                            | 985   | 5,259   | 6,015  |
| 5. Total Operating Revenues<br>(L1+L2+L3-L4)    | <u>\$819,969</u>                 | <u>\$ 78,422</u>                                | <u>\$898,391</u>                              | <u>\$1,040,706</u>   |
| <u>OPERATING EXPENSES</u>                       |                                  |   |   |  |
| 6. Maintenance                                  | \$191,034                        | \$ 19,790                                       | \$210,824                                     | \$ 210,824   |
| 7. Depreciation                                 | 103,434                          | 21,883  | 125,317                                       | 125,317  |
| 8. Traffic                                      | 38,885                           | 7,852   | 46,737  | 46,737   |
| 9. Commercial                                   | 98,877                           | 5,223   | 104,100                                       | 104,100  |
| 10. Revenue Accounting                          | 10,396                           | 522   | 10,918  | 10,918   |
| 11. Operating Rents                             | (3,582)                          | 9,126   | 5,544   | 5,544  |
| 12. Relief and Pensions                         | 60,076                           | 8,463   | 68,539  | 68,539   |
| 13. General Services and Licenses               | 9,677                            | 9,358   | 19,035  | 19,035   |
| 14. Other General Expenses                      | 35,740                           | 2,860   | 38,600  | 42,850*  |
| 15. Total Operating Expenses                    | <u>\$544,537</u>                 | <u>\$ 85,077</u>                                | <u>\$629,614</u>                              | <u>\$ 633,864</u>  |
| <u>NET OPERATING REVENUES</u>                   |                                  |   |   |  |
| 16. (Line 5 - Line 15)                          | <u>\$275,432</u>                 | <u>\$ (6,655)</u>                               | <u>\$268,777</u>                              | <u>\$ 406,842</u>  |
| <u>OPERATING TAXES</u>                          |                                  |   |   |  |
| 17. Operating Taxes, Other Than<br>Income Taxes | \$ 87,948                        | \$ 5,440  | \$ 93,388                                     | \$ 102,314   |
| 18. Income Taxes                                | 59,724                           | (11,660)  | 48,064  | 109,701  |
| 19. Total Operating Taxes                       | <u>\$147,672</u>                 | <u>\$ (6,220)</u>                               | <u>\$141,452</u>                              | <u>\$ 212,015</u>  |
| <u>NET OPERATING INCOME</u>                     |                                  |   |   |  |
| 20. (Line 16 - Line 19)                         | <u>\$127,760</u>                 | <u>\$ (435)</u>                                 | <u>\$127,325</u>                              | <u>\$ 194,827</u>  |

\* Other General Expense reflects the effect of \$4,250 revenue requirement of the terminal equipment phase down.

SOUTHWESTERN BELL TELEPHONE COMPANY  
STATE OF MISSOURI - ORIGINAL COST RATE BASE

INTRASTATE OPERATIONS

PROJECTED AS OF APRIL 30, 1982  
("000" Omitted)

|                       | (A)  | (B)  | (C)                                   |                    |
|-----------------------|--|--|---------------------------------------|--------------------|
| <u>Account Number</u> | <u>Intrastate Operations</u>                           | <u>Pro Forma Adjustments Increase (Decrease)</u> | <u>Adjusted Intrastate Operations</u> |                    |
| <u>Description</u>    |  |  |                                       |                    |
| 1. 100.1              | Telephone Plant In Service                             | \$1,999,480                                      | \$(80,007)                            | \$1,919,473        |
| 2. 100.2-01           | Short-term Telephone Plant Under Construction          | 17,178   | 654                                   | 17,832             |
| 3.                    | Material and Supplies                                  | 10,414   | 456                                   | 10,870             |
| 4.                    | Working Capital  | 18,847   | -                                     | 18,847             |
| 5.                    | Capitalized Property Taxes                             | 1,591  | -                                     | 1,591              |
| 6.                    | Capitalized License Contract Expense                   | 16,085   | -                                     | 16,085             |
| 7. 171                | Depreciation Reserve                                   | 277,368  | (30,705)                              | 246,663            |
| 8. 160.1              | Customer Deposits                                      | 5,159  | -                                     | 5,159              |
| 9. 176.1              | Accumulated Deferred Income Taxes                      | 232,638  | (10,663)                              | 221,975            |
| 10. 174-18            | Unamortized Investment Tax Credit - Pre-JDIC           | <u>4,121</u>                                     | <u>-</u>                              | <u>4,121</u>       |
| 11.                   | Net Plant Investment Rate Base (L1+...L6-L7-L8-L9-L10) | <u>\$1,544,309</u>                               | <u>\$(37,529)</u>                     | <u>\$1,506,780</u> |

EXHIBIT 4