



State of Missouri

John Ashcroft, Governor

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Douglas M. Brooks  
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August 20, 1987

**FILED**

AUG 20 1987

PUBLIC SERVICE COMMISSION

Mr. Harvey G. Hubbs, Secretary  
Missouri Public Service Commission  
P. O. Box 360  
Jefferson City, Missouri 65102

Re: Tax Reform Act of 1986,  
Case No. AO-87-48

Dear Mr. Hubbs:

Enclosed for filing in the above-referenced case please find the original and fourteen copies of Public Counsel's Response to Joint Recommendation Proposed by Southwestern Bell and the PSC Staff. Please "file" stamp the extra enclosed copy and return it to this office.

Thank you for your attention to this matter.

Very truly yours,

Joni K. Ott  
Assistant Public Counsel

JKO:kl  
Enclosures

cc: Durward Dupre  
Basil Kelsey  
C. K. Casteel  
Leland Curtis  
Mark Royer  
Joseph Cowin  
W. R. England, III  
William Harrelson

FILED

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

AUG 20 1987

PUBLIC SERVICE COMMISSION

In the matter of the investigation )  
of the revenue effects upon ) Case No. AO-87-48  
Missouri utilities of the Tax )  
Reform Act of 1986. )

PUBLIC COUNSEL'S RESPONSE TO  
JOINT RECOMMENDATION PROPOSED BY  
SOUTHWESTERN BELL AND THE PSC STAFF

Comes now the Office of the Public Counsel (Public Counsel) and in response to the Joint Recommendation proposed by Southwestern Bell Telephone Company (SWB) and the Staff of the Public Service Commission (Staff) states as follows:

1. On or about August 18, 1987 SWB and the Staff entered into and filed a Joint Recommendation in the above-styled docket. If the Joint Recommendation is adopted by the Commission, SWB has agreed to do the following:

- a. To apply an equal percentage across the board credit to all classes of residential local service access lines for the year beginning July 1, 1987 and to continue for four (4) consecutive quarters ending June 30, 1988. The Joint Recommendation indicates that these credits will have a revenue requirement effect of \$14.9 million for the year in which the credit is made.
- b. To implement a lifeline plan. The revenue effect of such plan on SWB's jurisdictional revenue requirement is \$1.1 million according to the Joint Recommendation.
- c. To "absorb" and not seek recovery of \$500,000 associated with implementing party line adapters in exchanges with 911.
- d. To "absorb" the revenue loss it claims it will incur in implementing the Extended Measured Service (EMS) Experiment, which according to the Joint Recommendation will have a revenue effect of \$1.3 million.
- e. To synchronize its intrastate depreciation consistent with its interstate depreciation. This synchronization will have a revenue effect of \$10.9 million according to the Joint Recommendation.

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2. In return for SWB's agreements as described above, the Joint Recommendation provides that SWB be dismissed from the tax docket.

3. The purpose of the tax docket is to investigate the revenue effects upon Missouri utilities of the Tax Reform Act of 1986 (TRA). It is Public Counsel's understanding that the intent of the Commission in establishing this docket was to flow through to the ratepayers any tax savings a utility will incur as a result of the TRA since each utility's cost of service and therefore, its rates, were calculated using the old, higher tax rate.

4. Public Counsel does not believe that the Joint Recommendation fully flows through SWB's tax savings to its ratepayers. Staff has estimated that SWB will save in excess of \$28 million in taxes as a result of the TRA. Yet, under the terms of the Joint Recommendation, only \$14.9 million in the form of a one-year credit and \$1.1 million devoted to implementing a lifeline program will actually be returned to the ratepayers. The remainder of the tax savings will be pocketed by SWB. Moreover, after the expiration of the credit of July 1, 1988, all of the tax savings except the estimated \$1.1 million devoted to lifeline will remain in SWB's possession.

5. It is important to note that the Joint Recommendation would permit SWB to use its tax savings to offset expenses that it would otherwise be unable to recover under the terms of the moratorium agreed to in SWB's last rate case. Moreover, the amounts of revenues associated with the various proposals in the Joint Recommendation, with the exception of the \$14.9 million associated with the credit, are not verified. Specifically:

- a. The \$1.1 million associated with lifeline is based upon the unusually high rate of participation of 90 percent of all customers eligible. Public Counsel is not aware of any lifeline program in the country that has achieved this degree of participation, the national average participation rate being approximately 50 percent.
- b. The \$500,000 associated with implementing party line adapters could be viewed as a management mistake. These adapters should have been installed when 911 was

first introduced in the affected exchanges and SWB should have foreseen the problem with number identification of calls made from party lines at that time. More importantly, the rates for 911 service are supposed to recover all costs associated with the provision of that service.

- c. The \$1.3 million in annual revenues associated with the implementation of EMS to be "absorbed" by SWB cannot be verified since the effect EMS rates will have on calling patterns is not known. Yet, if anything, it seems that calling along EMS routes will increase substantially due to the new, lower rate and that SWB could very well experience an increase, not a decrease in revenues from the implementation of EMS.
- d. The \$10.9 million in annual revenues associated with the synchronization of SWB's intrastate depreciation rates with its interstate rates is nothing more than creative accounting which allows SWB to keep \$10.9 million in tax savings that rightfully belongs to its ratepayers while giving the appearance that SWB has made some sort of a concession. Public Counsel is not aware of any Commission decision which permits the synchronization of inter and intrastate depreciation rates for the sake of synchronization in and of itself.

6. Public Counsel acknowledges that the \$14.9 million credit is a step in the right direction, and Public Counsel applauds SWB for its initiation of a lifeline plan. However, the \$14.9 million credit and \$1.1 million devoted to lifeline are a far cry from the estimated \$28 million plus in tax savings SWB will realize on a going-forward basis. Because SWB's local rates are calculated based on SWB's cost of service, any increase in tax liability would result in a permanent increase in local rates. Therefore, it logically follows that any decrease in tax liability should result in a permanent decrease in local rates.

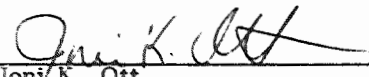
7. Public Counsel is mindful that neither it nor the Staff may initiate a complaint or even file a pleading wherein it is alleged that SWB's current tariffs are generating excess earnings prior to July 1,

1988, and that is not what is being alleged here. The sole purpose of this pleading is to point out to the Commission that the entire amount of SWB's tax savings is not being flowed through to SWB ratepayers. If the goal of this docket is to flow a utility's tax savings through to its ratepayers, a one-year credit of \$14.9 million to SWB residential ratepayers and a \$1.1 million lifeline program do not accomplish this goal. Public Counsel is not aware of any other utility that has been released from the tax docket which has not fully flowed its tax savings through to its ratepayers in the form of a permanent rate reduction.

WHEREFORE, Public Counsel respectfully requests the Commission to order SWB to flow all of its tax savings through to its ratepayers in the form a permanent rate reduction or, in the alternative, to order SWB to comply with the terms of the Joint Recommendation without being released from the tax docket until such time as all SWB tax savings are flowed-through to its ratepayers, and to enter such further orders as it deems just and reasonable in the premises.

Respectfully submitted,

OFFICE OF THE PUBLIC COUNSEL

By   
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I hereby certify that a copy of the foregoing has been mailed or hand-delivered to the following on this 20th day of August, 1987:

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