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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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In the Matter of AT&T Communications of the)
Southwest, Inc.'s Petition for Arbitration)
Pursuant to Section 252(b) of the) Case No. TO-97-40
Telecommunications Act of 1996 to Establish)
an Interconnection Agreement with)
Southwestern Bell Telephone Company.)

In the Matter of the Petition of MCI)
Telecommunications Corporation and its)
Affiliates, Including MCImetro Access)
Transmission Services, Inc., for) Case No. TO-97-67
Arbitration and Mediation Under the Federal)
Telecommunications Act of 1996 of)
Unresolved Interconnection Issues With)
Southwestern Bell Telephone Company.)

CONCURRING OPINION OF KARL ZOBRIST

I agree with the Commission's decision in its Final Arbitration Order of July 31, 1997. The permanent pricing process, authorized by our interim decisions in December 1996 and January 1997, led to the extensive Costing and Pricing Report authored by our Staff advisors and included as Attachment C to the Order. It was a valuable endeavor which permitted this Commission to set final rates with confidence that they reflected the true costs of the incumbent local exchange companies.

However, I write this concurring opinion to express my views on the issue of whether corporate income taxes should be included as part of the cost of unbundled network elements. In our December 11th Order, we found that "[i]ncome tax is a tax on profits and should not be considered an operating expense." There are still good reasons not to include taxes as an element of the prices which we set in this case.

Unregulated companies desiring to be competitive in the marketplace set prices to sell their products or services. The goal of a sound pricing strategy is to achieve a sufficient gross margin above the cost of the goods sold. Taxes, while a cost of doing business, fall at the end of the

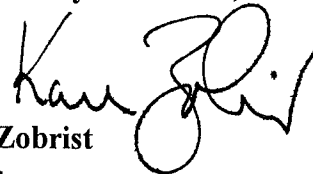
line after the company either makes money or loses money. A truly competitive company does not build income taxes into prices because of its focus on profitability. If profitability is achieved, there will be enough money to pay taxes.

A company that attempts to include future income taxes in prices places an element in that price which is not competitive. Such a company cannot know whether that price element will actually go to pay taxes since it does not know whether it will actually make a profit and incur a tax liability. A business would not want to make its prices less competitive by building in an additional element to increase prices when its goal is to attract customers because it offers low prices.

Furthermore, the issues facing a business trying to determine a future income tax liability and its amount are complicated and unpredictable. A company never knows with certainty when federal or state income tax laws and regulations will change or how the taxing authorities may interpret the applicable principles. Similarly, a company does not know when it will be forced to pay a large judgment from a lawsuit, or suffer a reversal because of other externalities, including non-tax decisions by a government, natural disasters, political upheavals or simply poor management practices. All of these events can affect a company's income tax liability.

The focus of a competitive company should be its net earnings before taxes. Including taxes as a fixed cost in setting prices is simply non-competitive.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Karl Zobrist', written in a cursive style.

**Karl Zobrist
Chair**

Dated on this 13th day
of August, 1997.