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December 15, 1986

Mr. Dan Redel, Acting Secretary  
Missouri Public Service Commission  
P. O. Box 360  
Jefferson City, Missouri 65102

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

Dear Mr. Redel:

Enclosed for filing with the Commission, please find three (3) copies of the response of Missouri Telephone Company to the Commission's, November 3, 1986, Order issued in the above-referenced matter.

Please note that Missouri Telephone Company's response consists of five pages. Page 1 depicts a revenue requirement calculation consistent with the Company's last rate case. Page 2 depicts a year end rate base determined in a manner comparable to Company's last rate case and a rate of return using the return on equity computed from the stipulated revenue requirement in Company's last rate case. Page 3 is an income statement. Page 4 depicts the tax workpapers showing the computation of current and deferred income tax expense and the necessary additions to and/or deductions from book income in arriving at taxable income as well as the computation of any deferred tax expense provisions/amortizations. Finally, page 5 provides information in response to the Commission inquiries in Items No. 4 and 5 on pages 3 and 4 of the November 3, 1986 Order.

Please be advised that the information attached hereto is an estimate based upon 1985 operations and Company's preliminary interpretation of the Tax Reform Act. Given those qualifications, the attached shows a negligible reduction in Company's revenue requirement (i.e., \$8,482 in 1987 and \$31,415 in 1988) as a result of the Tax Reform Act of 1986. Consequently, Company has no present plans to reflect the impact of the change in the tax law in its Missouri jurisdictional operations.

FILED

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Mr. Dan Redel  
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As a final matter, the Commission has invited companies to file comments suggesting appropriate procedures designed to recognize the revenue effect of the tax change. The Company knows of no such procedures other than those expressly set forth in the Missouri Public Service Commission enabling legislation and case law which has developed as a result thereof. At the present time the instant docket would appear to be nothing more than a request for information. Until such time as specific procedures to recognize the revenue effect of the tax change are implemented, it is difficult to comment on same. While the Company is willing to work with the Commission to establish lawful procedures to recognize the effects of the tax change, nothing herein should be deemed to be a waiver of any objection which Company may have to future proceedings if those proceedings are, in Company's opinion, unlawful or otherwise inappropriate.

Would you please see that this filing is brought to the attention of the appropriate Commission personnel? I am today filing copies of same with the Office of Public Counsel. I thank you in advance for your cooperation in this matter.

Sincerely,

A handwritten signature in dark ink, appearing to read "W. R. England, III", with a stylized flourish at the end.

W. R. England, III

WRE/da  
Enclosure  
cc: Office of Public Counsel

MISSOURI TELEPHONE COMPANY  
REVENUE REQUIREMENT

	1986	1987	1988
NET ORIGINAL COST RATE BASE	\$16,584,542	\$16,584,542	\$16,584,542
RATE OF RETURN	6.74%	6.74%	6.74%
NET OPERATING INCOME REQUIREMENT	\$1,117,798	\$1,117,798	\$1,117,798
NET INCOME AVAILABLE	\$1,109,635	\$1,126,280	\$1,149,213
ADDITIONAL NET OPERATING INCOME NEEDED	\$8,163	(\$8,482)	(\$31,415)

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MISSOURI TELEPHONE COMPANY  
RATE BASE CALCULATIONS

TOTAL PLANT IN SERVICE	\$25,706,819
LESS DEPRECIATION RESERVE	\$9,117,697
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NET PLANT IN SERVICE	\$16,589,122
ADD:	
CASH WORKING CAPITAL	\$10,598
MATERIALS AND SUPPLIES	\$333,914
PREPAYMENTS	\$31,771
LESS:	
INCOME TAX OFFSET	\$52,444
INTEREST EXPENSE OFFSET	\$100,632
CUSTOMER DEPOSITS	\$54,676
DEFERRED INCOME TAX	\$172,911
	-----
TOTAL RATE BASE	\$16,584,542
	=====

MISSOURI TELEPHONE COMPANY  
INCOME STATEMENT

	1986	1987	1988
OPERATING REVENUES			
LOCAL SERVICE REVENUES	\$2,082,644	\$2,082,644	\$2,082,644
TOLL SERVICE REVENUES	\$4,220,364	\$4,220,364	\$4,220,364
MISCELLANEOUS REVENUES	\$276,423	\$276,423	\$276,423
TOTAL OPERATING REVENUES	\$6,579,431	\$6,579,431	\$6,579,431
OPERATING EXPENSES			
MAINTENANCE EXPENSE	\$1,008,118	\$1,008,118	\$1,008,118
TRAFFIC EXPENSE	\$38,495	\$38,495	\$38,495
COMMERCIAL EXPENSE	\$494,572	\$494,572	\$494,572
GENERAL OFFICE SALARIES EXPENSE	\$1,267,732	\$1,267,732	\$1,267,732
OTHER OPERATING EXPENSES	\$908,712	\$908,712	\$908,712
TOTAL O & M EXPENSES	\$3,737,629	\$3,737,629	\$3,737,629
OTHER OPERATING EXPENSES			
DEPRECIATION EXPENSE	\$1,239,304	\$1,239,304	\$1,239,304
AMORTIZATION EXPENSE	\$38,495	\$38,495	\$38,495
TAXES OTHER THAN INCOME TAXES	\$269,656	\$269,656	\$269,656
TOTAL OTHER OPERATING EXPENSES	\$1,547,455	\$1,547,455	\$1,547,455
TOTAL OPERATING EXPENSES	\$5,285,084	\$5,285,084	\$5,285,084
NET INCOME BEFORE INCOME TAXES	\$1,294,347	\$1,294,347	\$1,294,347
CURRENT INCOME TAXES	\$51,112	\$51,518	\$49,389
DEFERRED INCOME TAXES			
DEFERRED ITC	\$200,046	\$171,474	\$135,101
AMORTIZATION OF ITC	(\$94,689)	(\$94,689)	(\$94,689)
DEFERRED TAX DEPRECIATION	\$36,048	\$47,569	\$63,138
AMORTIZATION OF EXCESS DEF. TAX RESERVES	(\$7,805)	(\$7,805)	(\$7,805)
TOTAL INCOME TAXES	\$184,712	\$168,067	\$145,134
NET OPERATING INCOME	\$1,109,635	\$1,126,280	\$1,149,213

MISSOURI TELEPHONE COMPANY  
INCOME TAX CALCULATION

	1986 TAX	1986 BOOK	1987 TAX	1987 BOOK	1988 TAX	1988 BOOK
NET OPERATING INCOME		\$1,109,635		\$1,126,280		\$1,149,213
ADD						
CURRENT INCOME TAX		\$51,112		\$51,518		\$49,389
DEFERRED ITC		\$200,046		\$171,474		\$135,101
AMORTIZATION OF ITC		(\$94,689)		(\$94,689)		(\$94,689)
DEFERRED INCOME		\$36,048		\$47,569		\$63,138
AMORTIZATION OF EXCESS DEFERRED TAX RESERVES		(\$7,805)		(\$7,805)		(\$7,805)
TOTAL INCOME TAXES		\$184,712		\$168,067		\$145,134
NET INCOME B-4 TAXES	\$1,294,347	\$1,294,347	\$1,294,347	\$1,294,347	\$1,294,347	\$1,294,347
ADD						
BOOK DEPRECIATION	\$1,401,688		\$1,401,688		\$1,401,688	
AMORTIZATION OF EXTRA. RET. DEPRE. ON PREVIOUSLY EXPENSED SOFTWARE	\$38,242	\$38,242	\$38,242	\$38,242	\$38,242	\$38,242
BAD DEBT RESERVE (4 YEAR)	\$26,452	\$26,452	\$26,452	\$26,452	\$26,452	\$26,452
LESS						
INTEREST EXPENSE	\$692,305	\$692,305	\$692,305	\$692,305	\$692,305	\$692,305
TAX DEPRECIATION ST. LINE	\$656,242		\$659,191		\$659,191	
TAX DEPRECIATION EXCESS	\$321,472		\$321,472		\$321,472	
TAX DEPRECIATION PRE 1981	\$657,455		\$657,455		\$657,455	
PAYROLL, PROPERTY TAX AND EMPLOYEE BENEFIT EXPENSED ON RETURN	\$20,176	\$20,176	(\$16,497)	(\$16,497)	(\$16,497)	(\$16,497)
SOFTWARE EXPENSED FOR TAX	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000
NET TAXABLE INCOME	\$401,079	\$634,560	\$435,703	\$671,233	\$435,703	\$671,233
FEDERAL INCOME TAX	\$155,774	\$256,395	\$150,193	\$240,448	\$141,226	\$218,221
LESS ITC	(\$123,080)	(\$200,046)	(\$118,895)	(\$171,474)	(\$112,170)	(\$135,101)
CURRENT FEDERAL INCOME TAX	\$32,694	\$58,349	\$31,298	\$68,974	\$29,056	\$83,120
MISSOURI INCOME TAX	\$18,418	\$28,811	\$20,219	\$30,113	\$20,333	\$29,406

MISSOURI TELEPHONE COMPANY  
 AMORTIZATION OF EXCESS DEFERRED TAX RESERVES  
 12/31/85 BALANCES

	1981			1982			1983			1984			1985			TOTAL		
	FEDERAL	STATE	RATE*	FEDERAL	STATE	RATE*	FEDERAL	STATE	RATE*	FEDERAL	STATE	RATE*	FEDERAL	STATE	RATE*	FEDERAL	STATE	TOTAL
DEFERRED TAXES	969,483	(91,705)		963,190	98,404		981,792	99,323		999,029	911,179		9101,060	97,485		9416,554	934,686	9449,240
EFFECTIVE RATE	88.52%			42.10%			43.27%			52.27%			42.76%			44.44%		
TIMING DIFFERENCES: TAX OVER BOOK DEPRECIATION	978,492	978,492		9150,110	9150,110		9189,032	9189,032		9234,301	9234,301		9236,430	9236,430		9688,365	9688,365	
EFFECTIVE RATE UNDER NEW LAW	34.00%			34.00%			34.00%			34.00%			34.00%			34.00%		
RESERVE AT NEW RATE	926,687			951,037			964,271			979,662			980,386			9302,044		
EXCESS DEFERRED TAX RESERVE	942,796	12.98		912,153	14.58		917,521	18.62		919,367	21.79		920,674	11.21		9112,510		
AMORTIZATION OF EXCESS RESERVE*	93,297			9834			9941			9989			91,844			97,805		

\* AMORTIZATION PERIOD IS THE COMPOSITE LIFE OF THE ASSETS ADDED DURING THE YEAR

RECONCILIATION TO BOOKS

DEFERRED TAXES	9172,911
ITC CARRYFORWARD AVAILABLE ON TAX RETURNS	9278,498
ITC CARRYFORWARD AVAILABLE ON BOOKS	90
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TOTAL DEFERRED TAX PER SCHEDULE ABOVE	9451,409
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DIFFERENCE, NOT SIGNIFICANT	92,169
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