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May 1, 1987

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MAY - 1 1987

OFFICE OF THE SECRETARY
PUBLIC SERVICE COMMISSION

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

Re: Case No. AO-87-48 Docket - Fidelity Telephone Company

Dear Mr. Hubbs:

Enclosed for filing in the above referenced case please find fifteen (15) copies of the Response of Fidelity Telephone Company. Would you please see that this is brought to the attention of the appropriate Commission personnel.

I thank you in advance for your cooperation in this matter.

Sincerely,

W. R. England, III
W. R. England, III

WRE/rdg
Enclosures

cc: All parties of record
Terry Troughton
Clint Frederick

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PUBLIC SERVICE COMMISSION

H.D

RESPONSE OF FIDELITY TELEPHONE COMPANY

CASE NO. A0-87-48

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PUBLIC SERVICE COMMISSION

Fidelity Telephone Company offers the following response to the investigation of revenue effects on Missouri utilities of the Tax Reform Act of 1986 by the Public Service Commission of Missouri. In addition to the following narrative, there is attached hereto Exhibits 1 through 13. The attached exhibits comply with the revenue requirement impact requested and as detailed in the six items contained on pages 2, 3, and 4 of the Order Establishing Docket dated November 3, 1986.

In summary, the impact on Fidelity Telephone Company shows that under its current rates and when taking into account the impact of the federal tax changes based on the methodology in its last rate case, a local rate increase is required rather than a rate decrease. The impact on local rates is summarized as follows:

Increase to achieve authorized rate of return	\$511,564
Annual effect (1988) after full phase-in of TRA-86	(42,736)
Jurisdictional effect of deferred income tax change	<u>3,012</u>
Increase required	<u>\$471,840</u>

To meet the requirements of the information required by the Missouri Public Service Commission in their Order Establishing Docket, the following exhibits were prepared that support the required local rate increase:

Exhibit 1 - This exhibit details the year-end rate base and capital structure as of December 31, 1986 as required in item 1 of the Order Establishing Docket. The rate base is computed in the manner consistent with the rate base and rate of return as contained in Fidelity Telephone Company's last rate order (Case No. TR-80-269). The total company rate base and jurisdictional amounts are shown. The exhibit does not contain the effect of change regarding accumulated deferred income tax as contained on Exhibit 13.

Exhibit 2 - Exhibit 2 contains a pro forma income statement for the years ended 1986 through 1988. Each income statement takes into account the changes in the federal income tax amounts. The juris-

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PUBLIC SERVICE COMMISSION

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dictional portion of the total is shown with a 1986 adjustment to increase local service rates to achieve the allowed rate of return as established in its last rate order. The required increase in the local service rates amounts to \$511,564.

The 1987 pro forma adjustments account for the reduction in the federal income tax to a phased-in amount of a 40% federal income tax rate. The effect is a reduction in revenue requirement in the amount of \$63,710. Of the reduction in revenue requirement, \$17,348 would flow through to the local exchange service rates.

The 1988 pro forma adjustments further reduce the revenue requirement \$63,321, of which \$25,388 is applicable to local rates reflecting the full impact of reduction in federal income tax rates to 34%.

Not included in the pro forma income statement amount is the effect on the revenue requirement resulting from the amortization of the decrease in the deferred income tax amount (see Exhibit 13).

- Exhibit 3 - Exhibit 3 portrays the amortization of investment tax credit and computation of effective income tax rates for the years 1986, 1987 and 1988.
- Exhibit 4 - Exhibit 4 portrays the 1986 jurisdictional income tax calculation for the jurisdictional operations. The amounts can be traced to the income tax amounts as contained on Exhibit 2.
- Exhibit 5 - Exhibit 5 shows that computation of the income tax on 1986 jurisdictional operations.
- Exhibit 6 - Exhibit 6 contains the income tax calculation on both 1987 and 1988 jurisdictional operations.
- Exhibit 7 - Exhibit 7 reflects the computation of the deferred income tax based on 1987 and 1988 rates.
- Exhibit 8 - Exhibit 8 supports the toll revenue amounts as contained on Exhibit 2 for the as recorded 1986 operations.

- Exhibit 9 - Exhibit 9 supports the adjustments to intrastate toll revenue resulting from a decrease in the federal income tax rate to 40%.
- Exhibit 10 - Exhibit 10 shows the computation of toll revenue requirement when the federal income tax rate is reduced to 34%.
- Exhibit 11 - Exhibit 11 computes the adjustment to deferred income tax balance as of December 31, 1986. Exhibit 11 shows the deferred income tax amounts by year, the effective income tax rate for each year and the deferred income or timing difference amounts. The full deferred income tax amount of \$831,094 is the amount recorded on the books at December 31, 1986 resulted from timing differences totaling \$1,715,235. The timing difference when utilizing the effective tax rate (1988) of 36.2% (See Exhibit 3) will adjust the accumulated deferred income tax amount to \$621,190 or a decrease of \$209,904. To normalize the \$209,904 reduction in the deferred income tax it is necessary to amortize the amounts over the remaining life of the property or 11.81 years. The jurisdictional portion of the amortization amounts to \$14,092.
- Exhibit 12 - Exhibit 12 develops the average remaining life of plant currently in service or 11.81 years required to adjust the reduction in deferred income tax amounts.
- Exhibit 13 - Exhibit 13 portrays the impact on the revenue requirement which is not included in Exhibit 2. The computation shows that on average the \$210,000 increase in deferred income tax will increase the rate base \$105,000. When the rate of return is applied to the increased rate base, the return requirement is increased approximately \$14,000. Applying the income tax conversion factor (Exhibit 3) to the increased return requirement results in a revenue requirement increase before consideration of the amortization amount. When amortization of the decrease in deferred income tax is deducted from the increase in revenue requirement, a net increase in rates of \$3,799 on an annual basis is reflected. The jurisdictional portion or 79% amounts to \$3,012.

In response to the Order Establishing Docket, Fidelity Telephone Company shows that it would require a

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rate increase in order to achieve its current authorized rate of return even when taking into consideration the impact on its revenue requirement of the change in tax rates.

Questions concerning this response should be directed to Clint Frederick, C.P.A. at the offices of the undersigned.

Respectfully submitted,



Drees Dunn & Company on behalf
of Fidelity Telephone Company

DREES DUNN & COMPANY
9101 W. 110th Street
Bldg. 35, Suite 150
Overland Park, Kansas 66210

FIDELITY TELEPHONE COMPANY

YEAR END RATE BASE AND CAPITAL STRUCTURE

DECEMBER 31, 1986

	<u>Total</u>	<u>Jurisdictional</u>
<u>Rate Base</u>		
Utility plant in service	\$15,070,396	\$ 11,951,716
Reserve for depreciation	<u>7,443,430</u>	<u>5,978,679</u>
Net plant	7,626,966	5,973,037
Materials and supplies	147,842	115,856
Prepayments	-	-
Cash working capital (Page 2)	N/A	272,548
Less: deferred taxes - accelerated depreciation	(831,094)	<u>(658,956)</u>
Total jurisdictional rate base		<u>\$ 5,702,485</u>
Rate of return		<u>13.11%</u>
Required operating income		<u>\$ 747,596</u>

	<u>Amount</u>	<u>Percent</u>	<u>Cost</u>	<u>Weighted Cost</u>
Capital structure				
Long-term debt	\$1,576,562	23.05%	8.88%	2.05%
Preferred stock	73,700	1.08	5.50	.06
Common equity	<u>5,190,079</u>	<u>75.87</u>	14.50	<u>11.00</u>
Total	<u>\$6,840,341</u>	<u>100.00%</u>		<u>13.11%</u>

FIDELITY TELEPHONE COMPANY

CASH WORKING CAPITAL

DECEMBER 31, 1986

	<u>Jurisdictional Balance</u>	<u>Items Not Considered</u>	<u>Working Capital Items</u>
Maintenance	\$ 837,523	\$ -	\$ 837,523
Traffic	364,840	-	364,840
Commercial	275,526	-	275,526
General office and other	1,125,983	-	1,125,983
Operating taxes	182,431	-	182,431
Depreciation	577,442	577,442	-
Income taxes	276,147	276,147	-
Total	<u>\$ 3,639,892</u>	<u>\$ 853,589</u>	<u>\$2,786,303</u>

45 day allowance (12½%)	\$ 348,288
Less - 15 day provision for collection of exchange revenue (\$1,332,804 x 15/365)	<u>54,773</u>
Net cash working capital requirement	293,515
Less - (150/365 of property taxes of \$51,020)	<u>20,967</u>
Cash working capital requirement	<u>\$ 272,548</u>

FIDELITY TELEPHONE COMPANY

EXHIBIT 2

INCOME STATEMENT

DECEMBER 31, 1986

	As Recorded Total Company	Jurisdictional Portion	1986 Pro Forma Adjustments (Exhibit 5)	As Adjusted Revenue Requirement	1987 Pro Forma Adjustments	1987 As Adjusted	1988 Pro Forma Adjustments	1988 As Adjusted
OPERATING REVENUE								
Exchange service revenue	\$ 1,332,804	\$ 1,332,804	\$ 511,564	\$ 1,844,368	\$ (17,348)	\$1,827,020	\$ (25,388)	\$1,801,632
Toll service revenue	3,913,404	2,650,562	-	2,650,562	(46,362)	2,604,200	(37,933)	2,566,267
Directory revenue	155,731	155,731	-	155,731	-	155,731	-	155,731
Miscellaneous revenue	22,541	22,541	-	22,541	-	22,541	-	22,541
Total	5,424,480	4,161,638	511,564	4,673,202	(63,710)	4,609,492	(63,321)	4,546,171
Less: Uncollectibles	28,142	28,142	-	28,142	-	28,142	-	28,142
Total operating revenues	5,396,338	4,133,496	511,564	4,645,060	(63,710)	4,581,350	(63,321)	4,518,029
OPERATING EXPENSES								
Maintenance expenses	1,058,804	859,676	-	859,676	-	859,676	-	859,676
Depreciation expense	729,476	580,508	-	580,508	-	580,508	-	580,508
Traffic expenses	535,221	364,826	-	364,826	-	364,826	-	364,826
Commercial expenses	302,926	275,525	-	275,525	-	275,525	-	275,525
General office and other operating expenses	1,486,414	1,132,985	-	1,132,985	-	1,132,985	-	1,132,985
Federal and state income taxes	383,919	266,679	242,956	509,635	(60,800)	448,835	(60,302)	388,533
Investment tax credit - net (Exhibit 3)	(41,270)	(32,765)	-	(32,765)	-	(32,765)	-	(32,765)
Provision for deferred income taxes	32,002	25,374	-	25,374	(2,910)	22,464	(3,019)	19,445
Other operating taxes	240,353	181,700	-	181,700	-	181,700	-	181,700
Total operating expenses	4,727,845	3,654,508	242,956	3,897,464	(63,710)	3,833,754	(63,321)	3,770,433
NET OPERATING INCOME (Exhibit 1)	668,493	478,988	268,608	747,596	-	747,596	-	747,596
OTHER INCOME								
Non-utility income	38,168	-	-	-	-	-	-	-
Delayed income items	1,335	-	-	-	-	-	-	-
INCOME AVAILABLE FOR FIXED CHARGES	707,996	478,988	268,608	747,596	-	747,596	-	747,596
FIXED CHARGES								
Interest expense	153,699	120,673	-	120,673	-	120,673	-	120,673
Amortization of long-term debt expense	3,382	2,655	-	2,655	-	2,655	-	2,655
Total fixed charges	157,081	123,328	-	123,328	-	123,328	-	123,328
NET INCOME	\$ 550,915	\$ 355,660	\$ 268,608	\$ 624,268	\$ -	\$ 624,268	\$ -	\$ 624,268

FIDELITY TELEPHONE COMPANY

INCOME TAXES

DECEMBER 31, 1986

	<u>Total Company</u>	<u>Jurisdictional Portion</u>
Investment credit	\$ -	\$ -
Investment credit amortization	<u>41,270</u>	<u>32,765</u>
Net	<u>\$(41,270)</u>	<u>\$ (32,765)</u>

1986 Fed. Tax:

$F = .46 (100,000 - S)$
 $F = .46 (100,000 - 5,000 - .05F)$
 $F = 46,000 - 2,300 - .023F$
 $F = 43,700 - .023F$
 $.977F = 43,700$
 $F = 44,729$

1987 Fed. Tax:

$F = .40 (100,000 - S)$
 $F = .40 (100,000 - 5,000 - .05F)$
 $F = 40,000 - 2,000 - .02F$
 $F = 38,000 - .02F$
 $.98F = 38,000$
 $F = 38,776$

1988 Fed. Tax:

$F = .34 (100,000 - S)$
 $F = .34 (100,000 - 5,000 - .05F)$
 $F = 34,000 - 1,700 - .017F$
 $F = 32,300 - .017F$
 $.983F = 32,300$
 $F = 32,859$

State Tax:

$S = .05 (100,000 - F)$
 $S = .05 (100,000 - 44,729)$
 $S = 2,764$

State Tax:

$S = .05 (100,000 - F)$
 $S = .05 (100,000 - 38,776)$
 $S = 3,061$

State Tax:

$S = .05 (100,000 - F)$
 $S = .05 (100,000 - 32,889)$
 $S = 3,357$

Federal tax rate = 44.729%

State tax rate = 2.764%

Combined tax rate = 47.493%

Reciprocal rate = 52.507%

Conversion factor = 1.9045

38.776%

3.061%

41.837%

58.163%

1.7193

32.859%

3.357%

36.216%

63.784%

1.5678

FIDELITY TELEPHONE COMPANY
JURISDICTIONAL INCOME TAX CALCULATION

	<u>Total</u>	<u>Deferred</u>	<u>Current</u>
<u>1986 Jurisdictional</u>			
Net income	\$355,660		
Add: Federal and state income tax	266,679		
Deferred income tax	25,374		
Less: ITC - net	<u>(32,765)</u>		
Income before tax	614,948		
State income tax	<u>16,994</u>	\$ 1,477	\$ 15,517
Taxable for federal	597,954		
Tax rate	<u>46%</u>		
Federal tax	<u>275,059</u>	<u>23,897</u>	<u>251,162</u>
Total income taxes	<u>\$292,053</u>	<u>\$ 25,374</u>	<u>\$266,679</u>

- (1) $FIT = .46 (TI - SIT)$
 $SIT = .05 (TI - FIT)$
 $SIT = .05TI - .023TI + .023SIT$
 $.977 SIT = .027 TI$
 $SIT = .0276356 TI$
 $SIT = \$16,994$

FIDELITY TELEPHONE COMPANY
PRO FORMA INCOME TAX CALCULATION

1986 Jurisdictional

1986 jurisdictional operating income	\$478,988
Required operating income	<u>747,596</u>
Deficiency	268,608
1986 Conversion factor (Exhibit 3)	<u>1.9045</u>
Revenue increase	511,564
Less: operating income	<u>268,608</u>
Pro forma current income tax adjustment	<u>\$242,956</u>

FIDELITY TELEPHONE COMPANY
JURISDICTIONAL INCOME TAX CALCULATION

	<u>1987</u>	<u>1988</u>
Pretax income based on 1986 (1)	\$1,126,512	\$1,126,512
Combined federal and state tax rate (Exhibit 3)	<u>41.837%</u>	<u>36.216%</u>
Total income tax	471,299	407,978
Less: adjusted deferred tax (Exhibit 7)	<u>22,464</u>	<u>19,445</u>
Current income taxes	<u>\$ 448,835</u>	<u>\$ 388,533</u>

(1) 1986 net income as adjusted	\$ 624,268
Federal and state income taxes	509,635
Deferred federal and state income taxes	25,374
Investment tax credit amortization	<u>(32,765)</u>
Pretax net income	<u>\$1,126,512</u>

FIDELITY TELEPHONE COMPANY
COMPUTATION OF DEFERRED INCOME TAXES

	<u>Total</u>	<u>Federal</u>	<u>State</u>
<u>Deferred Tax Based On 1987 Tax Rates:</u>			
Effective marginal rates (Exhibit 3)		<u>38.776%</u>	<u>3.061%</u>
Operating:			
Excess tax depreciation		\$ 61,932	\$ 61,932
Removal costs expensed		<u>5,449</u>	<u>5,449</u>
Total		<u>\$ 67,381</u>	<u>\$ 67,381</u>
Deferred taxes		<u>26,128</u>	<u>2,063</u>
Non-operating:			
Excess tax depreciation		<u>337</u>	<u>337</u>
Deferred tax		<u>131</u>	<u>10</u>
Total deferred taxes		<u>\$ 26,259</u>	<u>\$ 2,073</u>
Jurisdictional portion at 79.288%	<u>\$ 22,464</u>	<u>\$ 20,820</u>	<u>\$ 1,644</u>
<u>Deferred Tax Based On 1988 Tax Rates:</u>			
Effective marginal rates (Exhibit 3)		<u>32.859%</u>	<u>3.357%</u>
Operating:			
Excess tax depreciation		\$ 61,932	\$ 61,932
Removal costs expensed		<u>5,449</u>	<u>5,449</u>
Total		<u>\$ 67,381</u>	<u>\$ 67,381</u>
Deferred taxes		<u>22,141</u>	<u>2,262</u>
Non-operating:			
Excess tax depreciation		<u>337</u>	<u>337</u>
Deferred tax		<u>111</u>	<u>11</u>
Total deferred taxes		<u>\$ 22,252</u>	<u>\$ 2,273</u>
Jurisdictional portion at 79.288%	<u>\$ 19,445</u>	<u>\$ 17,643</u>	<u>\$ 1,802</u>

COMPANY: FIDELITY TELEPHONE COMPANY
REPORT PERIOD: JAN-DEC, 1986

SUMMARY OF PROJECTED TOLL REVENUE REQUIREMENT - PART 67 SEPARATIONS

S-1

DESCRIPTION	TOTAL COMPANY	SOURCE	MESSAGE TOLL		INTERSTATE		PRIVATE LINE		INTERSTATE		TWT	EAS	EXCHANGE
			INTRASTATE		INTERSTATE		INTRASTATE		INTERSTATE				
			INTRALATA	INTERLATA	INTRALATA	INTERLATA	INTRALATA	INTERLATA	INTRALATA	INTERLATA			
1 100.1 PLANT IN SERVICE	14419084	LN 1 * AL-2	5584599	994917	119152	2815364	88236	13987	0	49381	9772	81346	4662409
2 100.2 PLANT UNDER CONSTRUCTION	0	LN 2 * AL-2	0	0	0	0	0	0	0	0	0	0	0
3 100.3 HELD FOR FUTURE USE	0	LN 3 * AL-2	0	0	0	0	0	0	0	0	0	0	0
4 100.4 PLANT ACQUISITION ADJUSTMENT	0	LN 4 * AL-2	0	0	0	0	0	0	0	0	0	0	0
5 103 MISC PHYSICAL PROPERTY	5374	LN 5 * AL-2	0	0	0	0	0	0	0	0	0	0	5374
6 171 - CR DEPRECIATION RESERVE	-7891341	LN 6 * AL-2	-2762236	-473912	-58243	-1312853	-46133	-7369	0	-25169	-5352	-48768	-2368114
7 172 - CR AMORTIZATION RESERVE	0	LN 7 * AL-2	0	0	0	0	0	0	0	0	0	0	0
8 174 - CR DEFERRED ITC	0	LN 8 * AL-2	0	0	0	0	0	0	0	0	0	0	0
9 176 - CR DEFERRED INCOME TAX	-815174	LN 9 * AL-2	-295836	-55320	-6477	-159479	-4926	-881	0	-2885	-444	-3756	-285250
10 122 MATERIALS & SUPPLIES	147842	LN10 * AL-2	47598	18852	1898	38487	616	92	0	481	44	1016	56446
11 124 INVENTORIES	0	LN11 * AL-2	0	0	0	0	0	0	0	0	0	0	0
12 102 RTD STOCK	0	LN12 * AL-2	0	0	0	0	0	0	0	0	0	0	0
13 NET INVESTMENT	6665784	LN1 thru 12	2574117	475737	55538	1374319	37793	5828	0	21728	4820	37846	2878865
14 RATE OF RETURN			10.7333%	11.8888%	12.7500%	12.7500%	10.7333%	11.8888%	12.7500%	12.7500%	10.7333%	0.0000%	0.0000%
15 RETURN ON INVESTMENT	522677	LN13+LN14	276289	56137	7888	175226	4856	688	0	2778	431	0	0
16 INTEREST DURING CONSTRUCTION	0	LN16 * AL-2	0	0	0	0	0	0	0	0	0	0	0
17 NET RETURN FOR SETTLEMENTS	522677	LN15 - LN16	276289	56137	7888	175226	4856	688	0	2778	431	0	0
18 FIXED CHARGES	157881	LN18 * AL-2	68217	11882	1297	31947	889	137	0	589	95	883	58823
19 OTHER INCOME ADJUSTMENTS	0	LN19 * AL-2	0	0	0	0	0	0	0	0	0	0	0
20 TOTAL INCOME ADJUSTMENTS	157881	LN18 + LN19	68217	11882	1297	31947	889	137	0	589	95	883	58823
21 ITC AMORTIZATION	41278	LN21 * AL-2	15916	2836	348	8824	251	48	0	141	28	232	13463
22 FIT SURTAX EXEMPTION	17159	/LN 13	6626	1225	143	3538	97	15	0	56	10	97	5351
23 FIT BASE	387167	LN17-20-21	193529	48995	5381	131717	2818	496	0	2864	298	-1212	-68838
24 FEDERAL TAXABLE INCOME	568828	LN23 + LN25	358386	75916	9816	243928	5219	918	0	3822	552	-2245	-127477
25 FEDERAL INCOME TAX @ 0.460000	261661	LN24 * RATE	164858	34922	4515	112283	2481	422	0	1758	254	-1833	-58639
26 NET FEDERAL INCOME TAX	244582	LN25 - LN22	158231	33697	4372	108665	2384	487	0	1782	243	-1138	-63991
27 STATE SURTAX EXEMPTION	0	/LN 13	0	0	0	0	0	0	0	0	0	0	0
28 SIT BASE	568828	LN23+25-27	358386	75916	9816	243928	5219	918	0	3822	552	-2245	-127477
29 STATE TAXABLE INCOME	598767	LN28 + LN30	377249	79912	18333	256758	5494	966	0	4824	581	-2363	-134186
30 STATE INCOME TAX @ 0.050000	29938	LN29 * RATE	18862	3996	517	12838	275	48	0	281	29	-118	-6789
31 NET STATE INCOME TAX	29938	LN30 - LN27	18862	3996	517	12838	275	48	0	281	29	-118	-6789
32 MAINTENANCE EXPENSES	1858884	LN31 * AL-2	363594	66421	7985	187588	6358	1841	0	3635	688	4892	417568
33 TRAFFIC EXPENSES	535221	LN32 * AL-2	311382	14373	1296	169817	166	26	0	82	25	114	38748
34 COMMERCIAL EXPENSES	382926	LN33 * AL-2	75168	11534	1868	25412	249	28	0	129	9	0	188536
35 REVENUE ACCOUNTING EXP.	262189	LN34 * AL-2	158993	46841	2541	55679	182	28	0	95	7	0	69832
36 GENERAL EXPENSES	773856	LN35 * AL-2	348921	46272	4911	188239	2393	382	0	1349	241	1747	187488
37 OTHER OPERATING EXPENSES	386369	LN36 * AL-2	183881	22113	2186	97798	1114	178	0	631	188	872	77568
38 DEPRECIATION EXPENSE	729476	LN37 * AL-2	289322	58222	6126	148888	5899	837	0	2834	534	3735	238759
39 AMORTIZATION EXPENSE	0	LN38 * AL-2	0	0	0	0	0	0	0	0	0	0	0
40 OPERATING TAXES	248353	LN39 * AL-2	188833	14498	1534	56684	916	146	0	515	95	723	57289
41 TOTAL OPERATING EXPENSES	4353194	LN 31 to 39	1823215	272274	28368	928345	16469	2658	0	9278	1627	11284	1267693
42 NON-OPERATING EXPENSE	0	LN41 * AL-2	0	0	0	0	0	0	0	0	0	0	0
43 BASIS FOR GROSS REC TAX	5189842		2268681	363268	39989	1289858	22852	3761	0	13883	2383	9884	1183529
44 GROSS RECEIPTS TAX RATE			0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
45 GROSS REC TAX	0		0	0	0	0	0	0	0	0	0	0	0
46 TOTAL REVENUE REQUIREMENT (LN 43+45)	5189842		2268681	363268	39989	1289858	22852	3761	0	13883	2383	9884	1183529

COMPANY: FIDELITY TELEPHONE COMPANY
REPORT PERIOD: JAN-DEC, 1986

SUMMARY OF PROJECTED TOLL REVENUE REQUIREMENT - PART 67 SEPARATIONS

5-1

DESCRIPTION	TOTAL COMPANY	SOURCE	MESSAGE TOLL		INTERSTATE		PRIVATE LINE		INTERSTATE		TXI	EAS	EXCHANGE
			INTRASTATE INTRALATA	INTERLATA	INTRASTATE INTRALATA	INTERLATA	INTRASTATE INTRALATA	INTERLATA	INTRASTATE INTRALATA	INTERLATA			
1 100.1 PLANT IN SERVICE	14419804	LN 1 + AL-2	3584599	994917	119152	2815364	88236	13987	0	49381	9772	81346	4662409
2 100.2 PLANT UNDER CONSTRUCTION	0	LN 2 + AL-2	0	0	0	0	0	0	0	0	0	0	0
3 100.3 HELD FOR FUTURE USE	0	LN 3 + AL-2	0	0	0	0	0	0	0	0	0	0	0
4 100.4 PLANT ACQUISITION ADJUSTMENT	0	LN 4 + AL-2	0	0	0	0	0	0	0	0	0	0	0
5 103 MISC PHYSICAL PROPERTY	5374	LN 5 + AL-2	0	0	0	0	0	0	0	0	0	0	5374
6 171 - CR DEPRECIATION RESERVE	-7091341	LN 6 + AL-2	-2762236	-473912	-58243	-1312853	-46133	-7369	0	-25169	-5352	-48768	-2368114
7 172 - CR AMORTIZATION RESERVE	0	LN 7 + AL-2	0	0	0	0	0	0	0	0	0	0	0
8 174 - CR DEFERRED ITC	0	LN 8 + AL-2	0	0	0	0	0	0	0	0	0	0	0
9 176 - CR DEFERRED INCOME TAX	-815174	LN 9 + AL-2	-295836	-55328	-6477	-159479	-4926	-881	0	-2885	-444	-3736	-285298
10 122 MATERIALS & SUPPLIES	147842	LN10 + AL-2	47598	18852	1898	38487	616	92	0	481	44	1816	36446
11 124 INVENTORIES	0	LN11 + AL-2	0	0	0	0	0	0	0	0	0	0	0
12 182 RTD STOCK	0	LN12 + AL-2	0	0	0	0	0	0	0	0	0	0	0
13 NET INVESTMENT	6665784	LN1 thru 12	2574117	475737	55538	1374319	37793	5828	0	21728	4828	37846	2878865
14 RATE OF RETURN			18.7333%	11.8888%	12.7500%	12.7500%	18.7333%	11.8888%	12.7500%	12.7500%	18.7333%	11.8888%	12.7500%
15 RETURN ON INVESTMENT	522677	LN13+LN14	276289	56137	7888	175226	4856	688	0	2778	431	0	0
16 INTEREST DURING CONSTRUCTION	0	LN16 + AL-2	0	0	0	0	0	0	0	0	0	0	0
17 NET RETURN FOR SETTLEMENTS	522677	LN15 - LN16	276289	56137	7888	175226	4856	688	0	2778	431	0	0
18 FIXED CHARGES	157881	LN18 + AL-2	68217	11882	1297	31947	889	137	0	589	95	883	58823
19 OTHER INCOME ADJUSTMENTS	0	LN19 + AL-2	0	0	0	0	0	0	0	0	0	0	0
20 TOTAL INCOME ADJUSTMENTS	157881	LN18 + LN19	68217	11882	1297	31947	889	137	0	589	95	883	58823
21 ITC AMORTIZATION	41278	LN21 + AL-2	15916	2836	348	8824	251	48	0	141	28	232	13463
22 FIT SURTAX EXEMPTION	17159	/LN 13	6626	1225	143	3538	97	15	0	56	18	97	5351
23 FIT BASE	387167	LN17-20-21	193529	48995	5381	131717	2818	496	0	2864	298	-1212	-68838
24 FEDERAL TAXABLE INCOME	511946	LN23 + LN25	322548	68325	8834	219528	4697	826	0	3448	497	-2828	-114729
25 FEDERAL INCOME TAX @ 0.400000	204778	LN24 + RATE	129819	27338	3534	87811	1879	338	0	1376	199	-888	-45892
26 NET FEDERAL INCOME TAX	187619	LN25 - LN22	122393	26185	3391	84273	1782	315	0	1328	188	-985	-51243
27 STATE SURTAX EXEMPTION	0	/LN 13	0	0	0	0	0	0	0	0	0	0	0
28 SIT BASE	511946	LN23+25-27	322548	68325	8834	219528	4697	826	0	3448	497	-2828	-114729
29 STATE TAXABLE INCOME	538898	LN28 + LN30	339524	71921	9299	231882	4945	878	0	3621	523	-2126	-128768
30 STATE INCOME TAX @ 0.050000	26945	LN29 + RATE	16976	3596	465	11554	247	43	0	181	26	-186	-6838
31 NET STATE INCOME TAX	26945	LN30 - LN27	16976	3596	465	11554	247	43	0	181	26	-186	-6838
32 MAINTENANCE EXPENSES	1856884	LN31 + AL-2	363594	66421	7985	187588	6358	1841	0	3635	688	4892	417568
33 TRAFFIC EXPENSES	535221	LN32 + AL-2	311382	14373	1295	169817	166	26	0	82	25	114	38748
34 COMMERCIAL EXPENSES	382926	LN33 + AL-2	75168	11534	1868	25412	249	28	0	129	9	0	188536
35 REVENUE ACCOUNTING ETP.	326189	LN34 + AL-2	158993	46841	2541	55679	182	28	0	95	7	0	69832
36 GENERAL EXPENSES	773856	LN35 + AL-2	348921	46272	4911	188239	2393	382	0	1349	241	1747	187488
37 OTHER OPERATING EXPENSES	386369	LN36 + AL-2	183881	22113	2186	97798	1114	178	0	631	188	872	77568
38 DEPRECIATION EXPENSE	729476	LN37 + AL-2	289322	58222	6126	148888	5899	837	0	2834	534	3735	238759
39 AMORTIZATION EXPENSE	0	LN38 + AL-2	0	0	0	0	0	0	0	0	0	0	0
40 OPERATING TAXES	248353	LN39 + AL-2	188833	14498	1534	56684	916	146	0	515	95	723	57289
41 TOTAL OPERATING EXPENSES	4353194	LN 31 to 39	1823215	272274	28368	928345	16469	2658	0	9278	1627	11284	1267693
42 NON-OPERATING EXPENSE	0	LN41 + AL-2	0	0	0	0	0	0	0	0	0	0	0
43 BASIS FOR GROSS REC TAX	5849165		2222956	355276	38956	1183374	22383	3665	0	13481	2245	18848	1196948
44 GROSS RECEIPTS TAX RATE	0		0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
45 GROSS REC TAX	0		0	0	0	0	0	0	0	0	0	0	0
46 TOTAL REVENUE REQUIREMENT (LN 43+45)	5849165		2222956	355276	38956	1183374	22383	3665	0	13481	2245	18848	1196948

COMPANY: FIDELITY TELEPHONE COMPANY
REPORT PERIOD: JAN-DEC, 1986

SUMMARY OF PROJECTED TOLL REVENUE REQUIREMENT - PART 67 SEPARATIONS

S-1

DESCRIPTION	TOTAL COMPANY	SOURCE	MESSAGE TOLL				PRIVATE LINE				TAX	ERG	EXCHANGE
			INTRASTATE		INTERSTATE		INTRASTATE		INTERSTATE				
			INTRALATA	INTERLATA	INTRALATA	INTERLATA	INTRALATA	INTERLATA	INTRALATA	INTERLATA			
1 100.1 PLANT IN SERVICE	14419004	LN 1 + AL-2	5584599	994917	119152	2815364	88236	13987	0	49381	9772	81346	4662409
2 100.2 PLANT UNDER CONSTRUCTION	0	LN 2 + AL-2	0	0	0	0	0	0	0	0	0	0	0
3 100.3 HELD FOR FUTURE USE	0	LN 3 + AL-2	0	0	0	0	0	0	0	0	0	0	0
4 100.4 PLANT ACQUISITION ADJUSTMENT	0	LN 4 + AL-2	0	0	0	0	0	0	0	0	0	0	0
5 103 MISC PHYSICAL PROPERTY	5374	LN 5 + AL-2	0	0	0	0	0	0	0	0	0	0	5374
6 171 - CR DEPRECIATION RESERVE	-7821341	LN 6 + AL-2	-2762236	-473912	-58243	-1312953	-46133	-7369	0	-25169	-5352	-48760	-2360114
7 172 - CR AMORTIZATION RESERVE	0	LN 7 + AL-2	0	0	0	0	0	0	0	0	0	0	0
8 174 - CR DEFERRED ITC	0	LN 8 + AL-2	0	0	0	0	0	0	0	0	0	0	0
9 176 - CR DEFERRED INCOME TAX	-815174	LN 9 + AL-2	-295836	-55320	-6477	-159479	-4926	-881	0	-2885	-444	-3756	-285250
10 122 MATERIALS & SUPPLIES	147842	LN10 + AL-2	47590	10852	1898	38487	616	92	0	401	44	1816	56446
11 124 INVENTORIES	0	LN11 + AL-2	0	0	0	0	0	0	0	0	0	0	0
12 102 RTO STOCK	0	LN12 + AL-2	0	0	0	0	0	0	0	0	0	0	0
13 NET INVESTMENT	6665784	LN1 thru 12	2574117	475737	55538	1374319	37793	5828	0	21728	4828	37846	2878865
14 RATE OF RETURN			10.7333%	11.0889%	12.7500%	12.7500%	10.7333%	11.0889%	12.7500%	12.7500%	10.7333%	0.0000%	0.0000%
15 RETURN ON INVESTMENT	522677	LN13+LN14	276289	56137	7800	175226	4856	688	0	2778	431	0	0
16 INTEREST DURING CONSTRUCTION	0	LN16 + AL-2	0	0	0	0	0	0	0	0	0	0	0
17 NET RETURN FOR SETTLEMENTS	522677	LN15 - LN16	276289	56137	7800	175226	4856	688	0	2778	431	0	0
18 FIXED CHARGES	157881	LN18 + AL-2	68217	11882	1297	31947	889	137	0	589	95	883	58823
19 OTHER INCOME ADJUSTMENTS	0	LN19 + AL-2	0	0	0	0	0	0	0	0	0	0	0
20 TOTAL INCOME ADJUSTMENTS	157881	LN18 + LN19	68217	11882	1297	31947	889	137	0	589	95	883	58823
21 ITC AMORTIZATION	41278	LN21 + AL-2	15916	2836	348	8824	251	48	0	141	28	232	13463
22 FIT SURTAX EXEMPTION	17159	/LN 13	6626	1225	143	3538	97	15	0	56	18	97	5351
23 FIT BASE	387167	LN17-20-21	193529	48995	5381	131717	2818	496	0	2864	298	-1212	-68838
24 FEDERAL TAXABLE INCOME	465485	LN23 + LN25	293225	62113	8831	199571	4278	751	0	3127	451	-1836	-104299
25 FEDERAL INCOME TAX @ 0.340000	158238	LN24 + RATE	99697	21119	2731	67854	1452	255	0	1863	153	-624	-35462
26 NET FEDERAL INCOME TAX	141879	LN25 - LN22	93878	19894	2588	64316	1335	248	0	1887	143	-722	-48813
27 STATE SURTAX EXEMPTION	0	/LN 13	0	0	0	0	0	0	0	0	0	0	0
28 SIT BASE	465485	LN23+25-27	293225	62113	8831	199571	4278	751	0	3127	451	-1836	-104299
29 STATE TAXABLE INCOME	489988	LN28 + LN30	388658	65383	8454	218875	4495	791	0	3292	475	-1933	-189789
30 STATE INCOME TAX @ 0.050000	24495	LN29 + RATE	15433	3269	423	18584	225	48	0	165	24	-97	-5489
31 NET STATE INCOME TAX	24495	LN30 - LN27	15433	3269	423	18584	225	48	0	165	24	-97	-5489
32 MAINTENANCE EXPENSES	1858884	LN31 + AL-2	363594	66421	7985	187588	6358	1841	0	3635	688	4892	417568
33 TRAFFIC EXPENSES	535221	LN32 + AL-2	311382	14373	1296	169817	166	26	0	82	25	114	38748
34 COMMERCIAL EXPENSES	382926	LN33 + AL-2	75168	11534	1868	25412	249	28	0	129	9	0	188536
35 REVENUE ACCOUNTING EXP.	326189	LN34 + AL-2	158933	46841	2541	55679	182	28	0	95	7	0	69832
36 GENERAL EXPENSES	773836	LN35 + AL-2	348921	46272	4911	188239	2393	382	0	1349	241	1747	187488
37 OTHER OPERATING EXPENSES	386369	LN36 + AL-2	183881	22113	2186	97798	1114	178	0	631	188	872	77568
38 DEPRECIATION EXPENSE	729476	LN37 + AL-2	289322	58222	6126	148888	5899	837	0	2834	534	3735	238799
39 AMORTIZATION EXPENSE	0	LN38 + AL-2	0	0	0	0	0	0	0	0	0	0	0
40 OPERATING TAXES	248353	LN39 + AL-2	188833	14498	1534	56684	916	146	0	515	95	723	57289
41 TOTAL OPERATING EXPENSES	4353194	LN 31 to 39	1823215	272274	28368	928345	16469	2658	0	9278	1627	11284	1267693
42 NON-OPERATING EXPENSE	0	LN41 + AL-2	0	0	0	0	0	0	0	0	0	0	0
43 BASIS FOR GROSS REC TAX	5888175		2192898	348738	38111	1162367	21853	3586	0	13872	2198	18234	1287927
44 GROSS RECEIPTS TAX RATE	0.0000%		0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0010%	0.0000%	0.0000%	0.0000%	0.0000%
45 GROSS REC TAX	0		0	0	0	0	0	0	0	0	0	0	0
46 TOTAL REVENUE REQUIREMENT (LN 43+45)	5888175		2192898	348738	38111	1162367	21853	3586	0	13872	2198	18234	1287927

FIDELITY TELEPHONE COMPANY

ADJUSTMENT TO DEFERRED INCOME TAX BALANCE

DECEMBER 31, 1986

<u>Year</u>	<u>Deferred Tax Amount</u>	<u>Effective Tax Rate</u>	<u>Deferred Income Amount</u>
1986	\$ 31,840	47.49%	\$ 67,041
1985	53,573	47.49	112,803
1984	5,233	42.62	12,278
1983	33,665	47.49	70,886
1982	89,066	46.77	190,418
1981	89,402	50.58	176,765
1980	80,997	48.00	168,747
1979	86,662	46.52	186,273
1978	76,601	49.38	155,110
1977	83,464	49.38	169,007
1976	82,929	51.58	160,778
1975	58,443	48.00	121,756
1974	41,368	48.00	86,183
1973	14,360	48.00	29,917
1972	<u>3,491</u>	48.00	<u>7,273</u>
Total recorded tax	831,094		<u>\$1,715,235</u>
Adjusted deferred tax	<u>621,190</u>	36.216% ⁽¹⁾	<u>\$1,715,235</u>
Adjustment required	<u>\$209,904</u>		
Amortization over 11.81 years	<u>\$ 17,773</u>		
Jurisdictional portion (79.288%)	<u>\$ 14,092</u>		

(1) Exhibit 3 for tax rate in 1988

FIDELITY TELEPHONE COMPANY

DEVELOPMENT OF AVERAGE REMAINING LIFE

DECEMBER 31, 1986

	(1) Composite Depreciation Rate	(2) Composite Life Years	(3) Plant Balance 12/31/86	(4) Depreciation Reserve 12/31/86	(5) Reserve Ratio (4/3)	(6) Average Years In Service (2x5)	(7) Average Years Remaining (2-6)	(8) Dollar Remaining Life Years (3x7)
Buildings	2.50%	40.00 years	\$ 991,165	\$ 308,029	31.08%	12.43%	27.57%	\$ 27,326,447
COC	6.95	14.39 years	4,886,683	3,362,187	68.80	9.90	4.49	21,941,207
Station apparatus	9.63	10.38 years	795,087	820,124	103.15	10.71	(.33)	(262,379)
Station installations	9.15	10.93 years	908,633	592,967	65.26	7.13	3.80	3,452,805
Large PBX	-	-	-	-	-	-	-	-
Pole lines	4.50	22.22 years	386,158	354,661	91.84	20.41	1.81	698,946
Aerial cable	4.00	25.00 years	1,105,139	460,026	41.63	10.41	14.59	16,123,978
Underground cable	3.50	28.57 years	45,654	29,051	63.63	18.18	10.39	474,345
Buried cable	3.75	26.66 years	4,085,639	946,335	23.16	6.17	20.49	83,714,743
Fiber optic cable	3.80	26.32 years	536,365	-	0.00	0.00	26.32	14,117,127
Aerial wire	6.00	16.67 years	222,516	58,263	26.18	4.36	12.31	2,739,172
Underground conduit	3.00	33.33 years	103,619	28,460	27.47	9.16	24.17	2,504,471
Furniture and equipment	10.05	9.95 years	191,995	107,579	56.03	5.57	4.38	840,938
Vehicles and work equipment	10.74	9.31 years	709,045	375,748	52.99	4.93	4.38	3,105,617
Total			<u>\$14,967,698</u>	<u>\$ 7,443,430</u>	<u>49.73%</u>			\$ 176,777,417
Plant balance at 12-31-86								<u>/ 14,967,698</u>
Composition remaining life (years)								<u>11.81 years</u>

FIDELITY TELEPHONE COMPANY

DETERMINATION OF EFFECT ON REVENUE REQUIREMENT
FOR ADJUSTMENT TO ACCUMULATED DEFERRED INCOME TAX

DECEMBER 31, 1986

Total decrease in deferred tax (Exhibit 11)	<u>\$209,904</u>
Average over amortization period	104,952
Rate of return (Exhibit 1)	<u>13.11%</u>
Increased return requirement	13,759
Income tax conversion factor (Exhibit 3)	<u>1.5678</u>
Increased revenue requirement before amortization	21,572
Deduct amortization of decrease in deferred income tax (Exhibit 11)	<u>17,773</u>
Net increase in revenue requirement	<u>3,799</u>
Jurisdictional portion (79.288%)	<u>\$ 3,012</u>