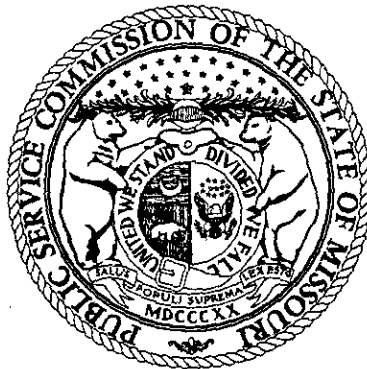


**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**



In the Matter of the Investigation into the) Case No. TR-98-345
Earnings of Lathrop Telephone Company.)

REPORT AND ORDER

Issue Date: September 23, 1999

Effective Date: October 5, 1999

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Investigation into the) Case No. TR-98-345
Earnings of Lathrop Telephone Company.)

APPEARANCES

W.R. England, III, Brydon, Swearengen & England, P.C., Post Office Box 456, 312 East Capitol Avenue, Jefferson City, Missouri 65102-0456, for Lathrop Telephone Company.

Carol M. Keith and Bruce H. Bates, Assistants General Counsel, Post Office Box 360, Jefferson City, Missouri 65102, for the Staff of the Missouri Public Service Commission.

Michael F. Dandino, Senior Public Counsel, and Shannon Cook, Senior Public Counsel, Post Office Box 7800, Jefferson City, Missouri 65102, for the Office of the Public Counsel and the public.

Leo J. Bub, Senior Counsel, Southwestern Bell Telephone Company, One Bell Center, Room 3518, St. Louis, Missouri 63101, for Southwestern Bell Telephone Company.

Paul S. DeFord, Lathrop & Gage, 2345 Grand Boulevard, Suite 2500, Kansas City, Missouri 64108-2684, for AT&T Communications of the Southwest, Inc.

REGULATORY LAW JUDGES: Nancy Dippell, Senior (hearing);
 Kevin A. Thompson, Deputy Chief (Report and
 Order)

REPORT AND ORDER

Procedural History

On February 13, 1998, the Staff of the Missouri Public Service Commission (Staff) and Lathrop Telephone Company (Lathrop) filed a joint motion to open docket. The motion indicated that Staff had conducted a

per book review of the earnings of Lathrop. The Staff's review was based upon the twelve months ending December 31, 1996, updated for known and measurable changes occurring during 1997. The motion indicated that Staff and Lathrop had executed a Stipulation and Agreement to resolve all issues surrounding the audit performed by Staff and the results of that audit. The Stipulation and Agreement was attached to the joint motion and Staff and Lathrop requested that the Commission approve the Stipulation and Agreement.

On February 27, 1998, the Commission issued an Order Establishing Case, Giving Notice and Setting Intervention Date. That order provided that any parties wishing to intervene should file an application to do so no later than March 30, 1998. On March 30, 1998, Southwestern Bell Telephone Company (SWBT) filed an Application to Intervene and Request for Hearing. AT&T Communications of the Southwest, Inc. (AT&T), also filed an Application to Intervene on March 30, 1998. On April 10, 1998, the Commission issued an order granting the intervention applications of SWBT and AT&T.

The April 10 order also scheduled a prehearing conference for May 1, 1998, and directed the parties to file a proposed procedural schedule by May 11, 1998. After seeking three extensions, Staff filed a Motion to Establish Procedural Schedule on June 19, 1998, and the Commission issued an Order Adopting Procedural Schedule on August 4, 1998. At the request of Lathrop, an Order Granting Protective Order was issued by the Commission on August 31, 1998. Direct Testimony was filed on behalf of Staff, Lathrop, and the Office of the Public Counsel (OPC)

on August 10, 1998, and rebuttal testimony was filed on behalf of Lathrop, OPC and SWBT on September 14, 1998. Surrebuttal testimony was filed on behalf of AT&T, Lathrop and OPC on October 13, 1998.

The parties filed a Hearing Memorandum on October 27, 1998. On November 9, 1998, Staff filed a motion to cancel the evidentiary hearing. The Commission denied that motion by order on November 13, 1998, and an evidentiary hearing was held on November 19, 1998. OPC, Staff and SWBT filed only initial briefs; AT&T did not file either initial or reply briefs.

During the hearing, the Commission requested two late-filed exhibits. Exhibit numbers 15 and 16 were assigned to these two exhibits. Both were filed by Staff on December 21, 1998. No party filed any objections to either of these late-filed exhibits. Also, at the close of the hearing, the parties discovered that a clause had been inadvertently left out of the Stipulation and Agreement. This clause concerned Lathrop's adoption of Staff's generic depreciation schedules for small telephone companies. Exhibit number 17 was reserved for the corrected Stipulation and Agreement, which was filed by Lathrop and Staff on December 21, 1999. No one filed any objections to the corrected Stipulation and Agreement.

Late-filed Exhibits 15, 16 and 17 are received and made a part of the record of this matter.

Findings of Fact

The Missouri Public Service Commission has considered all of the competent and substantial evidence upon the whole record in order to make

the following findings of fact. The Commission has also considered the positions and arguments of all the parties in making these findings. Failure to specifically address a particular item offered into evidence or a position or argument made by a party does not indicate that the Commission has not considered it. Rather the omitted material was not dispositive of the issues before the Commission.

I. Uncontested Issues

The Stipulation and Agreement submitted by Staff and Lathrop contains several provisions that did not draw objection from any party.

A. Revenue Reduction

The Stipulation and Agreement provides that Lathrop's gross intrastate revenues are to be reduced by approximately \$182,711 per year. No party objected to this figure.

B. Depreciation Rates

The Stipulation and Agreement authorizes Lathrop to adopt new depreciation rates that are consistent with Staff's "generic" depreciation rates for Small Telephone Companies. No party objected to this provision.

C. Elimination of Analog Carrier Equipment

The Stipulation and Agreement provides that Lathrop will invest \$183,967 in digital carrier equipment and replace all analog carrier equipment throughout its network. Lathrop will also upgrade its existing switch to next generic level. The annual cost of these upgrades is

\$36,793. No party objected to this provision of the Stipulation and Agreement.

D. Reduction of E911 Rates

The Stipulation and Agreement provides for the reduction of trunk rates for E911 service to a flat rate of \$25.00 per month, per trunk. Implementation of this rate change will result in an annual revenue reduction of \$882. No party objected to this provision of the Stipulation and Agreement.

II. Contested Issues

While the parties did not object to any of the foregoing items, there was disagreement about some other aspects of the Stipulation and Agreement. OPC objected to the clause which allocates the remainder of the rate reduction to reducing Lathrop's billing and collection charges and switched access charges. OPC contends that a portion of the reduction should be allocated to local rate relief. Thus, OPC proposes a one dollar reduction in Lathrop's residential and business monthly subscription charges. Otherwise, OPC has no objection to the reduction of billing and collection and switched access charges.

The Stipulation and Agreement also includes Lathrop's proposal to raise new revenue by increasing certain nonrecurring customer activity charges and imposing, for the first time, a per-call Directory Assistance charge. OPC objects to the amount of the proposed increases and, at hearing, it was revealed that Lathrop and OPC have entered into a side agreement reducing the amount of these proposed increases. Lathrop

proposes to allocate all of these new revenues to the reduction of its billing and collection and switched access charges. OPC again contends that some local rate relief is appropriate.

A. Proposed New Revenue

Under the Stipulation and Agreement, Lathrop proposes to raise new revenue amounting to \$7,989 by raising certain non-recurrent customer activity charges. Under the Stipulation and Agreement, Lathrop further proposes to raise additional new revenue amounting to \$10,558 by imposing a new per-call charge for Directory Assistance. Directory Assistance has heretofore been a free service to Lathrop subscribers. Lathrop proposes to allow each subscriber two free calls to Directory Assistance each billing period and to adopt language excluding persons with disabilities from the tariff of Citizens Telephone Company. Lathrop proposes to use this new revenue, as well as the bulk of the revenue reduction, to reduce its switched access charges and billing and collection charges.

OPC objects both to the magnitude of the increases proposed by Lathrop and the use that Lathrop proposes to make of the revenue. At the hearing, Lathrop and OPC revealed that they had entered into a side agreement limiting the magnitude of the proposed increased charges, as set out below. It appears that OPC has no objection to these proposed increases so long as they do not exceed the amount to which OPC has agreed:

Item:	Current Charge	Stipulation & Agreement	Lathrop & OPC
Service Order Charge	\$2.25	\$6.00	\$5.00
Central Office Connection	\$6.00	\$15.00	\$10.00
Reconnection Charge	\$6.00	\$15.00	\$10.00
Directory Assistance	-0-	\$0.45	\$0.25

B. Billing and Collection Charges

The Stipulation and Agreement allocates approximately \$19,159 of the annual revenue reduction to reducing Lathrop's billing and collection charges.

Rate Element	Current Rate	Proposed Rate
Recording	\$0.0483	\$0.0250
Bill Processing	\$0.0459	\$0.0300
Message Bill Service	\$0.7500	\$0.2009
Data Transmission	\$0.0084	\$0.0030
Sample Message Data	\$0.0163	\$0.0023

No party objects to the reduction of billing and collection charges. OPC objects only that some portion of the revenue reduction and new revenue should be allocated to local rate relief.

C. Reduction of switched access Charges

The Stipulation and Agreement will reduce Lathrop's switched access charges by eliminating the Carrier Common Line (CCL) intraLATA cap and intraLATA discounted CCL rates. InterLATA and intraLATA CCL rates will be brought into parity. Line Termination, End Office Switching, and

Directory Surcharge Rates will be combined into a single Local Switching Rate. The switched access rates proposed under the Stipulation and Agreement are as follows:

Rate Element	Old Rate	New Rate
CCL-InterLATA Originating	\$0.04910	\$0.01003
CCL-InterLATA Terminating	\$0.08410	\$0.01003
CCL-IntraLATA Originating Full	\$0.03040	\$0.01003
CCL-IntraLATA Terminating Full	\$0.05210	\$0.01003
CCL-IntraLATA Originating Discount	\$0.00150	None
CCL-IntraLATA Terminating Discount	\$0.00260	None
Local Transport	\$0.01330	\$0.01330
Local Switching	None	\$0.01761
Directory Surcharge	\$0.000397	None
End Office Switch - LS1	\$0.0077	None
End Office Switch - LS2	\$0.01180	None
Line Termination	\$0.01490	None

No party has objected to the reduction of Lathrop's switched access rates. OPC objected only that some portion of the revenue reduction and new revenue should be allocated to local rate relief.

D. Local Rate Relief

The Stipulation and Agreement does not allocate any of the revenue reduction to the reduction of local subscriber rates. These rates, at \$7.15 monthly for residential and \$10.15 monthly for business, are already low. Lathrop presented expert testimony, admittedly not based on a cost study, that Lathrop's local services are provided below

cost. Lathrop's expert also testified that various trends in the telecommunications industry, such as universal service, are likely to result in local rate increases for Lathrop's subscribers in the future.

Staff's witness stated that Staff's policy is to not recommend local rate reductions where those rates are already below \$14 monthly. Staff stated that Lathrop's present local service rates are just, reasonable and affordable.

OPC presented expert testimony supporting local rate relief and opposing the proposed increases in customer activity charges. This testimony does not suggest that Lathrop's present local service rates are not just, reasonable and affordable, but goes only to the issue of fairness. OPC suggests that it would not be fair to allocate none of the savings realized from the annual revenue reduction to local rate relief.

The Commission finds that Lathrop's present local service charges are just, reasonable and affordable and ought not be changed.

Conclusions of Law

The Missouri Public Service Commission has arrived at the following Conclusions of Law:

Lathrop Telephone Company is a local exchange telecommunications service provider as defined under Section 392.410, RSMo Supp. 1998, and, therefore, is subject to the jurisdiction of the Missouri Public Service Commission under Chapters 386 and 392, RSMo.

The Commission has the legal authority to accept a stipulation and agreement as offered by the parties as a resolution of issues raised in this case, pursuant to Section 536.060, RSMo Supp. 1998.

Orders of the Commission must be based upon competent and substantial evidence on the record. Section 536.140, RSMo 1994. Based upon its findings of fact, the Commission concludes that the Stipulation and Agreement submitted by Lathrop and Staff should be approved as modified by the side agreement of Lathrop and OPC, limiting the increases in customer activity charges. The parties stated at the close of the hearing that the resulting reduction in new revenue would be evenly distributed over the billing and collection charges and switched access charges.

IT IS THEREFORE ORDERED:

1. That late-filed Exhibits 15, 16 and 17 are received and made a part of the record of this matter.

2. That the corrected Stipulation and Agreement filed by Lathrop Telephone Company and the Staff of the Missouri Public Service Commission on December 21, 1998, designated Exhibit 17, is hereby approved as modified by the separate agreement of Lathrop Telephone Company and the Office of the Public Counsel with respect to increases in nonrecurring customer activity charges and the imposition of a per-call charge for directory assistance services as set out below (See Attachment 1).

Item:	New Rate
Service Order Charge	\$5.00
Central Office Connection	\$10.00
Reconnection Charge	\$10.00
Directory Assistance (per call)	\$0.25

3. That those motions and objections not specifically ruled on in this order are hereby denied or overruled.

4. That Lathrop Telephone Company shall file tariff sheets, with a 30-day effective date, embodying and implementing this Report and Order within 30 days of the effective date of this Report and Order.

5. That this Report and Order shall become effective on October 5, 1999.

BY THE COMMISSION

Dale Hardy Roberts

**Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge**

(S E A L)

Crumpton, Drainer, Murray and Schemenauer, CC., concur and certify compliance with the provisions of Section 536.080, RSMo 1994.
Lumpe, Ch., absent.

Dated at Jefferson City, Missouri,
on this 23rd day of September, 1999.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the investigation into the)
earnings of Lathrop Telephone Company.) Case No. TR-98-345

FILED
DEC 21 1998
Missouri Public
Service Commission

REVISED STIPULATION AND AGREEMENT

In May of 1997, the Staff of the Missouri Public Service Commission (Staff) began a per books review of the earnings of Lathrop Telephone Company (Company). Staff's audit was based upon twelve (12) months ending December, 1996, updated for known and measurable changes occurring during 1997. Upon completion of its preliminary earnings analysis, the Staff began discussions with the Company. As a result of extensive negotiations, the signatories hereto stipulate and agree as follows:

1. The Company's gross intrastate revenues will be reduced by approximately \$182,711 on an annual basis.
2. This overall reduction in revenues occurs partially as a result of the Company's preliminary commitment to invest \$183,967 in digital carrier equipment which will eliminate all analog carrier equipment currently existing in the Company's network. (The annual revenue impact associated with this investment is approximately \$36,793.)
3. The remaining reduction in gross intrastate revenues (i.e., \$145,918) is to be accomplished as a result of changes in intrastate rates as more specifically set forth in Attachment A, which is attached hereto and incorporated herein by reference.
4. The Company will prepare draft tariff sheets incorporating the rate changes identified in Attachment A and provide such drafts to Staff no later than March 6, 1998.
5. Beginning January 1, 1998, the Company shall be authorized to accrue

depreciation expense based on the depreciation rates set forth in Attachment B, which is attached hereto and incorporated herein by reference. Included in Attachment B is additional information regarding the Company's existing depreciation rates and the effect the proposed rates have on the Company's test year revenue requirement.

6. The approval of this Revised Stipulation and Agreement in its entirety by the Commission will conclude Staff's per books earnings investigation of the Company upon which this settlement was based.

7. None of the signatories to this Revised Stipulation and Agreement shall have been deemed to have approved or acquiesced in any ratemaking or procedural principle or any method of cost determination or cost allocation, or any service or payment standard and none of the signatories shall be prejudiced or bound in any manner by the terms of this Revised Stipulation and Agreement in this or any other proceeding, except as otherwise expressly specified herein.

8. This Revised Stipulation and Agreement has resulted from extensive negotiations among the signatories and the terms hereof are interdependent. In the event the Commission does not approve and adopt this Revised Stipulation and Agreement in its entirety, then this Revised Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

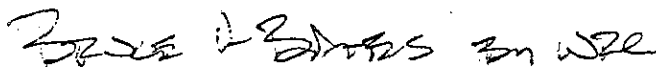
9. In the event the Commission accepts the specific terms of this Revised Stipulation and Agreement, the Parties waive, with respect to the issues resolved herein: their respective rights to present testimony, to cross-examine witnesses, and to present oral argument and written briefs pursuant to Section 536.080.1 RSMo. 1994; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2 RSMo. 1994; and their respective

rights to judicial review pursuant to Section 386.510 RSMo. 1994.

10. If requested by the Commission, the Staff shall have the right to submit to the Commission a memorandum explaining its rationale for entering into this Revised Stipulation and Agreement. Each Party of record shall be served with a copy of any memorandum and shall be entitled to submit to the Commission, within five (5) days of receipt of the Staff's memorandum, a responsive memorandum which shall also be served on all Parties. All memoranda submitted by the Parties shall be considered privileged in the same manner as are settlement discussions under the Commission's rules, shall be maintained on a confidential basis by all Parties, and shall not become a part of the record of this proceeding or bind or prejudice the Party submitting such memorandum in any future proceeding or in this proceeding whether or not the Commission approves this Revised Stipulation and Agreement. The contents of any memorandum provided by any Party are its own and are not acquiesced in or otherwise adopted by the other signatories to the Revised Stipulation and Agreement, whether or not the Commission approves this Revised Stipulation and Agreement.

WHEREFORE, the signatories respectfully request that the Commission issue its order approving the terms of this Revised Stipulation and Agreement and for such other orders as are reasonable in the circumstances.

Respectfully submitted,



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(573) 635-7166
(573) 634-7431/Fax

Attorneys for
Lathrop Telephone Company

Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered this 21st day of December, 1998, to the following:

Michael Dandino
Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

Leo Bub
Southwestern Bell Telephone Company
One Bell Center
St. Louis, MO 63101

Paul DeFord
Lathrop & Gage
2345 Grand Blvd.
Kansas City, MO 64108



**Lathrop Telephone Company
Rate Design Changes**

1. Customer Activity Charges

\$ 7,989

Activity	Old Rate	New Rate
Service Order Charge	\$2.25	\$6.00
Central Office Connect.	\$6.00	\$15.00
Reconnection	\$6.00	\$15.00

2. Introduce Directory Assistance Charge

\$ 10,558

Charge will be \$0.45 per call with a two free call allowance for each customer each month. Language regarding exemptions for physically handicapped from Citizens Telephone Company tariff will be included in the Lathrop tariff.

3. Introduce new tariff for E911 trunks

\$ (882)

Lathrop will introduce a new section in its local tariff to specifically tariff the provision of trunks for E911 service. The portion of those trunks provided by Lathrop will be tarified at a rate of \$25.00 per month per trunk.

4. Billing and collecting rates

\$ (19,159)

Rate Element	Old Rate	New Rate
Recording	\$0.0483	\$0.0250
Bill Processing	\$0.0459	\$0.0300
Message Bill Service	\$0.7500	\$0.2009
Data Transmission	\$0.00840	\$0.00300
Sample Message Data	\$0.0163	\$0.0023

5. Switched Access Rates:

\$ (144,424)

The Carrier Common Line (CCL) intraLATA cap and intraLATA discounted CCL rates will be eliminated. CCL rates for interLATA and intraLATA will be brought into parity. Line Termination, End Office Switching, and Directory Surcharge rates will

Attachment A

be combined into a single Local Switching Rate. The following switched access rates will be established:

Rate Element	Old Rate	New Rate
CCL - InterLATA Originating	\$0.04910	\$0.01003
CCL - InterLATA Terminating	\$0.08410	\$0.01003
CCL - IntraLATA Orig. Full	\$0.03040	\$0.01003
CCL - IntraLATA Term. Full	\$0.05210	\$0.01003
CCL - IntraLATA Orig. Disc.	\$0.00150	None
CCL - IntraLATA Term. Disc.	\$0.00260	None
Local Transport	\$0.01330	\$0.01330
Local Switching	None	\$0.01761
Directory Surcharge	\$0.000397	None
End Office Switch - LS1	\$0.0077	None
End Office Switch - LS2	\$0.01180	None
Line Termination	\$0.01490	None

TOTAL Rate Design Changes

\$ (145,918)

Lathorp Telephone Company

Case No. TR-98-345

Account Number	Account Name	Currently Authorized Depreciation Rates *	Stipulated Depreciation Rates	Plant Balances Per EMS	Revenue Requirement Impact
2112.000	Motor Vehicles		4.30%		
2116.000	Other Work Equipment	10.00%	6.71%	\$ 75,675	\$ (2,490)
2121.000	Buildings	2.50%	2.80%	117,045	351
2122.000	Furniture & Office Equipment		6.71%		
2123.000	Office Support Equipment	5.00%	9.70%	14,175	666
2123.200	Company Comm Equipment	20.00%	11.55%	2,766	(234)
2124.000	General Purpose Computers	20.00%	13.59%	25,958	(1,664)
2210.000	Central Office Switching	6.67%	6.67%	761,729	-
2232.000	Circuit Equipment	8.00%	10.30%	120,779	2,778
2351.000	Public Tel Term Equipment	8.00%	8.74%	8,060	60
2421.000	Aerial Cable		5.52%		
2422.000	Underground Cable		4.04%		
2423.000	Buried Cable	4.20%	4.29%	1,648,719	1,484
2431.000	Aerial Wire		14.17%		
2441.000	Conduit Systems		2.00%		
				\$ 2,774,906	\$951

* - Authorized per Depreciation Authority Order dated January 13, 1982.

Attachment B

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 13th
day of January, 1982.

DEPRECIATION AUTHORITY ORDER NO. 58.03

In the matter of prescribing depreciation
accrual rates for the Lathrop Telephone
Company.

DEPRECIATION AUTHORITY ORDER

As provided for in Section 392.280 of the Missouri Revised
Statutes, 1978, the Commission's Engineering Staff has made its study and
investigation of the several classes of property of said utility and has
ascertained, and fixed the recommended rates of depreciation of the
several classes of property and has recommended that the Commission
require that those rates be prescribed for accruing depreciation credits
to the depreciation reserve until further order by the Commission.

The Commission, having considered the recommended rates, finds
that such rates are proper and adequate.

IT IS, THEREFORE,

ORDERED: 1. That the said utility be, and it is, hereby ordered
to adopt the following depreciation accrual rates beginning November 25, 1981:

<u>Account Number</u>	<u>Description of Account</u>	<u>Accrual Rate %</u>
212	Buildings	2.5
221	Central Office Equipment - Dial	9.0
221.31	Central Office Equipment - Subscriber Carrier	8.0 ✓
231	Station Apparatus	8.0
232	Station Connections	9.0
241	Pole Lines	6.5
242.3	Buried Cable	4.2
261	Office Furniture and Equipment	5.0
261.1	Office Furniture and Equipment-Computer Apple II Plus	20.0 ✓
264.1	Vehicles	12.0
264.2	Other Work Equipment	10.0

ORDERED: 2. That the said utility be, and it is, hereby ordered
to accrue depreciation expense at the component rates set in "ORDERED: 1."
above.

ORDERED: 3. That this Order shall be effective ten (10) days
after the date of this Order, and that the Secretary of the Commission shall
serve a certified true copy of same upon said utility.

BY THE COMMISSION

Harvey G. Hubbs
Harvey G. Hubbs
Secretary

(S E A L)

APPROVED:

Charles P. Hays
James W. Dwyer
Charlotte M. Hays
Commissioners