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December 19, 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 on behalf of Webster County Telephone Company, please find three copies of its Response to the Commission's Order of November 3, 1986. Would you please see that this is brought to the attention of the appropriate Commission personnel? I am today providing the Office of Public Counsel with two copies of same.

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

Sincerely,

W. R. England, III

FILED
DEC 19 1986
PUBLIC SERVICE COMMISSION

WRE/da
Enclosures
cc: Office of Public Counsel
Mr. Lyn Kamerman/Ltr. only

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

FILED
DEC 19 1986
PUBLIC SERVICE COMMISSION

Webster County Telephone Company's Response to the Order Initiating Investigation Issued November 3, 1986	)	Case No. AO-87-48 Effects of 1986 Federal Tax Reform

In response to the above referenced Order Initiating Investigation issued November 3, 1986, Webster County Telephone Company (the Company) submits the following information per the guidelines provided in this Order.

The Company has made preliminary estimates of the effects that the Tax Reform Act of 1986 will have on its current income tax payment, deferred tax accruals and revenue requirements. The Company made these estimates based upon its December 31, 1985 financial data which was the test period used in the Company's last rate case (Case No. TR-86-63). The attached Schedules 1, 2 and 3 reflect the respective revenue requirement, rate base and income statement of the Company at 12/31/85 prior to the adjustments needed to reflect the Tax Reform Act. Schedule 4 details the change in the current tax payment, income tax provision (including deferred taxes) and revenue requirement. As Schedule 4 indicates, the current State and Federal tax payment (columns b and c) for 1985 is approximately $25,000 using the current 46% tax rate and deductions allowable under the current tax law. Keeping the tax rate at 46% but taking into consideration the remaining provisions of the new tax law (elimination of investment tax credit, bad debts accrual and the disallowance of the current tax deduction for interest, taxes and pensions capitalized), this current payment,

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shown in columns d and e, rises to approximately $116,000. This reflects an increase in current taxes payable of approximately $91,000. The related deferred tax expenses decreased by approximately $82,000. The reason for the swing between current and deferred taxes is due to the elimination of the investment tax credit. As this comparison indicates, total Federal and State income tax provisions under the new tax law would increase approximately $9,000 if the tax rate remained constant at 46%.

Schedule 4 (columns f and g) provides the tax provision change directly applicable to the rate change from 46% to 40%. The excess deferred taxes applicable to accelerated depreciation that result from this rate change are addressed in this comparison also. The new tax law requires this excess be normalized and restored to income over a period of years using the average rate assumption method. Using this methodology and the blended effective tax rate of 40%, the Company estimates on line 28 that approximately $14,100 of excess deferred taxes would be credited to income (see Schedule 5). The amount credited to income in future years will fluctuate significantly depending on the actual reversal of the timing differences. The total decrease in the tax provision including the excess tax income credit is approximately $25,000. The resulting revenue impact of the new tax laws and the blended 40% federal tax rate is approximately $43,000.

Schedule 4 (columns h and i) provides the further tax provision change in the years subsequent to 1987 when the full impact of the rate change from 46% to 34% will be effective rather than the blended 1987 effect shown in columns f and g. The tax decrease would be approximately $89,000 in 1988. The resulting revenue impact would be approximately $140,000. The total income tax provision will decrease initially (as detailed on Schedule 4) and therefore initially there will be a benefit to both the Company's customers and its shareholders. In the long term, however, it appears that the changes required by this law will ultimately increase the tax liability of the Company and work to the detriment of both the customers and the shareholders. The major consideration being the elimination of investment credit and its subsequent amortization. As a result of the elimination of investment tax credit effective January 1, 1986, the Company estimates that it will forego the following amounts of investment tax credit during the years 1986 through 1988:

Year	Estimated Lost Investment Tax Credit
1986	$88,000
1987	51,000
1988	23,000

Loss of this credit will result in foregone amortization and have the effect of increasing future periods income tax expense in the following amounts:

Investment Credit Year	Estimated Reduced Amortization		
	1986	1987	1988
1986	$2,400	$4,800	$4,800
1987	-	1,400	2,800
1988	-	-	600
	$2,400	$6,200	$8,200

Projected amortization computed using the 1985 composite rate of 5.41% calculated per the rate case.

Since the full effects of the provisions of the new law will not be felt for several years, the Company feels that the Commission should concentrate its efforts on those changes which will become effective during the calendar year

1987. The Commission should also consider that changes from this Act are not absolute since members of Congress have already begun discussing a tax increase during the next session of Congress to follow this tax reform. Any procedures which this Commission adopts as a result of this proceeding should envision applicability to further changes (either positive or negative) which may occur during the next several years.

The Company feels that the Commission should take further time to study the effects of this recently enacted legislation. The blended 40% tax rate which will be effective in 1987 is derived through a rate change from 46% to 34% effective July 1, 1987. Therefore, the Company feels that any action taken by this Commission need not be effective prior to July 1, 1987. It is the Company's position that this Commission should consider potential actions which it could take, while taking advantage of the time between now and July, 1987 for further study.

The Company is greatly concerned with the effect that several key issues, whose impact cannot be measured at this early date, will have on the Company. Preliminary review indicates that the Alternative Minimum Tax (AMT) will not impact the Company in 1987 or 1988. However, in future years the potential increase in tax expense related to AMT may affect the Company's operations. The reduction in internally generated funds may place the Company in a position which requires further long-term debt commitments. Any resulting issue of additional long-term debt will have the effect of lowering its equity ratio which could potentially require an increased return on equity and ultimately affect the Company's required rate of return. The impact of tax reform is not specifically attributable to the local jurisdiction. Of the estimated $136,000 revenue requirement impact from the Tax Reform Act, only a portion is attributable to the local jurisdiction. Consideration must be given to interstate and intrastate toll jurisdictions as well as the local operations. Since Webster County's toll revenue is computed on an average schedule basis, it must initially be determined how the Tax Reform Act will affect both the interstate and intrastate toll revenues before the ultimate effect on local operations can be determined.

The Company believes that the Commission should explore through an interim order in this docket the parameters within which it would consider individual company proposals to effectuate any changes required by the new law. These parameters might include such items as test period to be used or types of adjustments which might be considered. In doing so, the Commission should establish a deadline for input by individual companies to be considered by the Commission for determining those parameters. A subsequent deadline for individual companies to file plans with the Commission based on those parameters should be established which will allow the Commission time to consider these proposals prior to a July 1, 1987 effective date. Since individual company situations vary, even within the same industry, such a proposal would allow companies to propose plans which deal specifically with the needs of their customer and their shareholders.

The attached schedules present the revenue impact of the Tax Reform Act based upon 1985 operations. However, the Company believes that the schedules required to be provided by February 28, 1987, which present 1986 operations in a similar format, will indicate that the Company is not earning its authorized rate of return. It is the Company's position that, if this is in fact the case, any adjustment to the Company's authorized revenue requirement would be inappropriate.

The Company wishes to emphasize that the information provided herein is based on 1985 data, estimates in many cases, and our preliminary interpretation of the Tax Reform Act. While the Commission feels it is reasonable to assume that utilities in Missouri have preliminary estimates of the impact of tax reform, the information included herein should be considered in that light and regarded only as estimates. As additional information concerning the tax law and 1986 information becomes available, these preliminary estimates must be updated.

WEBSTER COUNTY TELEPHONE COMPANY

By: William M. Edwards, III
Vice President

Schedule 1

WEBSTER COUNTY TELEPHONE COMPANY

Revenue Requirement

Case No. TR-86-63

Line No.	Description (a)	Amount (b)
1.	Total Company Rate Base	$3,116,868
2.	Authorized Rate of Return	11.22%
3.	Net Operating Income Requirement	$ 349,713

Schedule 2

WEBSTER COUNTY TELEPHONE COMPANY

Rate Base

Case No. TR-86-63

Line No.	Description (a)	12/31/85 Total Company Amounts (b)
1.	Total Plant in Service	$5,068,681
2.	Depreciation Reserve	(1,558,746)

3.	Net Plant in Service	$3,509,935
	Add	
4.	Cash Working Capital	$ (53,925)
5.	Material & Supply	11,660
6.	Prepayments	3,455
	Less	
7.	Income Tax Offset	20,632
8.	Interest Expense Offset	(1,936)
9.	Customer Deposits	20,320
10.	Deferred Income Taxes	315,241

11.	Total Rate Base	$3,116,868
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WEBSTER COUNTY TELEPHONE COMPANY

Income Statement

Case No. TR-86-63

Line No.	Description	12/31/85 Total Company Amounts
	Operating Revenues	
1.	Local Service Revenues	$ 446,070
2.	Toll Service Revenues	1,079,360
3.	Miscellaneous Revenues	62,437
4.	Uncollectible Revenues	(49,244)
5.	Total Operating Revenues	$1,817,623
	Operating Expenses	
6.	Maintenance Expense	$ 308,863
7.	Traffic Expense	106,900
8.	Commercial Expense	106,697
9.	General Office Expense	195,350
10.	Other Operating Expense	148,726
11.	Depreciation & Amortization Expense	353,708
12.	Taxes Other than Income Taxes	59,063
13.	Total Operating Expenses	$1,279,307
14.	Net Income Before Taxes	$ 538,316
15.	Current Income Taxes	$ 24,797
	Deferred Income Tax	
16.	Deferred ITC Provision	$ 82,168
17.	Amortization of ITC	(8,488)
18.	Deferred Income Tax Expense	92,437
19.	Deferred Income Tax Amortization	(34)
20.	Total Income Taxes	$ 166,083
21.	Net Operating Income	$ 347,436

WEBSTER COUNTY TELEPHONE COMPANY
REVENUE REQUIREMENT IMPACT OF FEDERAL TAX
CHANGES TO 1985 JURISDICTIONAL OPERATIONS

SCHEDULE 4

LINE NO	DESCRIPTIONS	FIT @ 46% PER TR-86-63 STIPULATION		IMPACT OF TAX CHANGES FIT REMAINING @ 46%		IMPACT OF TAX CHANGES FIT CHANGING TO 40%		IMPACT OF TAX CHANGES FIT CHANGING TO 34%	
		STATE	FEDERAL	STATE	FEDERAL	STATE	FEDERAL	STATE	FEDERAL
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	NET INCOME	$347,436	$347,436	$343,219	$343,219	$389,266	$389,266	$385,296	$385,296
2	CURRENT SIT	$10,297	$10,297	$6,722	$6,722	$7,825	$7,825	$6,298	$6,298
3	CURRENT FIT	$14,500	$14,500	$108,796	$108,796	$85,011	$85,011	$33,440	$33,440
4	DEFERRED SIT	$5,972	$5,372	$5,372	$5,372	$5,956	$5,956	$6,540	$6,540
5	DEFERRED FIT	$87,065	$87,065	$87,065	$87,065	$75,483	$75,483	$63,968	$63,968
6	DEFERRED INVESTMENT TAX CREDIT	$82,168	$82,168	($0)	($0)	($0)	($0)	($0)	($0)
7	AMORTIZATION OF INVESTMENT CREDIT	($8,522)	($8,522)	($8,522)	($8,522)	($8,522)	($8,522)	($8,522)	($8,522)
8	TOTAL TAXES	$190,880	$190,880	$199,433	$199,435	$165,753	$165,753	$101,716	$101,716
9	NET OPERATING INCOME BEFORE TAX DEDUCTIONS	$538,316	$538,316	$542,652	$542,652	$555,019	$555,019	$487,012	$487,012
10	FIXED CHARGES	$118,753	$118,753	$118,758	$118,753	$118,753	$118,753	$118,753	$118,753
11	CAPITALIZED INTEREST	$646	$646	$0	$0	$0	$0	$0	$0
12	DIFFERENCE BETWEEN TAX S/L AND BOOK	($2,770)	($2,770)	($2,770)	($2,770)	($2,770)	($2,770)	($2,770)	($2,770)
13	PAYROLL TAXES CAPITALIZED	$1,479	$1,479	$0	$0	$0	$0	$0	$0
14	PENSIONS CAPITALIZED	$1,543	$1,543	$0	$0	$0	$0	$0	$0
15	PROPERTY TAXES CAPITALIZED	$1,871	$1,871	$0	$0	$0	$0	$0	$0
16	SALES TAX CAPITALIZED	$1,704	$1,704	$0	$0	$0	$0	$0	$0
17	EXCESS TAX DEPRECIATION	$188,156	$188,156	$188,156	$188,156	$188,156	$188,156	$188,156	$188,156
18	REMOVAL COSTS	$6,489	$6,489	$6,489	$6,489	$6,489	$6,489	$6,489	$6,489
19	1/4 OF 11/30/86 UNCOLLECTIBLE RESERVE	$0	$0	($11,211)	($11,211)	($11,211)	($11,211)	($11,211)	($11,211)
20	TOTAL DEDUCTIONS	$317,871	$317,871	$299,417	$299,417	$299,417	$299,417	$299,417	$299,417
21	TAXABLE INCOME	$220,445	$220,445	$243,235	$243,235	$255,602	$255,602	$187,595	$187,595
22	LESS CURRENT FEDERAL TAX PROVISION	$14,500	---	$108,796	---	$99,111	---	$61,641	---
23	LESS CURRENT STATE TAX PROVISION	---	$10,297	---	$6,722	---	$7,825	---	$6,298
24	TAX BASE	$205,945	$210,148	$134,439	$236,513	$156,491	$247,777	$125,954	$181,297
25	TAX RATE	0.05	0.46	0.05	0.46	0.05	0.40	0.05	0.34
26	TAX PROVISION	$10,297	$96,668	$6,722	$108,796	$7,825	$99,111	$6,298	$61,641
27	LESS INVESTMENT TAX CREDIT	---	($82,168)	---	($0)	---	($0)	---	($0)
28	LESS EXCESS DEFERRED TAX/ACCEL. DEPR.	---	$0	---	$0	---	($14,100)	---	($28,201)
29	CURRENT TAX PROVISION	$10,297	$14,500	$6,722	$108,796	$7,825	$85,011	$6,298	$33,440
30	INCREASE/(DECREASE) CURRENT TAX EXPENSE				$90,721		($22,682)		($53,098)
31	INCREASE/(DECREASE) DEFERRED TAX EXPENSE				($82,168)		($10,998)		($10,939)
32	TOTAL INCREASE/(DECREASE) IN TAX EXP.				$8,553		($33,680)		($64,037)
33	CUMULATIVE INCREASE/(DECREASE) TO INCOME				($8,553)		$25,127		$89,164
34	REVENUE CONVERSION FACTOR				0.5251		0.5816		0.6378
35	CUMULATIVE REVENUE IMPACT				($16,288)		$43,203		$139,799

WEBSTER COUNTY TELEPHONE COMPANY

Excess Deferred Tax Adjustment Applicable to Accelerated Depreciation

Line No.	Description (a)	Fed. Rate From 46% to 40% (b)	Fed. Rate From 46% to 34% (c)
1.	Estimated 1987 Book Over Tax Provision	$235,007	$235,007
2.	Average Rate Assumption Method (46% - 40%)	.06	.12
3.	Total Company Excess Taxes	$ 14,100	$ 28,201