

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

In The Matter Of The Steelville Telephone Exchange, Inc.'s )  
Tariff Revision Designed To Increase Rates For Telephone ) CASE NO. TR-96-123  
Service Provided To Customers In The Missouri Service Area )  
Of The Company. )

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**REPORT AND ORDER**

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**Issue Date:** April 19, 1996

**Effective Date:** April 29, 1996

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BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In The Matter Of The Steelville Telephone        )  
Exchange, Inc.'s Tariff Revision Designed        )  
To Increase Rates For Telephone Service        )     **CASE NO. TR-96-123**  
Provided To Customers In The Missouri        )  
Service Area Of The Company.                    )

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Administrative  
Law Judge:       **Anne Wickliffe Freeman**

## REPORT AND ORDER

### PROCEDURAL HISTORY

The Steelville Telephone Exchange, Inc. (S.T.E. or company) submitted tariff sheets designed to increase rates for telecommunications services on October 23, 1995, pursuant to the small telephone company proceeding of \$ 392.230.4 - .5, RSMo 1994<sup>1</sup>. The Commission issued an order on November 3, 1995, suspending the tariff sheets until April 29, 1996. In the same order the Commission directed parties wishing to intervene to file an application for intervention on or before December 4, 1995. Midwest Independent Coin Payphone Association (MICPA) was granted intervention on November 17, 1996; Southwestern Bell Telephone Company (SWBT), and AT&T Communications of the Southwest, Inc. (AT&T) were granted intervention on December 7, 1995. The parties agreed to a test year consisting of the twelve months ending October 31, 1995. The company did not request a true-up. The parties prefiled testimony and met in prehearing conference on January 29, 1996. In response to the rate proposals by the Staff of the Commission (Staff) and other parties, S.T.E. requested that the Commission schedule a local public hearing. The Commission conducted a local public hearing in Steelville, Missouri, on February 20, 1996, and conducted an evidentiary hearing on February 21 - 23, 1996 at the Commission's hearing room in Jefferson City, Missouri.

At the hearing Exhibit No. 29-HC<sup>2</sup> was reserved for late filing of a revised version of Exhibit 28-HC, a chart of AT&T access revenues and expenses offered by S.T.E. S.T.E. also submitted the following: late-filed

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<sup>1</sup>All statutory references are to the Revised Statutes of Missouri 1994.

<sup>2</sup>HC denotes a highly confidential exhibit.

Exhibit 36, a chart demonstrating S.T.E.'s sources of revenue for 1994, 1995, and projected revenues for an unspecified period; and Exhibit 37, indicating that 19 interexchange carriers operate on an equal access basis in S.T.E.'s exchanges. The parties were given the opportunity to make objections to these late-filed exhibits but no objections were filed. The parties submitted initial briefs on March 22, 1996, and reply briefs on April 5, 1996. During its deliberations the Commission requested Scenarios which were entered into the record as Commission Exhibits 38, 39, 40, and 41.

#### **FINDINGS OF FACT**

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact:

S.T.E. provides basic local telecommunications services for four exchanges in Crawford, Dent, Iron and Washington Counties. The company serves two incorporated towns and a number of rural communities. S.T.E.'s exchanges are linked by EAS service provided without additional charge. As of December 31, 1994, the company had 3,047 residential and 793 business customers, for a total of 3,840 access lines. S.T.E. submitted tariffs designed to increase rates for its telecommunications services pursuant to the Commission's small company rate proceeding governed by § 392.230.4 - .5. Under that statute the Commission has 150 days from the effective date of the filed tariff sheets in which to act on the small company's rate increase request; should the Commission fail to act within 150 days, the filed rates become effective by operation of law. The operation of law date for S.T.E.'s proposed rates in this case is April 29, 1996.

**A. UNCONTESTED ISSUES.**

The parties agreed that the revenue deficiency for the test year for the twelve month period ending October 31, 1995, equaled \$1,203,000, and that the total rate increase should be \$641,000. The parties agreed that the company will file quarterly reports that will include accrual of funds from the Universal Service Fund (USF). The company agreed to coordinate future construction projects with Staff. The parties also agreed that S.T.E. may apply "small company" depreciation rates, attached to this Report and Order as Exhibit A, and may amortize its depreciation reserve deficiency over a five-year period in accordance with an amortization schedule attached to this Report and Order as Exhibit B. The depreciation rates and amortization plan were approved by the Commission in Case No. TR-95-341, by Order Approving Stipulation and Agreement and Authorization for Establishment of Permanent Depreciation Rates, issued February 23, 1996.

**B. CONTESTED RATE DESIGN ISSUES.**

**1. Basic Local Exchange Rates**

**a. Basic Local Residential and Business Services:** In its direct testimony S.T.E. stated that it could document a revenue deficiency of \$1,203,000 but was requesting an increase of only \$641,000. S.T.E. based its reduced revenue request on the fact that the company expects to receive \$500,000 to \$600,000 in USF monies to make up the shortfall in local revenues. The USF is a fund established by the FCC<sup>3</sup> and funded by assessments upon interexchange carriers that is used to support local

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<sup>3</sup>47 C.F.R. §69.116 (1994).

exchange companies (LECs) that provide services in high cost rural exchanges. Although the parties agreed to S.T.E.'s revenue requirement of \$641,000, they disputed the company's rate design proposal.

S.T.E.'s revenue deficiency is a result in part of the company's recently completed modernization plan. S.T.E. spent approximately \$5,000,000 modernizing its facilities, including the installation of digital switching equipment and the placement of buried fiber optic cable. The company's general manager, Mr. William Kehr, testified that the company now exceeds required service standards in many areas. Mr. Kehr stated that the improvements to plant have enabled many customers to gain access to the Internet and to transmit data by fax for the first time. The company provides access to the Internet for its customers at \$15 per month. Approximately 90% of S.T.E.'s subscribers are now within 18,000 feet of the switch that serves them. Both company and Staff witnesses testified that the modernization has resulted in a reduction in the number of complaints and service outages.

S.T.E. proposed a rate design that would result in recovering approximately 90% of the \$641,000 increase from access customers, and 10% from local residential and business customers. Under S.T.E.'s proposal 65% of local customers would experience no increase in their local service rates, while 35% would experience an increase of \$1.00/month but would also receive touchtone service for the first time. S.T.E.'s expert witness, Mr. Larry Van Ruler, testified that the current trend is for touchtone service to be rolled into local rates so that all local customers automatically receive and pay for the service. S.T.E.'s proposed basic local rates are set out in the following table:

Steelville Telephone Exchange, Inc.  
Proposed Rate Design - Basic Local Rates

| Service:           | Current Rate:             | Proposed Rate:         |
|--------------------|---------------------------|------------------------|
| Residential<br>R-1 | \$ 7.00 without touchtone | \$ 8.00 with touchtone |
| Business<br>B-1    | \$10.75 without touchtone | \$11.75 with touchtone |

S.T.E. based its rate design on a Federal Communications Commission (FCC) Part 36/Part 69 separations study<sup>4</sup>. The Part 36/69 methodology was designed to enable companies to determine what portions of their services fall under federal jurisdiction and what portions fall under intrastate jurisdiction. Part 36/69 is a fully allocated approach, meaning that, in addition to attributing costs to the services causing those costs, the study allocates all overhead costs to service categories. The Missouri Public Service Commission has not approved the use of Part 36/69 as an appropriate method for determining costs on which to base rates. S.T.E. applied the results of their study to the \$1,203,000 deficiency rather than to the \$641,000 revenue request. S.T.E.'s expert stated that applying the Part 36/69 study results to the \$1,203,000 deficiency showed that approximately \$578,000 should be attributed to access services and approximately \$625,000 to local services. Because it expects to receive \$500,000 to \$600,000 in USF funds in two years, the company then reasoned that it would be appropriate to request only \$641,000 to make up the shortfall. Mr. Kehr testified that S.T.E. is a high-cost company which receives USF support.

Staff countered that S.T.E.'s proposed rate design is one-sided and unfairly allocates most of the increase in rates to access customers.

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<sup>4</sup> 47 C.F.R. 1, Part 36, Part 69 (1994).



Staff believes that local customers benefit from the modernization of S.T.E.'s facilities and should pay a higher proportion of the associated costs through basic local rates. Furthermore, an increase is appropriate since S.T.E.'s local customers have not experienced a rate increase in more than ten years. Staff believes the Part 36/69 cost study is inappropriate as a basis for rate design because Parts 36 and 69 were not developed as a rate design tool, but to separate a company's services between federal and state jurisdictions. Staff argued that the future receipt of USF funds is somewhat speculative in that the FCC is currently reviewing the USF system.

Staff offered its own rate design proposal that would allocate approximately 41% of the \$641,000 revenue requirement to local customers and 59% to access customers. Local residential customers would experience a 72.29% increase and business customers would experience a 72.37% increase in rates; access customers would experience an overall average increase of 35.52%. Ms. Lecure testified that she determined the rates for Staff's proposal by using a three-step process: (1) she determined the weighted average rates that Missouri LEC customers pay for basic local services (R-1<sup>5</sup> = \$9.37 per month; B-1 = \$14.43 per month) and increased S.T.E.'s local rates to those figures; (2) she subtracted the revenue generated from her basic local rate increase, and the revenue generated by the company's proposed non-basic local rate increases (\$133,039) from the total revenue requirement of \$641,000; and, (3) she allocated the remaining \$507,961 of the revenue requirement 25.74% to local service, 60.40% to switched access customers, 2.39% to private line and special access services, and 11.46% to billing and collection (B&C) services. The percentages used in step 3

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<sup>5</sup>R-1 indicates single-line residential service; B-1 indicates single-line business service.

reflect the percentages of revenue that these services currently contribute to total revenue. The resulting rates Staff proposed for basic local service are set out in the following table:

**Staff of the Missouri Public Service Commission  
Proposed Rate Design - Basic Local Rates**

| <b>Service:</b>            | <b>Current Rate:</b>      | <b>Proposed Rate:</b>  |
|----------------------------|---------------------------|------------------------|
| <b>Residential<br/>R-1</b> | \$ 7.00 without touchtone | \$12.06 with touchtone |
| <b>Business<br/>B-1</b>    | \$10.75 without touchtone | \$18.53 with touchtone |

In response to criticism of Staff's proposal by the Office of the Public Counsel (OPC), Staff's witness, Ms. Raye Ann Lecure, testified that value of service pricing has its uses in setting rates for telecommunications companies with multiple rate bands. She stated further that, in setting rates for a particular LEC, calling scope is only one of the factors that must be considered. She pointed out that although S.T.E. has a small calling scope it provides "some big city services" which are of value to their local customers.

AT&T and SWBT both offered rate design proposals and alternative proposals. As S.T.E.'s major access customers, both stated that access rates should be kept as low as possible and should not result in unnecessary subsidization of basic local services. AT&T proposed that the Commission extend the historical revenue relationship for S.T.E.'s access (including B&C) to local services of 2.2:1. SWBT argued that S.T.E. is currently too dependent on access charges (both interstate and intrastate) and that the company's proposal would result in an even greater proportion of revenue coming from access. SWBT proposed that basic local rates should reflect the fact that the service is being provided to a high-cost area and that they be increased beyond the level proposed by Staff.

AT&T's and SWBT's original and alternative proposals are set out in the table below. MICPA took no position on the rate design issues.

**AT&T and SWBT  
Proposed Rate Designs - Basic Local Rates**

| <b>Party:</b>                 | <b>Proposed R-1 Rate:<br/>(with touchtone)</b> | <b>Proposed B-1 Rate:<br/>(with touchtone)</b> |
|-------------------------------|--|--|
| <b>Current rates:</b>         | \$ 7.00<br>(without touchtone)                 | \$ 8.00<br>(without touchtone)                 |
| <b>AT&amp;T (permanent)</b>   | \$ 22.00                                       | \$ 33.00                                       |
| <b>AT&amp;T (1st interim)</b> | \$ 12.25                                       | \$ 18.75                                       |
| <b>AT&amp;T (2nd interim)</b> | \$ 17.00                                       | \$ 25.50                                       |
| <b>SWBT (permanent)</b>       | \$ 23.00                                       | \$ 35.00                                       |
| <b>SWBT (interim)</b>         | \$ 18.05                                       | \$ 27.57                                       |

OPC supported S.T.E.'s rate design proposal in full. OPC argued that Staff failed to consider the impact of USF funds and that the benefit of those funds should not be diverted from local customers to reduce access rates. OPC stated that basing S.T.E.'s local rates on a weighted statewide average results in unreasonable rates. OPC's witness, Mr. Russell Trippensee, stated that Staff's approach was not appropriate because Staff included in its calculations rates for St. Louis and Kansas City, areas where the LECs can offer much greater calling scopes than S.T.E. can offer. Mr. Trippensee offered comparisons of S.T.E.'s proposed rates to average rates calculated for companies with similar numbers of access lines, i.e., 4,000 or less. He testified in favor of value of service pricing which would call for a direct relationship between basic local rates and the calling scope available to local customers. Mr. Trippensee testified that interstate and intrastate access charges typically constitute a higher percentage of the total revenue stream in rural areas than in metropolitan areas.

OPC opposed AT&T's proposal for basic local rates as unreasonable because it was not based on a cost study and because it proposes the preservation of revenue relationships between local and access services dating from 1988. OPC opposed SWBT's proposal for basic local rates as unreasonable because it relied on revenue relationships and ignored the effect of calling scope on rates.

The Commission agrees with S.T.E., OPC, and Staff that rolling the charges for touchtone service into the basic local rate is an appropriate recognition of the fact that touchtone technology has become a standard part of local services, and a roll-in of the cost is in the public interest. The evidence supports the conclusion that the modernization plan S.T.E. has implemented provides benefits to local customers as well as access customers. Basic local customers receive benefits from the plant modernization such as improved reliability and enhanced services. Therefore, basic local customers should bear a reasonable portion of the costs.

The Commission is reluctant to see the overwhelming majority of the cost of that modernization program assigned to access customers and is concerned about the high proportionate share of revenue generated from access service by small LECs. The evidence adduced at the hearing emphasized the current state of affairs in which many small LECs are extremely dependent on access revenues to sustain their operations. Although this is a situation that has existed for years, the telecommunications industry is in a highly transitional state where historical solutions may no longer be appropriate. Small telecommunications companies should be moving away from a high degree of reliance on access revenues to sustain local services. S.T.E.'s proposal fails to adequately address this issue. Although Staff has suggested a

resolution to the access/local ratio problem, the Commission is unwilling in this case to impose local rate increases of the magnitude Staff has proposed. Clearly, this reluctance extends to the even higher increases suggested by AT&T and SWBT as well. The rates the Commission chooses to approve in this Report and Order are intended to move in the direction of a more appropriate balance between access and basic local service revenues.

The Commission is sensitive to the problem of "rate shock" when dealing with basic local rates. In keeping with its mission of keeping rates reasonable and affordable for the people of Missouri, the Commission must consider the importance of providing universal service, even in high cost areas, and the need to seek a balance among the competing telecommunications customer groups.

Missouri LECs serving high cost exchanges should be cautious about the degree of their dependence on USF funding. The USF may continue as it presently operates or its operations may be substantially modified. There is no way to predict with certainty what impact such changes might have on small telecommunications companies. Some of the parties' witnesses testified to the desirability of a state universal service fund and, indeed, such a fund is now being discussed by the General Assembly. However, at present no such resource exists in Missouri as a support for local service revenues.

The Commission has carefully evaluated the proposals set out by all the parties and finds that S.T.E.'s proposal, which is supported by OPC, of an \$8.00/month residential rate and \$11.75/month business rate allocates too much of the revenue requirement to access services. The Commission finds that the proposals offered by Staff, AT&T and SWBT create basic local rates that are unreasonably high. Instead, the Commission is persuaded that the most reasonable distribution of the \$641,000 revenue

increase calls for the following basic local rate structure:

Single-line residential:     \$ 8.95/month with roll-in of touchtone service

Single-line business:         \$ 14.45/month with roll-in of touchtone service

b.     Non-basic Local Services: S.T.E. proposed increasing some rates for existing non-basic local telecommunications services and establishing rates for some new services. In particular the company proposed increases for payphone calls, nonpublished directory listing, and intraexchange private line services. S.T.E. proposed to establish new hunt group rates and features. Staff and OPC support S.T.E.'s proposed increases in non-basic local service rates and rates established for new services. MICPA takes no position on these increases, other than payphone increases discussed below; AT&T and SWBT are not opposed to these rate changes.

The Commission finds that the increases in non-basic local services and institution of the new services and charges described above and agreed upon by S.T.E., Staff and OPC represent a reasonable method of recovering a portion of S.T.E.'s revenue requirement and should be approved.

c.     Customer Owned Coin Telephone (COCOT) Rates: S.T.E. proposed several changes in COCOT rates. Specifically, S.T.E. proposed elimination of the monthly per call rate of \$.13, \$.15, and \$.17, and the monthly usage surrogate rate of \$30.00 which is charged in lieu of the per call rate; Staff and MICPA supported this proposal. S.T.E. proposed reduction of the selective class of call screening charge from \$4.00 to \$2.00; Staff and MICPA supported this proposal. Finally, S.T.E. proposed reduction of the monthly COCOT access charge from \$30.00 to \$15.00. MICPA generally supported the company's proposal, but also argued that the COCOT

rate should be the same as the rate for single-line business service. Staff supported the reduction to \$15.00, but also recommended that if the Commission adopts a B-1 rate higher than \$15.00 the COCOT rate should be set at the B-1 rate. OPC, AT&T and SWBT took no position on the COCOT issues.

The Commission finds that the proposed adjustments to COCOT rates assign a reasonable portion of the revenue increase to payphone services and should be approved. The Commission is also of the opinion that S.T.E.'s proposal of a \$15.00 monthly rate for payphone services is reasonable and should be approved.

**2. Intrastate Access Services:**

**a. Switched Access:** S.T.E. proposed to increase switched access charges by a total of \$700,435. (The rate design would result in a net increase in access revenues of \$577,603 when the proposed increases to switched and special access are offset by the proposed decrease to B&C charges.) S.T.E.'s proposal included elimination of the discount cap presently in place as a result of the Primary Toll Carrier (PTC) Plan, and parity between interLATA and intraLATA carrier common line (CCL) charges. S.T.E.'s proposal for access rate charges would result in access providing approximately 90% of its revenues. The evidence indicated that currently S.T.E. receives approximately 70% of its revenues from access charges. More than one witness testified to the fact that interstate and intrastate access charges typically constitute a higher percentage of the total revenue stream in rural areas than in metropolitan areas.

Staff proposed to increase switched access charges by a total of \$306,814. Staff agreed with the company's proposals to eliminate the discount cap and institute interLATA/intraLATA parity. Staff proposed

lower rates for access services generally and proposed that the originating CCL charge be lowered to .0100. Staff reasoned that a low originating CCL charge would encourage increased use of toll and interexchange services. S.T.E.'s current CCL charges show a 1.71:1 ratio between terminating and originating interLATA access rates. S.T.E.'s proposed rates would result in a 5.84:1 ratio. Staff proposed setting these charges at a 7.85:1 ratio.

The Commission is convinced that the proposals supported by S.T.E., OPC and Staff to establish parity between interLATA and intraLATA CCL charges and to eliminate the discount cap are reasonable and appropriate. The Commission understands Staff's proposal for encouraging the use of interexchange services by setting a low originating CCL rate. However, the Commission finds that the more moderate ratio between originating and terminating CCL charges set out in S.T.E.'s proposal of 5.84:1 is a more reasonable approach. The Commission has fully discussed its rationale for allocating the proportions of the \$641,000 revenue increase between basic local and access charges which the Commission believes is a step toward achieving a reasonable balance between these charges. The Commission finds that S.T.E.'s rates for interLATA and intraLATA switched access services should be residually priced after the Commission's decision has been applied to basic and non-basic local and COCOT services, special/private line and billing and collection services. These switched access rates must be set using S.T.E.'s rate design on the basis of interLATA/intraLATA parity and elimination of the discount cap.

**b. Special/Private Line:** OPC supported S.T.E.'s proposal to increase special access charges by a total of \$11,981. Staff agreed that special access charges should be raised but proposed an increase of \$12,162. The difference in the two figures is based on the fact that S.T.E. used a Part 36/69 cost study in determining the revenue to allocate



to this class of services, while Staff used a percentage allocation methodology. MICPA took no position on these increases and SWBT did not oppose them. AT&T opposed any increases in access rates on the grounds that S.T.E.'s current rates are too high and should be reduced.

Since the Commission intends to increase both access and local rate elements in this case, it is appropriate for special/private line services to provide a portion of the revenue increase along with other services. The Commission finds that Staff's proposal, which calls for increases of \$12,159.42 in special access/private line services, is reasonable and should be approved.

c. Billing and Collection: S.T.E. proposed a reduction totaling \$134,814.25 in charges for B&C services. The proposal included significantly reducing rates for message processing, CMDS II, and bill processing, and eliminating charges for message recording and bill rendering. S.T.E.'s position was that B&C is a competitive service and that some interexchange carriers are choosing to perform those functions for themselves. S.T.E. argued that the demand for these services is dropping because they are priced too high and the charges should be reduced to enable the company to retain its customers. OPC supported the company's position even though Mr. Trippensee testified that there are costs associated with bill rendering, a service for which the company wishes to charge nothing.

Staff proposed an increase of \$58,218 in charges for B&C services. Staff argued that although the company claimed B&C services are losing revenue the data indicates a slight increase in B&C revenues in recent years. S.T.E.'s expert, Mr. Van Ruler, testified that S.T.E. has not yet been significantly affected by interexchange carriers taking back B&C functions, and stated that the company's B&C revenues have actually

increased. His testimony was corroborated by Exhibit 27-HC (highly confidential). SWBT and AT&T opposed any increase to B&C charges on the grounds that S.T.E.'s access rates are unreasonably high. SWBT, as a party to the PTC Plan, is obligated to have its B&C functions performed by S.T.E.

The Commission is of the opinion that the company has failed to justify a reduction in B&C charges. Although there was testimony that AT&T has reclaimed some of its B&C functions, the evidence does not support the company's contention that B&C services are losing revenue. The company's approach to B&C casts doubt on the credibility of its reliance on the Part 36/69 cost study. Since the company incurs costs in providing B&C services, the use of a cost study should not have resulted in elimination of the charges for cost-causing elements. On the other hand, AT&T's witness testified that AT&T is taking back some B&C functions in order to save money. Therefore, the Commission is not convinced that an increase in these charges is in order. The Commission finds that billing and collection rates should remain at their current level.

#### **CONCLUSIONS OF LAW**

The Missouri Public Service Commission has reached the following conclusions of law:

The Commission has jurisdiction over the operations of, and the rates charged by, Steelville Telephone Exchange, Inc. pursuant to Chapters 386 and 392 of the Revised Statutes of Missouri (1994). S.T.E. submitted tariff sheets that would increase rates for local telecommunications services pursuant to the small telephone company proceeding of § 392.230.4 - .5. The Commission suspended the proposed tariff sheets and set the matter for an evidentiary hearing. Section 392.230.5 provides that the Commission must issue an order within 150 days from the effective date of the filed tariff sheets or the filed rates become effective by operation

of law. The operation of law date for this case is April 29, 1996. The Commission conducted a hearing and received evidence and has made the above findings of fact based on a review of all the competent and substantial evidence on record, the exhibits filed after the hearing, and the briefs of the parties.

The burden of proof to show that a proposed rate is just and reasonable is upon the telecommunications company. See § 392.230.6. The Commission concludes that S.T.E. has failed to meet its burden of proof to show that the rates proposed in this case for the telecommunications services it provides are reasonable. The Commission finds that S.T.E.'s filing should be rejected and the company should file tariff sheets in conformance with its findings of fact.

**IT IS THEREFORE ORDERED:**

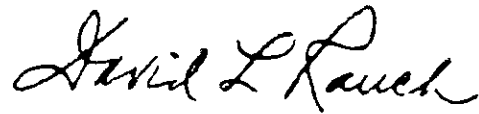
1. That the tariffs filed by Steelville Telephone Exchange, Inc. in Case No. TR-96-123 are hereby rejected, and the Company is authorized to file in lieu thereof, for approval by this Commission, revised tariffs designed to increase gross and annual revenues by \$641,000, exclusive of gross receipts and franchise taxes; and that said revised tariffs shall be in conformance with the rate design and other findings contained in this Report and Order.

2. That late-filed exhibits numbered 29-HC, 36, and 37 are received into evidence.

3. That Commission Exhibits 38 - 41 are received into the record.

4. That this Report and Order shall become effective on April 29, 1996.

BY THE COMMISSION

A handwritten signature in cursive script, reading "David L. Rauch".

David L. Rauch  
Executive Secretary

(S E A L)

Zobrist, Chm., McClure, Kincheloe,  
Crompton and Drainer, CC., Concur and  
certify compliance with the provisions  
of Section 536.080, RSMo 1994.

Dated at Jefferson City, Missouri,  
on this 19th day of April, 1996.

# Steelville Telephone Exchange, Inc. Depreciation Rates

CASE NO. TR-96-123

| Account                          | Present<br>Rate % | Account<br>Number | Net<br>Salvage | Average<br>Service Life | Proposed<br>Rate (%) |
|----------------------------------|-------------------|-------------------|----------------|-------------------------|----------------------|
| Land Improvements                | 2.00              | 2110.2            | 2.0            | 35.0                    | 2.80                 |
| Vehicles - Combined              | 17.50             | 2112.0            | 12             | 8.6                     | 10.23                |
| Other Work Equipment-Small Tools | 8.00              | 2116.2            | 6              | 14.0                    | 6.71                 |
| Mobile Telephones                | 8.00              | 2116.35           | 6              | 14.0                    | 6.71                 |
| Trenchers                        | 10.00             | 2116.40           | 6              | 14.0                    | 6.71                 |
| Buildings                        | 2.00              | 2121              | 2              | 35.0                    | 2.80                 |
| Furniture                        | 3.20              | 2122              | 6              | 14.0                    | 6.71                 |
| Office Equipment                 | 8.00              | 2123              | 3              | 10.0                    | 9.70                 |
| General Purpose Computers        | 8.00              | 2124              | 13             | 6.4                     | 13.59                |
| Digital Switching                | 3.30              | 2212              | 0              | 15.0                    | 6.67                 |
| Mobilephone System               | 3.30              | 2231.4            | 2              | 11.3                    | 8.67                 |
| Circuit-Trunk                    | 3.30              | 2232.1            | -3             | 10.0                    | 10.30                |
| Circuit-Subscriber               | 3.30              | 2232.2            | -3             | 10.0                    | 10.30                |
| Fiber Terminal Equipment         | 3.30              | 2232.3            | -3             | 10.0                    | 10.30                |
| Station App-Pvt Line             | 5.00              | 2311              | 10             | 10.3                    | 8.74                 |
| Paystations                      | 5.00              | 2351              | 10             | 10.3                    | 8.74                 |
| Pole Lines                       | 4.20              | 2411              | -30            | 21.0                    | 6.19                 |
| Aerial Cable - Metallic          | 3.50              | 2421.1            | -16            | 21.0                    | 5.52                 |
| Aerial Cable - Fiber             | 3.50              | 2421.12           | -10            | 21.0                    | 5.24                 |
| Aerial Cable - Drop              | 5.00              | 2421.2            | -15            | 17.0                    | 6.76                 |
| Underground Cable - Metallic     | 3.60              | 2422.1            | -5             | 26.0                    | 4.04                 |
| Underground Cable - Fiber        | 3.60              | 2422.12           | -5             | 28.0                    | 3.75                 |
| Buried Cable - Metallic          | 3.60              | 2423.1            | -3             | 24.0                    | 4.29                 |
| Buried Cable - Fiber             | 3.60              | 2423.12           | -3             | 28.0                    | 3.68                 |
| Buried Cable - Drop              | 3.60              | 2423.11           | -2             | 21.0                    | 4.86                 |
| Aerial Wire                      | 5.00              | 2431              | -70            | 12.0                    | 14.17                |
| Conduit Systems                  | 3.60              | 2441              | 0              | 50.0                    | 2.00                 |

Steelville Telephone Exchange, Inc.  
Case No. TR-96-123  
Amortization Schedule

|                   | (A)                              | (B)                 | (C)                      | (D)                 | (E)                   | (F)                     | (G)                 | (H)                   |
|-------------------|----------------------------------|---------------------|--------------------------|---------------------|-----------------------|-------------------------|---------------------|-----------------------|
|                   | Under Recovered Plant in Service |                     |                          |                     |                       | Unrecovered Retirements |                     | Total Amortization    |
| Account No.:      | 2212.0                           | 2232.2              | 2232.3                   | 2423.1              |                       | TAO 994                 | 94-95               |                       |
| Account Name:     | Digital Switch                   | Circuit Subscriber  | Fiber Terminal Equipment | Buried Cable        | Sub-Total             |                         | Retirements         |                       |
| 1995 Amortization | \$88,697.80                      | \$61,111.20         | \$14,807.20              | \$85,277.20         | \$249,893.40          | \$173,874.00            | \$103,182.80        | \$353,076.20          |
| 1996 Amortization | \$88,697.80                      | \$61,111.20         | \$14,807.20              | \$85,277.20         | \$249,893.40          | \$173,874.00            | \$103,182.80        | \$353,076.20          |
| 1997 Amortization | \$88,697.80                      | \$61,111.20         | \$14,807.20              | \$85,277.20         | \$249,893.40          | \$173,874.00            | \$103,182.80        | \$353,076.20          |
| 1998 Amortization | \$88,697.80                      | \$61,111.20         | \$14,807.20              | \$85,277.20         | \$249,893.40          | \$173,874.00            | \$103,182.80        | \$353,076.20          |
| 1999 Amortization | \$88,697.80                      | \$61,111.20         | \$14,807.20              | \$85,277.20         | \$249,893.40          | \$173,874.00            | \$103,182.80        | \$353,076.20          |
| Total             | <u>\$443,489.00</u>              | <u>\$305,556.00</u> | <u>\$74,036.00</u>       | <u>\$426,386.00</u> | <u>\$1,249,467.00</u> | <u>\$695,496.00</u>     | <u>\$515,914.00</u> | <u>\$1,765,381.00</u> |

\* Shaded area represents amortization amounts previously authorized by this Commission, and are not included in the Total Amortization column.