General Telephone Company
Of The Midwest

11 Eleventh Ave.
Grinnell, Iowa 50112

December 12, 1986
LR 10-12-1

Mr. Harvey G. Hubbs, Secretary
Missouri Public Service Commission
Truman State Office Building
5th Floor, 301 West High Street
P. O. Box 360
Jefferson City, Missouri 65102

Dear Mr. Hubbs:

SUBJECT: CASE NO. AO-87-48 - IMPACT OF TAX REFORM ACT OF 1986

As requested in Case No. AO-87-48, issued November 3, 1986, General Telephone Company of the Midwest (General) provides the enclosed response quantifying the effects of the Tax Reform Bill of 1986. This is based upon a historical test year data ending June 30, 1986 consistent with the unadjusted data that was filed in our rate case TR-86-148. Further details identifying the impact on calendar year 1986 will be forthcoming as requested.

General will assist and fully cooperate with the Commission and its Staff in evaluating the effects of the Tax Reform of 1986. General has determined that the impact of the tax changes does not have a significant impact on the Company's projected intrastate rate of return (assuming no other things change) until 1988, when it increases from 8.08% in 1985 to 8.64%. However, even in 1988, the Company is earning substantially below the Company's last authorized rate of return of 11.28%. General does not believe that any rates should be adjusted since the Company's projected return is substantially below the authorized level.

The Commission has sufficient time to conduct its investigations and afford hearings to requesting companies before the tax legislation is effective on July 1, 1987. In conducting investigations, General suggests that the Commission not limit its focus to the impending Tax Reform, but also consider a number of other significant changes in the telephone industry which affect each telephone company's revenue requirement. These changes include implementation of the revised FCC Uniform System of Accounts, the deregulation of embedded customer premise equipment, the recovery of non-traffic sensitive costs, and the requirement for greater capital recovery associated with existing telephone plant. General believes that these items are just as important as the Tax Reform Act and should be considered in determining what, if any, action the Commission deems appropriate.

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General strongly points out that the Tax Reform impacts included in this package are based upon twelve months of unadjusted earnings ending June 30, 1986, and the industry environment as it existed during that time. The Tax Reform impacts and base level of earnings for this time in no way represent General's future earnings and anticipated Tax Reform impacts.

Should you have any questions regarding this submission, please contact Kip Hendrickson, State Director-Regulatory Affairs, at (515) 269-2807.

Sincerely,

Kip Hendrickson

for L. D. ABBOTT
Vice President-Revenue Requirements

LDA:GGY:lld

Enclosure