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December 15, 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 Fidelity 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

WRE/da

Enclosures

cc: Office of Public Counsel
Mr. Evan Copsey
Mr. Clint Frederick

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OFFICE OF THE SECRETARY
PUBLIC SERVICE COMMISSION

RESPONSE OF FIDELITY TELEPHONE COMPANY

CASE NO. A0-87-48

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, 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	\$217,058
Annual effect (1988) after full phase-in of TRA-86	(36,346)
Jurisdictional effect of deferred income tax change	<u>2,259</u>
Increase required	<u>\$182,971</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, 1985 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 1985 through 1988. Each income statement takes into account the changes in the federal income tax amounts. The jurisdictional portion of the total is shown with a

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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 \$217,058.

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 \$53,573. Of the reduction in revenue requirement, \$15,301 would flow through to the local exchange service rates.

The 1988 pro forma adjustments further reduce the revenue requirement \$52,392, of which \$21,045 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 1985 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 1985 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, 1985. 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 \$799,254 is the amount recorded on the books at December 31, 1985 resulted from timing differences totaling \$1,648,000. 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 \$596,910 or a decrease of \$202,344. To normalize the \$202,344 reduction in the deferred income tax it is necessary to amortize the amounts over the remaining life of the property or 11.62 years. The jurisdictional portion of the amortization amounts to \$13,758.
- Exhibit 12 - Exhibit 12 develops the average remaining life of plant currently in service or 11.62 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 \$202,000 increase in deferred income tax will increase the rate base \$101,000. When the rate of return is applied to the increased rate base, the return requirement is increased approximately \$13,000. 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 \$2,859 on an annual basis is reflected. The jurisdictional portion or 79% amounts to \$2,259.

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.

Questions concerning this response should be directed to Clint Frederick, C.P.A. or Mike Noack, 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, 1985

	<u>Total</u>	<u>Jurisdictional</u>
<u>Rate Base</u>		
Utility plant in service	\$13,767,771	\$ 10,880,780
Reserve for depreciation	<u>6,739,252</u>	<u>5,349,861</u>
Net plant	7,028,519	5,530,919
Materials and supplies	73,471	57,900
Prepayments	-	-
Cash working capital (Page 2)	N/A	263,133
Less: deferred taxes - accelerated depreciation	(799,254)	<u>(631,461)</u>
Total jurisdictional rate base		<u>\$ 5,220,491</u>
Rate of return		<u>12.78%</u>
Required operating income		<u>\$ 667,179</u>

Capital structure	<u>Amount</u>	<u>Percent</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-term debt	\$1,789,902	27.37%	8.83%	2.42%
Preferred stock	121,600	1.86	5.50	.10
Common equity	<u>4,627,587</u>	<u>70.77</u>	14.50	<u>10.26</u>
Total	<u>\$6,539,089</u>	<u>100.00%</u>		<u>12.78%</u>

FIDELITY TELEPHONE COMPANY

CASH WORKING CAPITAL

DECEMBER 31, 1985

	<u>Jurisdictional Balance</u>	<u>Items Not Considered</u>	<u>Working Capital Items</u>
Maintenance	\$ 801,529	\$ -	\$ 801,529
Traffic	427,198	-	427,198
Commercial	126,877	-	126,877
General office and other	1,183,320	-	1,183,320
Operating taxes	164,860	-	164,860
Depreciation	582,171	582,171	-
Income taxes	296,483	296,483	-
Total	<u>\$ 3,582,438</u>	<u>\$ 878,654</u>	<u>\$2,703,784</u>
45 day allowance (12½%)			\$ 337,973
Less - 15 day provision for collection of exchange revenue (\$1,309,775 x 15/365)			<u>53,826</u>
Net cash working capital requirement			284,147
Less - (150/365 of property taxes of \$51,135)			<u>21,014</u>
Cash working capital requirement			<u>\$ 263,133</u>

FIDELITY TELEPHONE COMPANY

EXHIBIT 2

INCOME STATEMENT

DECEMBER 31, 1985

	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	\$ 1,309,775	\$ 1,309,775	\$ 217,058	\$ 1,526,833	\$ (15,301)	\$1,511,532	\$ (21,045)	\$1,490,487
Toll service revenue	3,755,688	2,626,620	-	2,626,620	(38,272)	2,588,348	(31,347)	2,557,001
Directory revenue	157,283	157,283	-	157,283	-	157,283	-	157,283
Miscellaneous revenue	84,838	84,838	-	84,838	-	84,838	-	84,838
Total	5,307,584	4,178,516	217,058	4,395,574	(53,573)	4,342,001	(52,392)	4,289,609
Less: Uncollectibles	30,758	30,758	-	30,758	-	30,758	-	30,758
Total operating revenues	<u>5,276,826</u>	<u>4,147,758</u>	<u>217,058</u>	<u>4,364,816</u>	<u>(53,573)</u>	<u>4,311,243</u>	<u>(52,392)</u>	<u>4,258,851</u>
OPERATING EXPENSES								
Maintenance expenses	996,254	801,529	-	801,529		801,529		801,529
Depreciation expense	737,257	582,171	-	582,171		582,171		582,171
Traffic expenses	636,524	427,198	-	427,198		427,198		427,198
Commercial expenses	139,446	126,877	-	126,877		126,877		126,877
General office and other operating expenses	1,545,113	1,183,320	-	1,183,320		1,183,320		1,183,320
Federal and state income taxes	296,202	266,878	134,224	401,102	(48,438)	352,664	(47,381)	305,283
Investment tax credit - net (Exhibit 3)	(892)	(705)	(31,137)	(31,842)		(31,842)		(31,842)
Provision for deferred income taxes	53,694	42,422	-	42,422	(5,135)	37,287	(5,011)	32,276
Other operating taxes	215,963	164,860	-	164,860		164,860		164,860
Total operating expenses	<u>4,619,561</u>	<u>3,594,550</u>	<u>103,087</u>	<u>3,697,637</u>	<u>(53,573)</u>	<u>3,644,064</u>	<u>(52,392)</u>	<u>3,591,672</u>
NET OPERATING INCOME (Exhibit 1)	657,265	553,208	113,971	667,179	-	667,179	-	667,179
OTHER INCOME								
Non-utility income	<u>112,830</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
INCOME AVAILABLE FOR FIXED CHARGES	<u>770,095</u>	<u>553,208</u>	<u>113,971</u>	<u>667,179</u>	<u>-</u>	<u>667,179</u>	<u>-</u>	<u>667,179</u>
FIXED CHARGES								
Interest expense	180,622	144,092		144,092		144,092		144,092
Amortization of long-term debt expense	3,382	2,698	-	2,698	-	2,698	-	2,698
Total fixed charges	<u>184,004</u>	<u>146,790</u>	<u>-</u>	<u>146,790</u>	<u>-</u>	<u>146,790</u>	<u>-</u>	<u>146,790</u>
NET INCOME	<u>\$ 586,091</u>	<u>\$ 406,418</u>	<u>\$ 113,973</u>	<u>\$ 520,389</u>	<u>\$ -</u>	<u>\$ 520,389</u>	<u>\$ -</u>	<u>\$ 520,389</u>

FIDELITY TELEPHONE COMPANY

INCOME TAXES

DECEMBER 31, 1985

	Total Company	Jurisdictional Portion
Investment credit	\$ 39,398	\$ 31,137
Investment credit amortization	40,314	31,860
Net	(916)	(723)
Unrecorded difference	<u>24</u>	<u>18</u>
Per books	<u>\$ (892)</u>	<u>\$ (705)</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%

38.776%
 3.061%

32.858%
 3.357%

Combined tax rate = 47.493%

41.837%

36.216%

Reciprocal rate = 52.507%

58.163%

63.784%

Conversion factor = 1.9045

1.7193%

1.5678%

FIDELITY TELEPHONE COMPANY

EXHIBIT 4

JURISDICTIONAL INCOME TAX CALCULATION

<u>1985 Jurisdictional</u>	<u>Total</u>	<u>Deferred</u>	<u>Current</u>
Net income	\$406,418		
Add: Federal and state income tax	266,878		
Deferred income tax	42,422		
Less: ITC - net	<u>(705)</u>		
Income before tax	715,013		
State income tax	<u>21,354</u> ⁽¹⁾	\$ 2,468	\$ 18,886
Taxable for federal	693,659		
Tax rate	<u>46%</u>		
Federal tax	319,083		
Less ITC	<u>(31,137)</u>		
Net federal tax	<u>287,946</u>	<u>39,954</u>	<u>247,992</u>
Total income taxes	<u>\$309,300</u>	<u>\$ 42,422</u>	<u>\$266,878</u>

- (1) $FIT = .46 (TI - ST) - 31,137$
 $SIT = .05 (TI - FIT)$
 $SIT = .05TI - .023TI + .023ST + 1,557$
 $.977 SIT = .027 TI + 1,557$
 $SIT = .0276356 TI + 1,594$
 $SIT = \$21,354$

FIDELITY TELEPHONE COMPANY
PRO FORMA INCOME TAX CALCULATION

EXHIBIT 5

1986 Jurisdictional

1985 jurisdictional operating income	\$553,208
Required operating income	<u>667,179</u>
Deficiency	113,971
1986 Conversion factor (Exhibit 3)	<u>1.9045</u>
Revenue increase	217,058
Less: operating income	<u>113,971</u>
Increased income taxes - total	103,087
Elimination of investment credit	<u>31,137</u>
Pro forma current income tax adjustment	<u>\$134,224</u>

FIDELITY TELEPHONE COMPANY
JURISDICTIONAL INCOME TAX CALCULATION

EXHIBIT 6

	<u>1987</u>	<u>1988</u>
Pretax income based on 1986 (1)	\$932,071	\$932,071
Combined federal and state tax rate (Exhibit 3)	41.837%	36.216%
Total income tax	389,951	337,559
Less: adjusted deferred tax (Exhibit 7)	<u>37,287</u>	<u>32,276</u>
Current income taxes	<u>\$352,664</u>	<u>\$305,283</u>

(1) 1986 net income as adjusted	\$520,389
Federal and state income taxes	401,102
Deferred federal and state income taxes	42,422
Investment tax credit amortization	<u>(31,842)</u>
Pretax net income	<u>\$932,071</u>

FIDELITY TELEPHONE COMPANY

EXHIBIT 7

COMPUTATION OF DEFERRED INCOME TAXES

	<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	\$ 71,433	\$ 71,433
Removal costs expensed	<u>41,624</u>	<u>41,624</u>
Total	<u>\$113,057</u>	<u>\$113,057</u>
Deferred taxes	<u>43,839</u>	<u>3,461</u>
Non-operating:		
Excess tax depreciation	<u>(254)</u>	<u>(254)</u>
Deferred tax	<u>(98)</u>	<u>(8)</u>
Total deferred taxes	<u>\$ 43,741</u>	<u>\$ 3,453</u>
Jurisdictional portion at 79.007%	<u>\$ 34,559</u>	<u>\$ 2,728</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	\$ 71,433	\$ 71,433
Removal costs expensed	<u>41,624</u>	<u>41,624</u>
Total	<u>\$113,057</u>	<u>\$113,057</u>
Deferred taxes	<u>37,149</u>	<u>3,795</u>
Non-operating:		
Excess tax depreciation	<u>(254)</u>	<u>(254)</u>
Deferred tax	<u>(83)</u>	<u>(9)</u>
Total deferred taxes	<u>\$ 37,066</u>	<u>\$ 3,786</u>
Jurisdictional portion at 79.007%	<u>\$ 29,285</u>	<u>\$ 2,991</u>

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FIDELITY TELEPHONE COMPANY - 12/31/1985

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SUMMARY OF TOLL REVENUE REQUIREMENT

DESCRIPTION	TOTAL COMPANY	SOURCE	MESSAGE TOLL				PRIVATE LINE				TOTAL TOLL	TW	F
			INTRASTATE		INTERSTATE		INTRASTATE		INTERSTATE				
			INTRALATA	INTERLATA	INTRALATA	INTERLATA	INTRALATA	INTERLATA	INTRALATA	INTERLATA			
1 NET INVESTMENT	6744214	S-2, LN 44	2652352	477178	52385	1298836	37561	5810	0	28787	4536910	4813	36843
2 RATE OF RETURN			9.7380%	12.2283%	12.7580%	12.7229%	9.7380%	11.8280%	12.7580%	12.7580%		9.7380%	9.7380%
3 RETURN ON INVESTMENT		LN 1+LN 2	258874	58314	6679	164232	3655	687	0	2650	494299	390	3585
4 INTEREST DURING CONSTRUCTION	0	S-8, LN 19	0	0	0	0	0	0	0	0	0	0	0
5 NET RETURN FOR SETTLEMENTS		LN 3-LN 4	258874	58314	6679	164232	3655	687	0	2650	494299	390	3585
6 FIXED CHARGES	184883	S-8, LN 20	72364	13819	1429	35218	1825	159	0	567	123781	189	1885
7 OTHER INCOME ADJUSTMENTS	0	S-8, LN 25	0	0	0	0	0	0	0	0	0	0	0
8 TOTAL INCOME ADJUSTMENTS		LN 6+LN 7	72364	13819	1429	35218	1825	159	0	567	123781	189	1885
9 ITC AMORTIZATION	39487	S-8, LN 22	15665	2789	338	7813	245	39	0	137	27818	27	226
10 FIT BASE		LN 5-8-9	178844	42585	4919	121281	2385	498	0	1946	343491	254	2354
11 FEDERAL INCOME TAX			135522	33876	3921	96595	1981	398	0	1551	273757	282	1876
12 RESERVED													
13 NET FEDERAL INCOME TAX		LN 11-LN 12	135522	33876	3921	96595	1981	398	0	1551	273757	282	1876
14 ITC USED	39398	S-8, LN 21	15638	2783	338	7795	244	38	0	137	26957	27	225
15 SIT BASE		LN 9+10-14	178888	42512	4928	121219	2386	498	0	1947	343552	254	2355
16 STATE INCOME TAX			9652	2413	279	6879	135	28	0	118	19497	14	134
17 RESERVED													
18 NET STATE INCOME TAX		LN 16-LN 17	9652	2413	279	6879	135	28	0	118	19497	14	134
19 OPERATING EXPENSES	4176466	S-8, LN 14	1862329	258776	27172	948332	16165	2616	0	9181	3124498	1687	11177
20 NON-OPERATING EXPENSE	1598	S-8, LN 18	738	89	9	387	5	1	0	3	1225	1	4
21 BASIS FOR G.R./PSC TAX (Ln5-Ln9+Ln13+Ln18+Ln19+Ln20)			2258643	358678	37738	1288612	21616	3683	0	13279	3886241	2188	16549
22 GROSS RECEIPTS/PSC TAX @													
STATE	0.000000		0	0			0	0			0	0	
INTERSTATE	0.000000				0	0			0	0	0		
23 TOLL REVENUE REQUIREMENT			2258643	358678	37738	1288612	21616	3683	0	13279	3886241	2188	16549

11-Dec-86

FIDELITY TELEPHONE COMPANY - 12/31/1985

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 *** DRES DUN & CO. ***

SUMMARY OF TOLL REVENUE REQUIREMENT

DESCRIPTION	TOTAL COMPANY	SOURCE	MESSAGE TOLL				PRIVATE LINE				TOTAL TOLL	TAX	
			INTRASTATE		INTERSTATE		INTRASTATE		INTERSTATE				
			INTRALATA	INTERLATA	INTRALATA	INTERLATA	INTRALATA	INTERLATA	INTRALATA	INTERLATA			
1 NET INVESTMENT	6744214	S-2, LN 44	2652352	477178	52385	1298036	37561	5810	0	28787	4536918	4813	36843
2 RATE OF RETURN			9.7388%	12.2285%	12.7588%	12.7229%	9.7388%	11.8288%	12.7588%	12.7588%		9.7388%	9.7388%
3 RETURN ON INVESTMENT		LN 1+LN 2	258874	58314	6679	164232	3655	687	0	2658	494298	398	3585
4 INTEREST DURING CONSTRUCTION	0	S-8, LN 19	0	0	0	0	0	0	0	0	0	0	0
5 NET RETURN FOR SETTLEMENTS		LN 3-LN 4	258874	58314	6679	164232	3655	687	0	2658	494298	398	3585
6 FIXED CHARGES	184883	S-8, LN 20	72364	13819	1429	35218	1825	159	0	567	123781	189	1885
7 OTHER INCOME ADJUSTMENTS	0	S-8, LN 25	0	0	0	0	0	0	0	0	0	0	0
8 TOTAL INCOME ADJUSTMENTS		LN 6+LN 7	72364	13819	1429	35218	1825	159	0	567	123781	189	1885
9 ITC AMORTIZATION	39487	S-8, LN 22	15665	2789	338	7813	245	39	0	137	27818	27	225
10 FIT BASE		LN 5-8-9	178844	42583	4919	121281	2385	498	0	1946	343491	254	2354
11 FEDERAL INCOME TAX e 40%			185313	26325	3847	75863	1477	383	0	1285	212733	157	1458
12 RESERVED													
13 NET FEDERAL INCOME TAX		LN 11-LN 12	185313	26325	3847	75863	1477	383	0	1285	212733	157	1458
14 ITC USED	39398	S-8, LN 21	15638	2783	338	7795	244	38	0	137	26957	27	225
15 SIT BASE		LN 9+10-14	178888	42512	4928	121219	2386	498	0	1947	343552	254	2355
16 STATE INCOME TAX			9652	2413	279	6879	135	28	0	118	19497	14	134
17 RESERVED													
18 NET STATE INCOME TAX		LN 16-LN 17	9652	2413	279	6879	135	28	0	118	19497	14	134
19 OPERATING EXPENSES	4176465	S-8, LN 14	1862329	258776	27172	948332	16165	2616	0	9181	3124498	1687	11177
20 NON-OPERATING EXPENSE	1598	S-8, LN 18	738	89	9	387	5	1	0	3	1225	1	4
21 BASIS FOR G.R./PSC TAX (LN5-LN9+LN13+LN18+LN19+LN20)			2228433	343127	36856	1187888	21192	3596	0	12933	3825217	2143	16131
22 GROSS RECEIPTS/PSC TAX 0													
STATE	0.000000		0	0			0	0			0	0	
INTERSTATE	0.000000				0	0			0	0	0		
23 TOLL REVENUE REQUIREMENT			2228433	343127	36856	1187888	21192	3596	0	12933	3825217	2143	16131

11-Dec-86

FIDELITY TELEPHONE COMPANY - 12/31/1985

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SUMMARY OF TOLL REVENUE REQUIREMENT

DESCRIPTION	TOTAL COMPANY	SOURCE	MESSAGE TOLL				PRIVATE LINE				TOTAL TOLL	TWX	EAS
			INTRASTATE		INTERSTATE		INTRASTATE		INTERSTATE				
			INTRALATA	INTERLATA	INTRALATA	INTERLATA	INTRALATA	INTERLATA	INTRALATA	INTERLATA			
1 NET INVESTMENT	6744214	S-2, LN 44	2652352	477178	52385	1298836	37561	5810	0	28787	4536910	4013	36443
2 RATE OF RETURN			9.7388%	12.2283%	12.7588%	12.7229%	9.7388%	11.8288%	12.7588%	12.7588%		9.7388%	9.7388%
3 RETURN ON INVESTMENT		LN 1+LN 2	258874	58314	6679	164232	3655	687	0	2658	494298	398	3585
4 INTEREST DURING CONSTRUCTION	0	S-8, LN 19	0	0	0	0	0	0	0	0	0	0	0
5 NET RETURN FOR SETTLEMENTS		LN 3-LN 4	258874	58314	6679	164232	3655	687	0	2658	494298	398	3585
6 FIXED CHARGES	184883	S-8, LN 28	72364	13819	1429	35218	1825	159	0	567	123781	189	1885
7 OTHER INCOME ADJUSTMENTS	0	S-8, LN 25	0	0	0	0	0	0	0	0	0	0	0
8 TOTAL INCOME ADJUSTMENTS		LN 6+LN 7	72364	13819	1429	35218	1825	159	0	567	123781	189	1885
9 ITC AMORTIZATION	39487	S-8, LN 22	15665	2789	338	7813	245	39	0	137	27818	27	226
10 FIT BASE		LN 5-8-9	178844	42585	4919	121281	2385	498	0	1946	343491	254	2354
11 FEDERAL INCOME TAX e 34%.			88569	28148	2331	57426	1138	232	0	922	162758	128	1115
12 RESERVED													
13 NET FEDERAL INCOME TAX		LN 11-LN 12	88569	28148	2331	57426	1138	232	0	922	162758	128	1115
14 ITC USED	39398	S-8, LN 21	15638	2783	338	7795	244	38	0	137	26957	27	225
15 SIT BASE		LN 9+18-14	178888	42512	4928	121219	2386	498	0	1947	343552	254	2355
16 STATE INCOME TAX			9652	2413	279	6879	135	28	0	118	19497	14	134
17 RESERVED													
18 NET STATE INCOME TAX		LN 16-LN 17	9652	2413	279	6879	135	28	0	118	19497	14	134
19 OPERATING EXPENSES	4176466	S-8, LN 14	1862329	258776	27172	948332	16165	2616	0	9181	3124498	1687	11177
20 NON-OPERATING EXPENSE	1598	S-8, LN 18	738	89	9	387	5	1	0	3	1225	1	4
21 BASIS FOR G.A./PSC TAX (LN5-LN9+LN13+LN18+LN19+LN20)			2195689	336942	36148	1169444	28845	3525	0	12658	3775234	2186	15789
22 GROSS RECEIPTS/PSC TAX @													
STATE	8.888888		0	0			0	0			0	0	
INTERSTATE	8.888888				0	0			0	0	0		
23 TOLL REVENUE REQUIREMENT			2195689	336942	36148	1169444	28845	3525	0	12658	3775234	2186	15789

FIDELITY TELEPHONE COMPANY

ADJUSTMENT TO DEFERRED INCOME TAX BALANCE

DECEMBER 31, 1985

<u>Year</u>	<u>Deferred Tax Amount</u>	<u>Effective Tax Rate</u>	<u>Deferred Income Amount</u>
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	799,254		<u>\$1,648,194</u>
Adjusted deferred tax	<u>596,910</u> ⁽¹⁾	36.216%	<u>\$1,648,194</u>
Adjustment required	<u>\$202,344</u>		
Amortization over 11.62 years	<u>\$ 17,413</u>		
Jurisdictional portion	<u>\$ 13,758</u>		

(1) Exhibit 3

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>\$202,344</u>
Average over amortization period	101,172
Rate of return (Exhibit 1)	<u>12.78%</u>
Increased return requirement	12,930
Income tax conversion factor (Exhibit 3)	1.5678
Increased revenue requirement before amortization	20,272
Deduct amortization of decrease in deferred income tax (Exhibit 11)	<u>17,413</u>
Net increase in revenue requirement	<u>2,859</u>
Jurisdictional portion (79%)	<u>\$ 2,259</u>