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December 12, 1986

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**ALSO ADMITTED IN MISSOURI
***ALSO ADMITTED IN GEORGIA

BY FEDERAL EXPRESS

Dan Redel
Acting Secretary
Missouri Public Service Commission
Harry S. Truman State Office Building
301 West High Street
Jefferson City, Missouri 65102

RE: MO PSC Case No. AO-87-48
Our File No. AL001-60

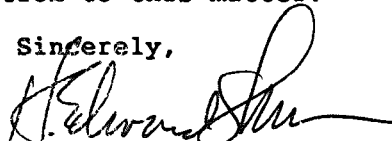
Dear Mr. Redel:

On behalf of ALLTEL Missouri, Inc., I herewith enclose for filing with the Commission in the above-referenced case, the original and fourteen (14) copies of ALLTEL's Comments submitted in response to the Commission's November 3, 1986 Order. I request that you bring ALLTEL's Comments to the Commission's attention.

I have provided copies of ALLTEL's Comments to the General Counsel, Office of the Public Counsel, and to counsel representing other Missouri local exchange carriers.

Thank you for your attention to this matter.

Sincerely,


H. Edward Skinner

HES:cr

Enclosure

0261S

FILED
DEC 15 1986
PUBLIC SERVICE COMMISSION

BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

IN THE MATTER OF)
The Investigation of)
the Revenue Effects upon)
Missouri Utilities of the)
Tax Reform Act of 1986.)

CASE NO. AO-87-48

COMMENTS OF ALLTEL MISSOURI, INC.

Comes now ALLTEL Missouri, Inc. ("ALLTEL"), by and through its attorneys, and submits the following comments in response to the Commission's November 3, 1986 Order:

1. ALLTEL submits the following schedules in support of its estimation of the revenue requirement impact of the Tax Reform Act of 1986 ("the Act"):

a. Schedule 1, entitled "Computation of Intrastate Revenue Requirement";

b. Schedule 2, entitled "Calculation of Original Cost Intrastate Rate Base";

c. Schedule 3, entitled "Computation of Cost of Capital";

d. Schedule 4, entitled "Intrastate Income Statement";

e. Schedule 5, consisting of two pages, entitled "Income Tax Calculation, Twelve Months Ended 12-31-85";

f. Schedule 6, entitled "Average Rate Assumption Calculation at 12-31-85"; and

g. Schedule 7, entitled "Rate Base Adjustments."

FILED

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PUBLIC SERVICE COMMISSION

The foregoing schedules were prepared using information obtained from ALLTEL's books, ledgers, and financial records. The weighted cost of capital used is 8.455%. This figure is based upon the weighted cost of capital determined in ALLTEL's last rate case, Case No. TR-86-14. The estimates provided herein are further based on the use of a blended tax rate of 40% for 1987, as suggested in Item No. 2 of the Commission's Order, and a tax rate of 34% for subsequent tax years.

2. The revenue requirement impact estimates set forth in the foregoing schedules are based on ALLTEL's current understanding of the Act and its probable impact on ALLTEL's operations. ALLTEL hopes to have a more thorough understanding of the probable impact of the tax changes brought about by passage of the Act prior to the February 28, 1987 response date. Nonetheless, a full understanding of the probable effects of the passage of the Act is not possible without further review of the Act and an opportunity to study the tax regulations which will be promulgated to implement the Act. It is not likely that these regulations will be issued prior to the February 28, 1987 response date. Therefore, ALLTEL's revenue requirement estimates are preliminary and are subject to revision based upon a more complete review and understanding of the Act and the regulations ultimately promulgated to implement it.

3. While analyzing ALLTEL's revenue requirement estimates, the Commission is urged not to consider the proposed reduction in the top corporate tax rate from 46% to 34%, effective July 1, 1987, in isolation or in a "vacuum." Instead, the Commission must consider the full impact of the other tax changes brought about by passage of the Act. For instance, the Commission must consider the change in revenue requirement caused by the elimination of investment tax credits, changes in allowable useful lives of telephone plant for purposes of depreciation, the exclusion of certain expenses for tax purposes, the application of uniform capitalization rules, and the application of modified ACRS rules. Further, the Commission must consider the fact that there may be significant, additional revisions to the Act prior to its implementation. In this regard, there are those who believe that the currently proposed, top corporate rate of 34% will be increased closer to the blended tax rate of 40% used during the transition period. There are also those who believe that Congress will revise the Act to permit corporations some level of investment tax credits. An upward adjustment in the top corporate tax level closer to the 40% blended rate used during the transition period, combined with the continuation of some level of investment tax credits, would require a significant revision to the revenue requirement estimates set forth in the foregoing schedules.

4. ALLTEL also urges the Commission to consider the fact that the proposed tax changes are scheduled to become effective at a time when the telecommunications industry is undergoing a number of unprecedented changes in the way that telephone companies provide and are compensated for their services. Some of the major changes taking place within the telecommunications industry today are set forth below:

a. For most companies a revenue requirement shift from interstate toll to local service will occur as a result of the January 1, 1986 change in the FCC's Part 67 Separations Rules. As a result of this revision, ALLTEL's current interstate SPF allocator will be reduced to twenty-five percent (25%) over an eight (8) year period ending in 1994.

b. Most companies will experience a cost shift from toll to local as a result of the June 19, 1986 FCC separations change relating to the allocation methodology to be used for USOA Account No. 645 - Local Commercial Expense.

c. The FCC's proposed revisions to the Uniform System of Accounts will likely result in significant expense increases for most companies associated with the implementation of the new system as well as capital to expense shifts due to revised accounting procedures. These changes will likely increase the revenue requirements for many companies.

d. The scheduled deregulation and detariffing of embedded station apparatus that will occur on December 31, 1987, will result in a greater reduction of revenues than associated expenses. This occurs because station apparatus has been priced on a regulated basis to provide a contribution to other services.

e. As a result of rapidly changing technology and service demands, many companies have not achieved adequate capital recovery in recent years. This has resulted in significant reserve deficiencies which must ultimately be recovered from a company's subscribers through higher rates.

f. Many companies will experience a shift of costs between the interstate and intrastate jurisdictions as a result of the June 19, 1986 change in the FCC's Part 67 Separations Rules which requires the direct assignment of applicable costs to the closed end of WATS circuits.

g. In CC Docket No. 86-111, the FCC will prescribe a cost allocation methodology that will specify which costs are to be allocated or assigned to regulated and deregulated telephone operations. This change in methodology will likely result in changes in the revenue requirements for many companies.

5. Based on the foregoing considerations, ALLTEL is not in a position to provide the Commission with any plans or

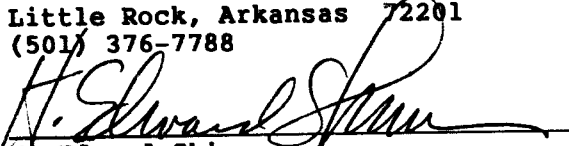
proposals for reflecting the revenue requirement impacts which may result from the passage of the Act. It is simply too early to reach any hard and fast conclusions regarding the probable revenue requirement impacts and to initiate any regulatory action in response thereto. Nonetheless, if, after the corporate tax rate is finalized and regulations implementing the Act have been adopted, the Commission determines that a rate reduction is appropriate, then the Commission should carefully consider ALLTEL's revenue streams before taking any regulatory action to reduce ALLTEL's local service rates. As competition continues to evolve in a toll service market, it becomes apparent that any rate reduction which might result from a change in federal tax laws should be reflected in toll rates and access charge rates as well as in other services. Further, the Commission should consider any offsetting changes in revenue requirements before initiating any rate adjustments.

6. In summary, ALLTEL urges the Commission not to take precipitous regulatory action in response to the passage of the Tax Reform Act of 1986. The Commission's regulatory response to the proposed tax changes should await further review and study of the probable effects of these changes and must take into consideration the changes occurring in the telecommunications industry. The tax changes brought about by the passage of the Act are part of a very complex puzzle, all

parts of which must interlock if the telecommunications industry is to continue to grow and to provide the services demanded by Missouri residents.

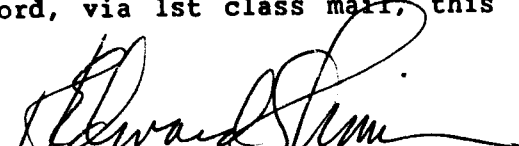
Respectfully submitted,

IVESTER, HENRY, SKINNER & CAMP
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212 Center Street, Suite 900
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(501) 376-7788


H. Edward Skinner
Missouri Bar No. 22146

CERTIFICATE OF SERVICE

I, H. Edward Skinner, hereby certify that a true and correct copy of the foregoing Comments of ALLTEL Missouri, Inc. was served on all parties of record, via 1st class mail, this 15th day of December, 1986.


H. Edward Skinner

ALLTEL MISSOURI, INC.

SCHEDULE: 1

TITLE: COMPUTATION OF INTRASTATE
REVENUE REQUIREMENT

CASE NO. A0-87-48

DESCRIPTION	31-Dec-85 ORIGINAL COST	31-Dec-85 40% TAX RATE	31-Dec-85 34% TAX RATE
1. ADJUSTED RATE BASE (1)	17,840,976	18,202,256	18,330,059
2. REQUIRED OVERALL RATE OF RETURN AT AUTHORIZED RETURN ON EQUITY (2)	0.08455	0.08455	0.08455
3. REQUIRED OPERATING INCOME	1,508,455	1,539,001	1,549,806
4. PLUS OPERATING EXPENSES (INCLUDES TAXES) (3)	6,901,162	6,789,122	6,676,958
5. INTRASTATE REVENUE REQUIREMENT (4)	8,409,617	8,328,123	8,226,764

SUPPORTING SCHEDULES

- (1) SCHEDULE 2
- (2) SCHEDULE 3
- (3) SCHEDULE 4

RECAP SCHEDULES

- (4) SCHEDULE 4

ALLTEL MISSOURI, INC.

SCHEDULE: 2
TITLE: CALCULATION OF ORIGINAL COST
INTRASTATE RATE BASE
CASE NO. AO-87-48

DESCRIPTION	TOTAL ACTUAL 31-Dec-85	INTRASTATE PERCENT	INTRASTATE AMOUNT	INTRASTATE ADJUSTMENTS	INTRASTATE AS ADJUSTED	INTRASTATE 40% TAX RATE	INTRASTATE 34% TAX RATE
				(1)			
1. GROSS UTILITY PLANT IN	43,630,290	0.7571	33,032,493	(80,191)	32,952,302	32,952,302	32,952,302
2. LESS: ACCUM. DEPR.	15,384,122	0.7571	11,647,319	(79,196)	11,568,123	11,568,123	11,568,123
3. NET UTILITY PLANT IN SERVICE	28,246,168		21,385,174	(995)	21,384,179	21,384,179	21,384,179
4. PLANT ACQUISITION ADJUSTMENT	0	0.0000	0		0	0	0
5. PLANT UNDER CONSTRUCTION	0	0.0000	0		0	0	0
6. MATERIALS & SUPPLIES	784,176	0.7516	589,387		589,387	589,387	589,387
7. WORKING CAPITAL	0		0	0	0	0	0
8. PREPAYMENTS	24,989	0.7571	18,919		18,919	18,919	18,919
9. RTB STOCK	0	0.0000	0		0	0	0
LESS:							
10. INTERCOMPANY PROFIT	(163,360)	0.7569	(123,647)		(123,647)	(123,647)	(123,647)
11. ACCELERATED DEPRECIATION (2)	(3,067,454)	0.7569	(2,321,756)		(2,321,756)	(2,182,229)	(2,059,201)
12. UNAMORTIZED ITC (2)	(1,985,793)	0.7569	(1,503,047)		(1,503,047)	(1,280,897)	(1,280,897)
13. INCOME TAX OFFSET (AT .08254)	(12,608)	1.0000	(12,608)	0	(12,608)	(13,005)	(8,230)
14. INTEREST EXPENSE OFFSET (AT .055123)	(40,440)	1.0000	(40,440)		(40,440)	(40,440)	(40,440)
15. CUSTOMER DEPOSITS	(198,191)	0.7569	(150,011)		(150,011)	(150,011)	(150,011)
16. CUSTOMER ADVANCES FOR CONSTR.	0	1.0000	0		0	0	0
17. TOTAL (3)	23,587,487		17,841,971	(995)	17,840,976	18,202,256	18,330,059

NOTE

(1) TO ADJUST FOR THE DEREGULATION OF MOBILE TELEPHONE.
THIS ADJUSTMENT WAS MADE BY COMMISSION STAFF IN
CASE NO. TR-86-14.

RECAP SCHEDULE

(2) SCHEDULE 7
(3) SCHEDULE 1

ALLTEL MISSOURI, INC.

SCHEDULE: 3
TITLE: COMPUTATION OF COST OF CAPITAL
CASE NO. AO-87-48

DESCRIPTION	31-Dec-85 AMOUNT	RATE	COST
1. LONG TERM DEBT	16,420,464	5.86	962,239
2. PREFERRED STOCK			
3. COMMON EQUITY	7,974,309	13.8 (1)	1,100,455
4. TOTAL	24,394,773		2,062,694
	=====		=====
5. WEIGHTED COST OF CAPITAL		8.455%(2)	
		=====	

NOTE

(1) RETURN AS COMPUTED IN LAST RATECASE
CASE NO. TR-86-14

RECAP SCHEDULE

(2) SCHEDULE 1

ALLTEL MISSOURI, INC.

SCHEDULE: 4
TITLE: INTRASTATE INCOME STATEMENT
CASE NO. AO-87-48

DESCRIPTION	12 MONTHS ENDED 31-Dec-85	INTRASTATE PERCENT	INTRASTATE	ADJUSTMENTS AMOUNT	NUMBER	INTRASTATE AS ADJUSTED	INTRASTATE 40% TAX RATE	INTRASTATE 34% TAX RATE
1. REVENUE REQUIREMENT (1)	0 (2)		8,409,617			8,409,617	8,328,123	8,228,764
OPERATING EXPENSES								
2. MAINTENANCE	2,603,087	0.7573	1,971,318			1,971,318	1,971,318	1,971,318
3. DEPRECIATION & AMORT.	1,955,411	0.7574	1,481,028			1,481,028	1,481,028	1,481,028
4. TRAFFIC	893,167	0.8630	770,803			770,803	770,803	770,803
5. COMMERCIAL	511,560	0.8622	441,072			441,072	441,072	441,072
6. GENERAL OFFICE	1,160,138	0.8138	944,120			944,120	944,120	944,120
7. OTHER OPERATING	322,690	0.7659	247,148			247,148	247,148	247,148
8. OTHER TAXES	489,804	0.7593	371,908			371,908	371,908	371,908
9. STATE & FEDERAL INCOME TAXES (3)	523,674	N/A	673,765			673,765	561,725	449,561
10. TOTAL OPERATING EXP. (4)	8,459,637		6,901,162			6,901,162	6,789,122	6,678,958
11. OPERATING INCOME			1,508,455			1,508,455	1,539,001	1,549,806

NOTE

(2) TOTAL COMPANY REVENUE
REQUIREMENT NOT COMPUTED

SUPPORTING SCHEDULES

(1) SCHEDULE 1

RECAP SCHEDULES

(3) SCHEDULE 5 PAGE 1 OF 2
(4) SCHEDULE 1

ALLTEL MISSOURI, INC.

SCHEDULE: 5 PAGE 1 OF 2
 TITLE: INCOME TAX CALCULATION
 TWELVE MONTHS ENDED 12-31-85
 CASE NO. AO-87-48

INTRASTATE AMOUNTS

DESCRIPTION	CURRENT TAX RATE	40 % TAX RATE	34 % TAX RATE
1. ADJUSTED OPERATING INCOME (1)	1,508,455	1,539,001	1,549,806
ADD:			
2. INCOME TAXES (1)	673,765	561,725	449,561
3. INCOME BEFORE TAXES	2,182,220	2,100,726	1,999,367
PERMANENT DIFFERENCES:			
4. UNALLOWABLE AMORTIZATION	3,742	3,742	3,742
5. DEPR ON CAPITALIZED INTEREST	19,281	19,281	19,281
6. CAPITALIZED INTEREST			
7. MEALS DISALLOWED		5,298	5,298
TIMING DIFFERENCES:			
8. ADD'L. TAX DEPRECIATION		(45,414)	(45,414)
9. TAX DEPRECIATION	(872,697)	(872,697)	(872,697)
10. EXPENSES DEDUCTED FOR TAX	(52,853)	(52,853)	(52,853)
11. REMOVAL COST	(104,878)		
12. RTB PATRONAGE DIVIDEND	(41,832)	(41,832)	(41,832)
13. PENSION/FICA CAPITALIZED	(71,673)		
14. CUSTOMER DEPOSITS	(5,645)	(5,645)	(5,645)
15. BAD DEBTS	(291)	(291)	(291)
16. INTEREST EXPENSE	(733,639)	(733,639)	(733,639)
17. NET TAXABLE INCOME	321,735	376,676	275,317
CURRENT TAX:			
18. CURRENT LAW @ .4749	152,792		
19. 40% LAW @ .4184		157,601	
20. 34% LAW @ .3622			99,720
21. DEFERRED TAXES (2)	520,973	404,124	349,841
22. TOTAL TAXES (3)	673,765	561,725	449,561

SUPPORTING SCHEDULE

(1) SCHEDULE 4
 (2) SCHEDULE 5 PAGE 2 OF 2

RECAP SCHEDULE

(3) SCHEDULE 4

ALLTEL MISSOURI, INC.

SCHEDULE: 5 PAGE 2 OF 2
TITLE: INCOME TAX CALCULATION
TWELVE MONTHS ENDED 12-31-85
CASE NO. AO-87-48

DEFERRED TAX CALCULATION:

24.	ADD'L. TAX DEPRECIATION	(45,414)	(45,414)
25.	TAX DEPRECIATION	(872,697)	(872,697)
26.	REMOVAL COST	(104,878)	(104,878)
27.	RTB PATRONAGE DIVIDEND	(41,832)	(41,832)
28.	PENSION/FICA CAPITALIZED	(71,673)	(71,673)
29.	CUSTOMER DEPOSITS	(5,645)	(5,645)
30.	BAD DEBTS	(291)	(291)
31.	TOTAL DEFERRED ITEMS	(1,097,016)	(965,879)
	TAX RATE	0.4749	0.3622
	DEFERRED TAX (1)	(520,973)	(349,841)

RECAP SCHEDULE

(1) SCHEDULE 5 PAGE 1 OF 2

ALLTEL MISSOURI, INC.

SCHEDULE: 6
 TITLE: AVERAGE RATE ASSUMPTION
 CALCULATION AT 12-31-85
 CASE NO. AO-87-48

DESCRIPTION

 PROJECTED DEFERRED FEDERAL INCOME TAX:

1.	AT 12/31/86	3,900,000
2.	AT 12/31/87	4,300,000

GROSS DEFERRED FEDERAL INCOME TAX:

3.	AT 12/31/86 (3,900,000/.46)	8,478,261
4.	ACTIVITY (4,300,000 - 3,900,000)	400,000
5.	GROSS ACTIVITY (400,000/.40)	1,000,000
6.	AT 12/31/87	9,478,261

PERCENT DETERMINED BEGINNING OF YEAR
 PER TAX LAW:

7.	12/31/86 - TAX	3,900,000	
8.	12/31/86 - GROSS	8,478,261	
9.	1/1/87 PERCENT		46.00%
10.	12/31/87 - TAX	4,300,000	
11.	12/31/87 - GROSS	9,478,261	
12.	1/1/88 PERCENT		45.37%

EXCESS DEFERRED FEDERAL INCOME TAX:

	12/31/86	12/31/87
13. BALANCE	3,900,000	4,300,000
14. 12/31/86 GROSS TIMES .40	3,391,000	
15. 12/31/87 GROSS TIMES .34		3,223,000
16. DIFFERENCE	509,000	1,077,000
17. LESS PRIOR YEAR AMORTIZATION		30,540
18. TOTAL	509,000	1,046,460

AMORTIZATION:

19.	CURRENT TAX RATE	46.00%	
20.	1987 TAX RATE	40.00%	45.37%
21.	1988 TAX RATE		34.00%
22.	DIFFERENCE	6.00%	11.37%
23.	AMORTIZATION	30,540	118,983
24.	JURISDICTIONAL PERCENT	0.7569	0.7569
25.	INTRASTATE EXCESS AMORTIZATION	23,116	90,058

ALLTEL MISSOURI, INC.

SCHEDULE: 7
TITLE: RATEBASE ADJUSTMENTS
CASE NO. AO-87-48

DESCRIPTION	40 % TAX RATE	34 % TAX RATE	SUPPORTING SCHEDULE
1. UNAMORTIZED ITC - REDUCE FOR ITC TAKEN	293,500	293,500	(1) SCHEDULE 2
2. INTRASTATE PERCENT	0.7569	0.7569	
3. NET ITC ADJUSTMENT	222,150	222,150	
4. INTRASTATE ITC 12-31-85 (1)	(1,503,047)	(1,503,047)	
5. ITC AFTER TAX CHANGES (2)	(1,280,897)	(1,280,897)	RECAP SCHEDULE (2) SCHEDULE 2
6. DEFERRED ACCELERATED DEPR. - INCREASE FOR PERCENT INCREASE IN DEPR. RATES	(24,000)	(20,400)	
TOTAL DEFERRED INCOME TAXES - REDUCTION DUE TO DEFERRAL AT LOWER RATES			
7. TAX DEPRECIATION	66,700	133,400	
8. RTB PATRONAGE DIVIDENDS	3,300	6,600	
9. CUSTOMER DEPOSITS	500	1,000	
10. PENSION/FICA - EXPENSED/TAX - DECREASE BECAUSE THE TAX LAW ELIMINATES THIS OPTION PER THE UNIFORM CAPITALIZATION RULES	43,600	43,600	
11. TOTAL DEFERRED INCOME TAXES - EFFECT OF DEFERRED TAXES DEFERRED AT 46% AND REVERSING AT LOWER RATES: IMPACT FOR 1987 AND 1988 WILL BE MINIMAL DUE TO AMORTIZATION OF THES EXCESS OVER AVERAGE RATE ASSUMPTION PERCENT.			
12. REMOVAL COSTS - EXPENSED/TAX - DECREASE BECAUSE THE TAX LAW ELIMINATES THIS OPTION PER THE UNIFORM CAPITALIZATION RULES	63,700	63,700	
13. EXCESS DEFERRED TAXES AMORTIZATION - DECREASE	30,540	118,983	
14. TOTAL DEFERRED ITEMS	184,340	346,883	
15. INTRASTATE PERCENT	0.7569	0.7569	
16. NET ADJUSTMENT	139,527	262,555	
17. INTRASTATE DEFERRED DEPRECIATION 12-31-85 (1)	(2,321,756)	(2,321,756)	
18. DEFERRED DEPRECIATION AFER TAX CHANGES (2)	(2,182,229)	(2,059,201)	