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PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

SECOND RESPONSE OF SOUTHWESTERN BELL TELEPHONE COMPANY TO ORDER ESTABLISHING DOCKET

1. Southwestern Bell submits this Second Response forwarding the information requested by the Commission concerning the hypothetical effect of tax law changes expected in 1987 and 1988 on the Company's Missouri jurisdictional operating results for 1986. In addition, Southwestern Bell is resubmitting in this report its data concerning the hypothetical effect of those tax law changes on the Company's operating results for 1985. Pursuant to our filing of February 2, 1987, this information has been summarized in such a manner that it may be made public and not subject to the protections afforded proprietary information under Section 386.480, RSMo 1978.

2. The actual effects which the Tax Reform Act of 1986 will have on Southwestern Bell's financial results are presently unknown. As indicated by the examples listed below, Southwestern Bell is confronted with numerous uncertainties during the period in which the Tax Reform Act will take effect, and the consequences of the Act therefore cannot be predicted with certainty. Exhibit A attached hereto summarizes the effects of the Tax Reform Act if those taxing provisions are "backcast" on 1985 and 1986 historical data. The data included in Exhibit A reflects certain established Commission policies (e.g., imputation of Yellow Page revenues, exclusion of institutional advertising expenses, etc.) with which Southwestern Bell does not necessarily agree, but which have been incorporated in order to maximize the utility of this report for the Commission. If the full effects of the Tax Reform Act in 1988 are applied to 1985 data, Southwestern Bell's results show a hypothetical revenue deficiency of $4.5 million. The 1986 results show a significant deterioration of the Company's position, with a hypothetical revenue deficiency of $31.4 million. Because the results are hypothetical, they should not be interpreted as a reliable indicator of what the actual effects of the Tax Reform Act will be in future years.

3. The effects of tax reform should not be considered to the exclusion of all other relevant factors affecting our business during the same time period. The Commission recognized this principle in its January 30, 1987 Order

81.

requesting "comments which detail offsetting cost increases or other factors which cause the companies to believe that their rates are not excessive in spite of the impact of the Tax Reform Act." In response to this request, the following items have been identified to illustrate the reasons why our rates are not excessive and to specify events that occurred in 1986 (compared to 1985) which typify the fluctuations that affect a company's financial results every year:

a. From an overall viewpoint, Southwestern Bell Telephone Company's rates cannot be construed to be excessive in light of the hypothetical effect of tax reform on the company's historical financial results as submitted in this filing. Even after adjusting for tax reform, the Company has an existing revenue deficiency as measured by the latest approved rate of return allowance in TR-83-253. Under the terms of the settlement agreement approved by the Commission in TR-86-84, Southwestern Bell Telephone Company is precluded from filing a general rate case until July 1, 1988. Accordingly, the Company, must absorb these deficiencies until at least June 1, 1989.

b. Southwestern Bell is experiencing increased intrastate costs due to separations changes ordered by the FCC. Comparing 1986 results with 1985 (the test year in our last rate case), the effects of "CPE phasedown" have increased Missouri revenue requirement by $6.0 million. The movement to a 25 percent interstate gross allocator of NTS costs resulted in a $1.2 million revenue requirement increase in 1986 over 1985.

c. In 1986, the Company experienced increased Missouri jurisdictional depreciation expense of $24.8 million.

d. The effects of income tax reform may be partially offset by other non-income tax increases. In 1986 Southwestern Bell paid an additional $2.7 million in Missouri property taxes compared to 1985, reversing a five-year trend of decreases. The Missouri expense for social security (FICA) taxes increased by $572,000 in 1986.

e. The Tax Reform Act has already created offsetting cost increases through its retroactive elimination of Investment Tax Credits. This provision resulted in a Missouri cash flow loss of $8.7 million in 1986. Reduced cash flow to a company results in either increased interest expense (due to having to borrow funds to replace those lost) or decreased interest income (due to using available funds formerly generating interest income to replace the lost funds).

f. Southwestern Bell is subject to extraordinary costs to restore service in the event of natural disasters. The direct costs resulting from tornadoes in the area of Sikeston and Cape Girardeau in May of 1986 is estimated at $746,182. The direct costs associated with flooding in St. Charles and Portage De Sioux in October of 1986 is estimated at $536,505.

4. The information provided above is an attempt to enumerate items which have affected the cost of providing service in the State of Missouri during 1986 as compared to 1985. It would have been difficult--perhaps impossible--to identify those items and quantify them two years ago, well before they actually occurred. By the same token, Southwestern Bell cannot always predict with certainty the financial consequences of single events that will occur in the future because expense, revenue and capital costs are dependent upon many factors within the company, the economy, and the physical environment. Many elements that make up the financial statements of the company are also interrelated. It cannot be assumed that a single increase in expense will lower the net income without considering the other events that occur simultaneously such as expense increases or decreases in other areas, revenue increases or decreases, and necessary capital expenditures in the same time frame. However, Southwestern Bell does attempt to predict and plan for future events as much as possible. Presently the company is aware of many items that have the potential of increasing the company's costs in the following two years. The following list of items, like the events described above, are not likely to be all inclusive of the things which could affect costs or revenues but are representative of those events:

a. Separations changes are expected to continue into the future which will increase intrastate Missouri cost allocations. During 1987, the effects of "CPE phasedown" will continue, thus shifting costs without corresponding revenues from the interstate jurisdiction to the Missouri Intrastate jurisdiction. The movement to the federally mandated 25% gross allocator of NTS costs will continue to shift costs in 1987 and 1988 to the Missouri intrastate jurisdiction. The combined effect of these two items alone is expected to be $10.4 million in revenue requirement in 1988 over the 1986 level.

b. On May 15, 1986 the FCC issued an order establishing a new Uniform System of Accounts (USOA) for Class A & Class B Telephone Companies to be effective in 1988. The rewrite of USOA requires several accounting changes for telephone companies, but among the most significant is that it changes the accounting method with regard to capitalization and expensing of certain items. Southwestern Bell Telephone Company's latest estimate of the net effect of capital and expense shifts is $12.3 million in increased revenue requirement in just the first year of the change. This estimate is based upon an approximation of Missouri intrastate portion of the total shift of Southwestern Bell Telephone Company using a study year of 1985. This figure is an estimate and the actual expense shift may be greater or less.

c. The following items or events have the potential of affecting the financial performance of Southwestern Bell during 1987 and 1988, as well as subsequent years thereafter. This list is not intended to be all inclusive but rather is provided to suggest examples of potential impacts to the Company's operating results.

- Increase in debt costs due to loss of cash flow attributed to the Tax Reform Act of 1986. The repeal of the provision for Investment Tax Credit will increase the Company's current tax liability, thus reducing the amount of cash available for reinvestment in telephone plant.
- Increases in price of goods and services purchased by the Company. Based on 1986 expense levels, for every one percent increase in the average cost of goods and services (excluding wages, salaries and depreciation expense), Southwestern Bell would incur an additional $2.5 million in costs.
- Natural disasters such as floods, ice storms, and tornadoes. There is no reliable way to predict these events. As noted previously, however, when such events occur the expenses associated with the repair of facilities must be incurred to restore service.
- Increases in taxes on income and goods and services purchased are not always recoverable immediately through changes in

rates charged by the company. From year to year as taxes on such items as property or gasoline increase, the company must absorb the increase. For example, a proposed increase in the state gasoline tax of four cents per gallon would increase revenue requirement by approximately $144,000.

5. Unlike other types of utilities, Southwestern Bell and the telecommunications industry face substantial risks in the near future resulting from changes in industry structure and increased competition. Southwestern Bell is presently confronted with the prospect of losing approximately $5,000,000 in Missouri jurisdictional revenues when AT&T curtails its purchase of billing and collection services. In addition, the Company remains subject to the loss of market share for long-distance service due to competition for intraLATA toll revenues, to the construction of private networks and bypass facilities by large users, and to the loss of large Centrex accounts to competition from CPE vendors. No one pretends that the precise dollar effect of these risks can be accurately forecast, but they will necessarily continue to affect the industry during the period in which the Tax Reform Act becomes effective.

6. At the Public Service Commission's request, Southwestern Bell Telephone Company has made an estimate of the hypothetical effect of tax law changes on 1986 operating results. In addition, the company is resubmitting its report covering 1985 data. However, the company believes the results create some erroneous impressions. For example, the process assumes that new laws like the Tax Reform Act can be applied to past operating results to produce an accurate picture of future tax savings.

In the rapidly evolving telecommunications industry, tax reform represents just one change. Many examples can be cited of industry changes and increased operating expenses which negatively affect the company today and will have an unfavorable effect in the future. In fact, some portions of the Tax Reform Act itself, such as the loss of the investment tax credit, will have adverse consequences.

Lost in the discussions about tax reform has been one important point. The new corporate tax rates will not be reduced until July 1 of this year. Therefore, it seems premature to speculate about tax savings when the new rates are not in force and the law does not become fully effective until 1988. However, if the restatement of 1985 and 1986 financials for tax reform is to be considered, it must be pointed out that even after applying tax reform changes, the company's earnings would have still been at a level lower than its authorized rate of return. In fact, the hypothetical tax savings are actually smaller in 1986 than 1985.

In the months and years ahead, there no doubt will be countless other factors that will affect the company's operations—either positively or negatively. Each one has to be weighed in light of all changes to enable the company to continue to achieve its goal of offering rates which are reasonable, affordable, and stable.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was mailed, postage prepaid, this 2nd day of March, 1987, to all parties of record in this case.

Michael A Meyer
Michael A. Meyer

EXHIBIT A

This exhibit consists of seven schedules which satisfy the requirements of the Commission's Order establishing this docket. A brief description of each schedule follows:

Schedule 1

A revenue requirement calculation is provided which has been computed in a manner consistent with the Company's last Commission rate order. This schedule represents a compilation of all other schedules. To calculate the revenue deficiency, the rate of return most recently used by the Commission in a Company rate case has been applied to end-of-period rate base levels. The net operating income is then compared to this income requirement to arrive at the income deficiency. Finally, this deficiency is grossed-up for taxes and uncollectibles to determine the net revenue deficiency.

Schedule 2

The second schedule satisfies the Commission's request for a "year-end rate base determined in a manner comparable to the last rate order." Plant materials and supplies, working capital, prepayments, and deferred charges make up the investment funded by the shareholders and creditors. This investment is then reduced by the accumulated depreciation, deferred taxes, unamortized ITC, and customer deposit balances to determine the net plant investment on which the investors are allowed to earn.

Schedule 3

The third schedule displays the overall rate of return as a combination of debt and shareholder equity. The percentage of debt to equity is multiplied by the average cost of debt in a given year to compute a weighted cost. The same method is applied to stockholder equity to determine its weighted cost, using the return to equity most recently approved by the Commission in a Company rate case. The two weighted costs are then added together to determine the overall rate of return.

Schedule 4

The fourth schedule is a comparative income statement, unadjusted for any changes other than those required to calculate income tax expense. In order to compute a revenue requirement, the current net income must be known and compared to some benchmark level of earnings. The income statement measures that net income (revenues less expenses less taxes) for a specified period of time (in this case, fiscal years 1985 and 1986).

Schedule 5

The Commission's Order in this docket requests tax workpapers showing the additions to and/or deductions from income in arriving at taxable income. These adjustments are made in light of various timing differences between book tax expense and tax return tax expense. The fifth schedule complies with this requirement in a format comparable with the Company's last rate case filing.

Schedule 6

This total tax expense is made up of deferred income tax (the difference between booked tax expense and actual tax return liability), investment tax credit, and current taxes payable. The Commission's Order herein requests tax workpapers showing the computation of current and deferred income tax expense; Schedule 6 meets this request.

Schedule 7

The final schedule is in response to the Commission's request for "work papers supporting the amount of excess deferred tax reserves attributable to the turnaround of tax/book timing differences at a tax rate lower than the rate(s) at which the reserve has thus far been established." The calculations are based on estimates and may change by year end when actual deferral paybacks can be determined. In compliance with the Tax Reform Act of 1986, this excess will be normalized and flowed back to income using the average rate assumption method. Under this method, the excess in the reserve for deferred taxes is reduced over the remaining lives of the property that created the deferral. A schedule displaying the amortization of this excess is unavailable at the present time; however, assuming no significant changes in depreciation rates or asset lives, we expect the amortization will occur over the next 17 years.

Schedule 1

REVENUE REQUIREMENT

12/31/85
(000s)

		Prior Tax Law (46% FIT Rate)	1987 Tax Law (40% FIT Rate)	1988 Tax Law (34% FIT Rate)
1.	Rate Base	1,365,839	1,372,706	1,376,646
2.	Rate of Return	0.1229	0.1229	0.1229
3.	Income Requirement (L1*L2)	167,862	168,706	169,190
4.	Net Operating Income	152,165	155,475	166,346
5.	Income Deficiency (L3-L4)	15,697	13,231	2,844
6.	Tax Gross-Up Factor	1.9113	1.7256	1.5736
7.	Revenue Requirement (L5*L6) (before uncoll)	30,002	22,831	4,475
8.	Uncollectible	169	129	25
9.	Revenue Deficiency (L7+L8)	30,171	22,960	4,500

12/31/86
(000s)

		Prior Tax Law (46% FIT Rate)	1987 Tax Law (40% FIT Rate)	1988 Tax Law (34% FIT Rate)
1.	Rate Base	1,409,894	1,417,248	1,421,070
2.	Rate of Return	0.1219	0.1219	0.1219
3.	Income Requirement (L1*L2)	171,866	172,763	173,228
4.	Net Operating Income	140,744	144,079	153,475
5.	Income Deficiency (L3-L4)	31,122	28,684	19,753
6.	Tax Gross-Up Factor	1.9113	1.7256	1.5736
7.	Revenue Requirement (L5*L6) (before uncoll)	59,483	49,497	31,083
8.	Uncollectible	335	279	175
9.	Revenue Deficiency (L7+L8)	59,818	49,776	31,258

INTRASTATE RATE-BASE

12/31/85
(000s)

Component:	Prior Tax Law (46% FIT Rate)	1987 Tax Law (40% FIT Rate)	1988 Tax Law (34% FIT Rate)
1. Telephone Plant in Service	2,030,441	2,030,441	2,030,441
2. Depreciation Reserve	-455,565	-455,565	-455,565
3. Net Plant in Service (L1-L2)	1,574,876	1,574,876	1,574,876
4. Materials & Supplies	17,402	17,402	17,402
5. Working Capital*	-18,838	-20,401	-19,771
6. Prepayments	29,577	29,577	29,577
7. Deferred Charges	24,913	24,913	24,913
8. Customer Deposits	-5,354	-5,354	-5,354
9. Acc Deferred Inc Taxes	-254,783	-246,353	-243,043
10. Unamort ITC Pre-JDIC	-1,954	-1,954	-1,954
11. Net Plant Investment (L3+...+L10)	1,365,839	1,372,706	1,376,646

12/31/86
(000s)

Component:	Prior Tax Law (46% FIT Rate)	1987 Tax Law (40% FIT Rate)	1988 Tax Law (34% FIT Rate)
1. Telephone Plant in Service	2,180,929	2,180,929	2,180,929
2. Depreciation Reserve	-551,455	-551,455	-551,455
3. Net Plant in Service (L1-L2)	1,629,474	1,629,474	1,629,474
4. Materials & Supplies	27,032	27,032	27,032
5. Working Capital*	-20,830	-21,798	-20,864
6. Prepayments	30,906	30,906	30,906
7. Deferred Charges	22,250	22,250	22,250
8. Customer Deposits	-4,131	-4,131	-4,131
9. Acc Deferred Inc Taxes	-273,356	-265,034	-262,146
10. Unamort ITC Pre-JDIC	-1,451	-1,451	-1,451
11. Net Plant Investment (L3+...+L10)	1,409,894	1,417,248	1,421,070

* Based on PSC Staff 'net lag' approach.
This methodology is not in compliance with previous SWB rate filings and the adoption of this method for purposes of this PSC Order does not imply concurrence.

Schedule 3

RATE OF RETURN

12/31/85

	% of Total *	Cost *	Weighted Cost
Debt	44.65	0.093	0.0415
Equity	55.35	0.147	0.0814
Total	100.00		0.1229

* Represents Average 1985

12/31/86

	% of Total @	Cost @	Weighted Cost
Debt	43.90	0.0898	0.0394
Equity	56.10	0.1470	0.0825
Total	100.00		0.1219

@ Represents Average 1986

INTRASTATE INCOME STATEMENT

12/31/85
(000s)

		Prior Tax Law (46% FIT Rate)	1987 Tax Law (40% FIT Rate)	1988 Tax Law (34% FIT Rate)
	Revenues:			
1.	Local Service	559,860	559,860	559,860
2.	Toll/Access Service Rev	210,727	210,727	210,727
3.	Miscellaneous	110,742	110,742	110,742
4.	less: uncollectibles	-5,793	-5,793	-5,793
5.	Total Revenues (L1+...+L4)	875,536	875,536	875,536
	Expenses:			
6.	Maintenance	185,991	185,991	185,991
7.	Depreciation	135,082	135,082	135,082
8.	Traffic	32,974	32,974	32,974
9.	Commercial	98,565	98,565	98,565
10.	Revenue Accounting	11,350	11,350	11,350
11.	Operating Rents	19,495	19,495	19,495
12.	Relief & Pensions	42,892	42,892	42,892
13.	Other	66,433	66,433	66,433
14.	Total Expense (L6+...+L13)	592,782	592,782	592,782
	Taxes:			
15.	Income	65,977	62,667	51,796
16.	Other Taxes	64,612	64,612	64,612
17.	Total Taxes (L15+L16)	130,589	127,279	116,408
18.	Operating Income (L5-L14-L17)	152,165	155,475	166,346

12/31/86
(000s)

		Prior Tax Law (46% FIT Rate)	1987 Tax Law (40% FIT Rate)	1988 Tax Law (34% FIT Rate)
	Revenues:			
1.	Local Service	575,276	575,276	575,276
2.	Toll/Access Service Rev	210,776	210,776	210,776
3.	Miscellaneous	118,547	118,547	118,547
4.	less: uncollectibles	-8,968	-8,968	-8,968
5.	Total Revenues (L1+...+L4)	895,631	895,631	895,631
	Expenses:			
6.	Maintenance	192,361	192,361	192,361
7.	Depreciation	154,375	154,375	154,375
8.	Traffic	33,973	33,973	33,973
9.	Commercial	105,062	105,062	105,062
10.	Revenue Accounting	11,264	11,264	11,264
11.	Operating Rents	24,781	24,781	24,781
12.	Relief & Pensions	43,259	43,259	43,259
13.	Other	63,217	63,217	63,217
14.	Total Expense (L6+...L13)	628,292	628,292	628,292
	Taxes:			
15.	Income	57,250	53,915	44,519
16.	Other Taxes	69,345	69,345	69,345
17.	Total Taxes (L15+L16)	126,595	123,260	113,864
18.	Operating Income (L5-L14-L17)	140,744	144,079	153,475

Schedule 5

CALCULATION OF INCOME TAXES

12/31/85
(000s)

		Prior Tax Law (46% FIT Rate)	1987 Tax Law (40% FIT Rate)	1988 Tax Law (34% FIT Rate)
1.	Revenues	875,536	875,536	875,536
2.	Expenses	592,782	592,782	592,782
3.	Taxes Other Than Inc	64,612	64,612	64,612
4.	Book Income (L1-L2-L3)	218,142	218,142	218,142
	Additions:			
5.	Disallowed Depreciation	8,416	8,176	7,687
6.	Post '82 Cap Int & Prop Tax	183	1,137	1,171
7.	Tax Basis Adj	1,605	963	198
8.	GS&L Amort Prev Ded	320	320	320
9.	ST-IDC Prev Flowed-thru	938	938	938
10.	Other Tax Reform Adj*	—	2,794	2,794
11.	Total Additions (L5+...+L10)	11,462	14,328	13,108
	Deductions:			
12.	Interest Deduction	59,282	59,568	59,731
13.	Cap Social Security	1,880	0	0
14.	Cap Relief & Pensions	4726	0	0
15.	COR & Salvage	-1,084	-1,229	-1,418
16.	Vacation Pay Accrual	667	-2,910	872
17.	Cap Property Tax	216	245	283
18.	Total Deductions (L12+...+L17)	65,687	55,674	59,468
19.	Taxable Income (L4+L11-L18)	163,917	176,796	171,782
20.	Composite Tax Rate	0.4768	0.4205	0.3645
21.	Unadjusted Income Tax Exp (See Schedule 6)	78,155	74,343	62,614
22.	Amort of ITC	-11,396	-9,221	-7,982
23.	Amort of Tax Rate Change	-200	-1,989	-2,370
24.	Research Tax Credit	-582	-466	-466
25.	Adjusted Book Income Tax Exp (L21-L22-L23-L24)	65,977	62,667	51,796

12/31/86
(000s)

		Prior Tax Law (46% FIT Rate)	1987 Tax Law (40% FIT Rate)	1988 Tax Law (34% FIT Rate)
1.	Revenues	895,631	895,631	895,631
2.	Expenses	628,292	628,292	628,292
3.	Taxes Other Than Inc	69,345	69,345	69,345
4.	Book Income (L1-L2-L3)	197,994	197,994	197,994
	Additions:			
5.	Disallowed Depreciation	9,108	8,867	8,377
6.	Post '82 Cap Int & Prop Tax	213	1,896	1,415
7.	Tax Basis Adj	3,145	2,491	1,182
8.	GS&L Amort Prev Ded	320	320	320
9.	ST-IDC Prev Flowed-thru	1,222	1,222	1,222
10	Other Tax Reform Adj*	—	671	671
11.	Total Additions (L5+...+L10)	14,008	15,467	13,187
	Deductions:			
12.	Interest Deduction	57,292	57,582	57,733
13.	Cap Social Security	1,960	0	0
14.	Cap Relief & Pensions	4701	0	0
15.	COR & Salvage	-5,908	-6,699	-7,728
16.	Vacation Pay Accrual	-512	-4,125	-669
17.	Cap Property Tax	231	262	302
18.	Total Deductions (L12+...+L17)	57,764	47,020	49,638
19.	Taxable Income (L4+L11-L18)	154,238	166,441	161,543
20.	Composite Tax Rate	0.4768	0.4205	0.3645
21.	Unadjusted Income Tax Exp (L19*L20) (See Schedule 6)	73,541	69,988	58,882
22.	Amort of ITC	-12,606	-10,540	-8,496
23.	Amort of Tax Rate Change	-3,461	-5,309	-5,643
24.	Research Tax Credit	-224	-224	-224
25.	Adjusted Book Income Tax Exp (L21-L22-L23-L24)	57,250	53,915	44,519

* Includes adjustments related to Bad Debt Reserve elimination and loss of certain business expenses.

Schedule 6

COMPONENTS OF TOTAL INCOME TAX EXPENSE

12/31/85
(000s)

		Prior Tax Law (46% FIT Rate)	1987 Tax Law (40% FIT Rate)	1988 Tax Law (34% FIT Rate)
1.	Total Income Tax Expense	78,155	74,343	62,614
2.	Deferred Tax Expense	26,864	20,424	19,483
3.	ITC Realized	23,480	-1,038	-950
4.	Current Tax Expense (L1-L2-L3)	27,811	54,957	44,081

12/31/86
(000s)

		Prior Tax Law (46% FIT Rate)	1987 Tax Law (40% FIT Rate)	1988 Tax Law (34% FIT Rate)
1.	Total Income Tax Expense	73,541	69,988	58,882
2.	Deferred Tax Expense	23,803	19,995	22,516
3.	ITC Realized	14,732	-931	-707
4.	Current Tax Expense (L1-L2-L3)	35,006	50,924	37,073

Schedule 7

Estimate of Excess Deferred Tax
(000)

1.	Intra Deferred Tax Balance at 12/31/86	293,167
2.	COR previously flowed through	9,770
3.	Adjusted Deferred Tax Balance (L1-L2)	283,397
4.	A/C 309 & 307 payback for 1987	18,137
5.	Amount to be paid back after 1987 (L3-L4)	265,260

Excess portion of deferred taxes paid back at 40%:

6.	Payback during 1987 (Line 4 above)	18,137
7.	Old effective tax rate	.4749
8.	Pre-tax timing difference (L6/L7)	38,191
9.	Reduction in tax rate (.4749-.4184)	.0565
10.	Excess related to 40% payback (L8*L9)	2,158

Excess portion of deferred taxes paid back at 34%:

11.	Payback after 1987 (Line 5 above)	265,260
12.	Old effective tax rate	.4749
13.	Pre-tax timing difference (L11/L12)	558,560
14.	Reduction in tax rate (.4749-.3622)	.1127
15.	Excess related to 34% payback (L13*L14)	62,950

Total Excess Deferred Taxes:	2,158
	62,950
	65,108 *

* 96.39% attributable to accelerated depreciation;
3.61% attributable to debt refinancing.