

LAW OFFICES

HAWKINS, BRYDON & SWEARENGEN

PROFESSIONAL CORPORATION

312 EAST CAPITOL AVENUE

P. O. BOX 456

JEFFERSON CITY, MISSOURI 65102-0456

ROBERT L. HAWKINS, JR.
DAVID V.G. BRYDON
JAMES C. SWEARENGEN
WILLIAM R. ENGLAND, III
JOHNNY K. RICHARDSON
STEPHEN G. NEWMAN
MARK W. COMLEY
GARY W. DUFFY
VICKI J. GOLDAMMER
PAUL A. BOUDREAU
BARRY V. CUNDIFF
ELLEN M. EDWARDS

AREA CODE 314
TELEPHONE 635-7166
TELECOPIER 634-7431

March 2, 1987

Mr. Harvey G. Hubbs
Secretary
Missouri Public Service Commission
P. O. Box 360
Jefferson City, Missouri 65102

Re: Case No. ^A80-87-48
Effects of the 1986 Federal Tax Reform Act

Dear Mr. Hubbs:


On behalf of Webster County Telephone Company, I enclose an original and fourteen (14) copies of a response to the Commission's November 3, 1986, order issued in connection with the above-referenced matter. Would you please bring this response to the attention of the appropriate Commission personnel. I have caused two copies of same to be filed with the Office of Public Counsel this same date.

Thank you for your assistance with this matter.

Sincerely,

HAWKINS, BRYDON & SWEARENGEN P. C.

By:


Paul A. Boudreau

PAB:sw
Enclosures

cc: Office of the Public Counsel

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PUBLIC SERVICE COMMISSION

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Webster County Telephone Company's)	
Response to the Order Initiating)	Case No. A0-87-48
Investigation Issued November 3, 1986)	Effects of 1986 Federal Tax Reform
)	

As ordered November 3, 1986, Webster County Telephone Company (the Company) is providing the revenue requirement impact of the Tax Reform Act of 1986 on the Company's 1986 operations. This information is in addition to the report previously supplied December 15, 1986 that applied to the Company's 1985 operations.

Once again, the Company has made estimates of the effects that the Tax Reform Act of 1986 will have on its current income tax payment, deferred tax accruals and revenue requirements. As requested, the Company made these estimates based on December 31, 1986 financial data. The attached Schedules 1, 2 and 3 reflect the respective revenue requirement, rate base and income statement of the Company at 12/31/86 prior to and including the adjustments needed to reflect the Tax Reform Act.

As indicated on line 14 of Schedule 3, the Company's 1986 operations resulted in a net loss prior to taxes. Changes in the tax law, concerning changes in deductions and the tax rate itself, will not alter the fact that the Company is in a net operating loss position. It is, therefore, inappropriate to consider any revenue reduction at this time.

Consideration must also be given to changes in the industry that will increase the Company's local service revenue requirement in the very near

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future. The proposed NTS shift in the intraLATA compensation Case No. T0-84-222, as presently before this Commission, results in a transfer of approximately a \$19,000 requirement to the local jurisdiction.

The FCC and the Federal-State Joint Board have taken action or are presently considering actions which would further shift cost to the local jurisdiction. The implementation of the new uniform system of accounts (Part 32) which resulted from FCC Docket No. 78-196 will result in shifts from capital to expense of approximately \$18,000 based upon 1986 operations.


In addition, the treatment of category 6 and category 8 central office equipment for separations purposes (FCC Docket 80-286) will result in shifts of cost to the local jurisdiction. The revenue impact on the Company has not been quantified to date. However, we have no reason to believe that the effect would be materially different in magnitude from Continental Telephone Company of Missouri, since the construction program which converts the Company's exchanges to digital technology is almost complete.

Furthermore, the Company is also concerned with the effect that several key issues, whose impact cannot yet be measured, will have on the Company. Preliminary review indicates that the Alternative Minimum Tax (AMT) will not impact the Company in 1987. However, in future years the potential increase in tax expense related to AMT may affect the Company's operations. The reduction in internally generated funds may place the Company in a position which requires further long-term debt commitments. Any resulting issue of additional long-term debt will have the effect of lowering its equity ratio which could potentially require an increased return on equity and ultimately affect the Company's required rate of return.

During the settlement of the Company's last rate case, the Company stipulated that it would not file for increased rates except in connection with a Continental Telephone Company of Missouri rate case. This agreement prevents the Company from seeking a rate increase. A proposal to reduce rates as the result of tax reform would be inappropriate first because the Company is already operating in a loss position and secondly because it would violate the intent of the stipulation between the Company Staff and Public Counsel.

In summary, the Company firmly believes that items such as those enumerated above should be considered by the Commission in this proceeding when dealing with the effects of the Tax Reform Act of 1986. Clearly the Company should not be required to reduce rates as a result of tax reform during a period when its net operating results are in a loss position.

WEBSTER COUNTY TELEPHONE COMPANY

By: 
William M. Edwards, III
Vice President

Schedule 1

WEBSTER COUNTY TELEPHONE COMPANY
 REVENUE REQUIREMENT - 1986 OPERATIONS
 TOTAL COMPANY

LINE NO.	DESCRIPTIONS	PROR TAX LAW	NEW TAX LAW	NEW TAX LAW	NEW TAX LAW
		0 46 %	0 46 %	0 40 %	0 34 %
	(a)	(b)	(c)	(d)	(e)
1	TOTAL COMPANY RATE BASE	\$4,853,815	\$4,853,815	\$4,877,043	\$4,900,270
2	AUTHORIZED RATE OF RETURN	8.56%	8.56%	8.56%	8.56%
3	NET OPERATING INCOME REQUIREMENT	\$415,487	\$415,487	\$417,475	\$419,463

WEBSTER COUNTY TELEPHONE COMPANY
 RATE BASE - 1986 OPERATIONS
 TOTAL COMPANY

LINE NO.	DESCRIPTIONS	PRIOR TAX LAW	NEW TAX LAW	NEW TAX LAW	NEW TAX LAW
		@ 46 %	@ 46 %	@ 40 %	@ 34 %
	(a)	(b)	(c)	(d)	(e)
1	TELEPHONE PLANT IN SERVICE	\$6,885,820	\$6,885,820	\$6,885,820	\$6,885,820
2	DEPRECIATION RESERVE	(\$1,721,025)	(\$1,721,025)	(\$1,721,025)	(\$1,721,025)
3	NET TELEPHONE PLANT	\$5,164,795	\$5,164,795	\$5,164,795	\$5,164,795
	ADD				
4	MATERIALS & SUPPLIES	\$17,935	\$17,935	\$17,935	\$17,935
5	WORKING CAPITAL	(\$53,925)	(\$53,925)	(\$53,925)	(\$53,925)
6	PREPAYMENTS	\$4,685	\$4,685	\$4,685	\$4,685
	LESS				
7	DEFERRED INCOME TAXES	\$248,951	\$248,951	\$225,684	\$202,418
8	CUSTOMER DEPOSITS	\$22,641	\$22,641	\$22,641	\$22,641
9	INTEREST EXPENSE OFFSET	\$8,083	\$8,083	\$8,122	\$8,161
10	INCOME TAX OFFSET	\$0	\$0	\$0	\$0
11	TOTAL RATE BASE	\$4,853,815	\$4,853,815	\$4,877,043	\$4,900,270

WEBSTER COUNTY TELEPHONE COMPANY
 INCOME STATEMENT - 1986 OPERATIONS
 TOTAL COMPANY

LINE NO.	DESCRIPTIONS	PRIOR TAX LAW	NEW TAX LAW	NEW TAX LAW	NEW TAX LAW
		@ 46 %	@ 46 %	@ 40 %	@ 34 %
	(a)	(b)	(c)	(d)	(e)
OPERATING REVENUES					
1	LOCAL SERVICE REVENUES	\$525,972	\$525,972	\$525,972	\$525,972
2	NETWORK ACCESS REVENUES	\$927,353	\$927,353	\$927,353	\$927,353
3	MISCELLANEOUS REVENUES	\$124,730	\$124,730	\$124,730	\$124,730
4	UNCOLLECTIBLE REVENUES	(637,128)	(637,128)	(637,128)	(637,128)
5	TOTAL OPERATING REVENUES	\$1,540,927	\$1,540,927	\$1,540,927	\$1,540,927
OPERATING EXPENSES					
6	MAINTENANCE EXPENSE	\$1,242,031	\$1,242,031	\$1,242,031	\$1,242,031
7	TRAFFIC EXPENSE	\$157,030	\$157,030	\$157,030	\$157,030
8	COMMERCIAL EXPENSE	\$106,573	\$106,573	\$106,573	\$106,573
9	GENERAL OFFICE EXPENSE	\$363,500	\$363,500	\$363,500	\$363,500
10	OTHER OPERATING EXPENSE	\$153,800	\$153,800	\$153,800	\$153,800
11	DEPRECIATION & AMORTIZATION EXPENSE	\$641,963	\$641,963	\$641,963	\$641,963
12	TAXES OTHER THAN INCOME TAXES	\$54,930	\$55,330	\$55,330	\$55,330
13	TOTAL OPERATING EXPENSES	\$2,719,827	\$2,720,227	\$2,720,227	\$2,720,227
14	NET INCOME BEFORE TAXES	(\$1,178,900)	(\$1,179,300)	(\$1,179,300)	(\$1,179,300)