

In the Matter of the Compliance Filings
Regarding the Rates of US Sprint
Communications Company Pursuant to Minn.
Rules, Parts 7827.0100 to 7827.0600,
Relating to Rate Adjustments Due to the Tax
Reform Act of 1986

ISSUE DATE: OCTOBER 20, 1987

DOCKET NO. P-466/M-87-438

ORDER ACCEPTING COMPLIANCE
FILINGS

PROCEDURAL HISTORY

On June 29, 1987, the Commission's permanent rules relating to rate adjustments due to the Tax Reform Act of 1986 (TRA), Minn. Rules, parts 7827.0100 to 7827.0600, became effective. The rules state that on and after July 1, 1987, overall rates of public utilities and telephone companies are unjust and unreasonable unless their rates have been adjusted to account for the reduction in federal income tax expense under Minn. Rules, part 7827.0400 or certain alternative conditions have been met.

On June 25, 1987, US Sprint Communications Company (Sprint or the Company) submitted a letter to the Minnesota Public Utilities Commission (the Commission) stating its intent to comply fully with Minn. Rules, parts 7827.0100 to 7827.0600. Sprint further stated that the TRA had no direct effect on the Company and therefore no adjustment to its rates was needed pursuant to Minn. Rules, part 7827.0300, item A.

On August 17, 1987, the Residential Utilities Division of the Office of the Attorney General (RUD-AG) submitted a letter to the Commission agreeing that Sprint's rates did not need to be adjusted for the effects of the TRA. The Department of Public Service (DPS) did not file written comments with the Commission, apparently due to an administrative oversight. However, the DPS did provide Commission staff with a copy of an internal memorandum, as well as verbal confirmation, stating that the DPS agreed with the RUD-AG that Sprint's rates need not be adjusted.

FINDINGS AND CONCLUSIONS

no tax expenses or benefits are recorded on its books, and 2) Sprint is suffering net losses so that no federal income tax liability would currently accrue in any event. Therefore, Sprint argued that no rate adjustment was necessary. In response to inquiries from the RUD-AG, Sprint provided additional information supporting its financial position. This information, attached to the RUD-AG's August 17, 1987 letter, showed a net loss for the total company and for the allocated Minnesota intrastate operations for 1986.

The RUD-AG rejected Sprint's first reason for not adjusting its rates, stating that when a telephone company does not pay taxes directly, the proper treatment is to impute those expenses to the company for ratemaking purposes. However, the RUD-AG agreed with Sprint's second reason for not adjusting its rates because if a telephone company incurs a taxable loss on operations, the federal tax law change has no practical effect. The RUD-AG stated that data supplied by Sprint supported its economic condition as did newspaper and financial magazine stories. The DPS supported the RUD-AG's position.

The Commission agrees with the RUD-AG that a telephone company cannot avoid regulatory treatment of its taxes by selecting a particular organizational structure, such as a partnership. When examining the reasonableness of rates, the proper procedure is to impute taxes to the company on a reasonable basis. Therefore, the Commission rejects Sprint's first argument for not adjusting its rates for the effect of the TRA.

The Commission finds that the RUD-AG and the DPS have examined the data filed by Sprint and attested that the information provided by the Company is sufficient to support a Commission finding that Sprint is suffering net taxable losses in Minnesota. The Commission finds, therefore, that the TRA has no practical effect on Sprint's rates in Minnesota. The Commission concludes that Sprint's existing rates do not need to be adjusted for the effects of the TRA.

ORDER

1. The filings of US Sprint Communications Company with respect to Minn. Rules, parts 7827.0100 to 7827.0600 are accepted. The Company's existing rates for telephone service in Minnesota need not be changed as a result of the federal Tax Reform Act of 1986.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

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