

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

September 13, 2012

IN RE:

**REVISION OF BUSINESS RATES TO REFLECT 2012
AD VALOREM TAX EQUITY PAYMENTS PURSUANT
TO TENN. CODE ANN. §§ 67-6-221 AND 67-6-222**

**DOCKET NO.
12-00079**

ORDER APPROVING TARIFFS

This matter came before Chairman Kenneth C. Hill, Director Sara Kyle and Director Herbert H. Hilliard of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on September 10, 2012 for consideration of tariffs that provide adjustments to the business rates of Incumbent Local Exchange Companies ("ILECs") to reflect ad valorem tax equity payments pursuant to Tenn. Code Ann. §§ 67-6-221 and 67-6-222.

BACKGROUND

During the 2001 Legislative Session, the Tennessee General Assembly enacted legislation¹ amending Tenn. Code Ann. § 67-6-221 and § 67-6-222 (hereinafter referred to as "the Act"), which effectively lowered the amount of property taxes that ILECs are assessed for their properties.

The effect of the tax reduction on utility property under the Act reduces the amount of property taxes remitted to local governments, thereby reducing the tax revenue stream that local governments can depend on to fund government operations. To prevent local governments from

¹ See 2001 Tenn. Pub. Acts 195.

experiencing revenue declines, the General Assembly created a system of property tax rebates that effectively reduces the assessment ratio on the property owned by the local telephone companies by making annual ad valorem tax equity payments to these eligible carriers. The Act imposed an additional sales tax of 4% on interstate telecommunications business services to fund the tax reduction to local companies.

Under this system the local telephone companies continue paying the local governments at the existing, higher assessment rates for utility property. A portion of the additional 4% tax revenue on long distance calls is remitted into a fund administered by the Tennessee Comptroller of the Treasury ("Comptroller"). The local telephone companies file with the Comptroller each year in order to receive an equity tax payment. This payment represents the difference between the tax assessments at the old higher rate and the new lower rate. In effect, the additional sales tax on interstate telecommunications services allows the local companies to pay less in property taxes through a system of rebates while local governments maintain their existing revenue streams from property taxes.

The rebate system created by the Act effectively reduces the amount of property taxes for local companies, thereby reducing their overall expense of doing business. Accordingly, to prevent the local companies from experiencing windfall profits, the Act requires that any net tax savings be flowed through to rates for business and/or interconnection services.

In June 2012, the ILECs received equity tax payments from the Comptroller based upon their actual tax savings, i.e., the difference in the new lower tax assessment rates and the old assessment rates. Thereafter, all ILECs were requested to provide rate adjustments, including all supporting calculations, to true-up the previous year's rate reductions and to reflect the actual tax payment received as required by the Act. ILEC tariffs were filed under the docket number of this proceeding.

FINDINGS AND CONCLUSIONS

During the September 10, 2012 Authority Conference, the panel considered the following ILEC tariffs:

12-0285 – Crockett Telephone	12-0303 – Tellico Telephone
12-0286 – Peoples Telephone	12-0304 – Tennessee Telephone
12-0287 – West TN Telephone	12-0305 – Ardmore Telephone
12-0288 – United Telephone	12-0306 – Humphreys Co. Telephone
12-0290 – Millington Telephone	12-0307 – Citizens of TN
12-0298 – Loretto Telephone	12-0308 – Citizens of Vol. St.
12-0302 – Concord Telephone	

The Authority analyzed all of these tariffs to determine whether the methodologies, the tax rebates and associated rate adjustments contained in each tariff conformed to the statute. After reviewing the calculations and rate adjustments in each tariff, the panel found that the above-listed tariffs return the net amount of tax savings realized to business customers in the form of lower rates as required by Tenn. Code Ann. § 67-6-222. Accordingly, the panel voted unanimously to approve all of the tariffs listed above.

IT IS THEREFORE ORDERED THAT:

The tariffs filed by the local exchange carriers as set forth in this Order are approved.

Chairman Kenneth C. Hill, Director Sara Kyle and Director Herbert H. Hilliard concur.

ATTEST:



Earl R. Taylor, Executive Director