

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED²
OCT 25 2000

Missouri Public
Service Commission

In the Matter of the Application of Union Electric)
Company for an Order Authorizing: (1) Certain)
Merger Transactions Involving Union Electric)
Company; (2) The Transfer of Certain Assets, Real)
Estate, Leased Property, Easements and)
Contractual Agreements to Central Illinois Public)
Service Company; and (3) In Connection)
Therewith, Certain Other Related Transactions.)

Case No. EM-96-149

**STAFF MOTION FOR A COMMISSION ORDER COMPELLING UNION ELECTRIC
COMPANY TO ANSWER STAFF DATA REQUESTS RELATING TO THE STAFF
MAKING THE FILING REQUIRED BY SECTION 7.g. OF THE
SECOND EARP STIPULATION AND AGREEMENT**

Comes now the Staff of the Missouri Public Service Commission (Staff) and requests that the Missouri Public Service Commission (Commission) issue an Order compelling Union Electric Company, d/b/a Ameren UE (UE) to respond to Staff Data Requests relating to the Staff performing a revenue requirement cost of service audit for purposes of meeting the Section 7.g. provision of the Stipulation And Agreement in Case No. EM-96-149 that was conditionally approved by the Commission in its Report And Order issued February 21, 1997 in Case No. EM-96-149. The Staff wants to be very clear that the Staff believes that the Commission has the legal authority to grant this Motion To Compel and granting this Motion To Compel would not violate any provision of the Case No. EM-96-149 Stipulation And Agreement. In support of this Motion to Compel, the Staff states as follows:

1. Section 7.g. of the Stipulation And Agreement in Case No. EM-96-149 provides that by February 1, 2001, UE, Staff and Office of the Public Counsel (OPC) will file and other signatories may file their recommendations with the Commission as to whether the second UE

experimental alternative regulation plan ("second EARP," which is referred to in the Case No. EM-96-149 Stipulation And Agreement as the "New Plan") should be continued as is, continued with changes (including new rates, if recommended) or discontinued.

2 Section 7.g. also states that in the final year of the second EARP, UE, Staff, OPC and other signatories "shall meet to review the monitoring reports and **additional information** required to be provided." (Emphasis added.). The Staff contends that this language, among other things, indicates that monitoring reports data is not the only information that UE must provide for purposes of the Staff's February 1, 2001 report. The Staff is and has been submitting to UE data requests to obtain information that it requires in order to comply with Section 7.g. and that it believes is required to be provided by UE pursuant to the Case No. EM-96-149 Stipulation And Agreement. Six accountants are working on site at UE's offices in St. Louis and Staff members in other departments than the Accounting Department are working on the project in Jefferson City. (For comparison purposes, ten Staff accountants worked on site at UE's offices in St. Louis in the Staff's 1987 excess earnings audit of UE, Case No. EC-87-114, and eleven Staff accountants worked on site in St. Louis at the comparable audit of the Southwestern Bell Telephone Company incentive regulation experiment in 1992 in Case No. TO-90-1. In both of these cases, Staff members in other departments than the Accounting Department worked on these projects from the Commission's offices in Jefferson City.).

3. Commencing October 4, 2000, the Staff started receiving from UE objections to Staff data requests. To date, the Staff has received from UE objections to 41 Staff Data Requests. (A copy of these data requests are appended hereto as Attachment 1.). Staff accountants are on site at UE (a) performing an audit of UE's second sharing period of the second EARP, (b) performing the revenue requirement cost of service audit necessitated by Section 7.g. of the Case

No. EM-96-149 Stipulation And Agreement and (c) coordinating with other Staff members in Jefferson City, other elements of the Staff's February 1, 2001 filing.

4. The 41 data requests that have been objected to by UE fall into the following general subject areas: rate base, revenues, payroll, income taxes, uncollectibles, fuel, general and miscellaneous expense. The period for which information is requested by the data requests, generally, is for the second period of the second EARP going forward, i.e., for the twelve months ended July 1, 1999 going forward. This period is consistent with the Staff's approach regarding the report which the Staff submitted to the Commission concerning the SWBT incentive regulation experiment. Some data requests ask for the current practices of UE in specific areas. Some data requests ask for information covering periods starting with dates during the first EARP. One data request asks for dividend payments for the period covering 1985 to the present and dividend projections through 2004. One data request asks for copies of interviews and internal correspondence relating to the Venice power plant outage from August 10, 2000 to the present. One data request asks for a copy of UE's annual FERC Form 1 filing for the years 1990 through 1997. One data request asks for certain generation information for the years 1990 forward. Two data requests ask for information from 1993 forward respecting payments to and correspondence with a certain law firm engaged in lobbying activities. (In the past, the Commission has disallowed lobbying expenses from recovery in rates. The law firm in question and UE were mentioned in a May 11, 2000 Washington Post newspaper article.). One data request asks that a meeting be set up to discuss the fuel and generation area and reports relating to the fuel area. One data request asks that a meeting be set up to discuss the various components of cash working capital. The Staff has advised UE that one data request to which UE

has objected on various grounds, including it fails to give any specified time frame for the information requested, will be redrafted to identify a very limited time frame.

5. Pursuant to 4 CSR 240-2.090 (8) (A), undersigned counsel for the Staff conferred by telephone with counsel for UE concerning this matter. Once it became clear that the Staff and UE would not be able to resolve this matter between themselves, the Staff and UE, pursuant to 4 CSR 240-2.090 (8)(B), conferred with the presiding officer. No resolution of this matter having been reached, the Staff has filed this instant Motion To Compel.

6. A letter dated October 3, 2000, objecting to certain Staff data requests, which was received by the Staff on October 4, 2000, states, in part, as follows:

In recent weeks, we have received data requests from the Staff, which are unrelated to (and certainly unauthorized by) any proceeding under the EARP.¹ Indeed, these data requests are of a kind that would be appropriate only in a rate reduction proceeding, but appear quite foreign in the EARP context. Moreover, we have been advised that representatives of the Staff plan to remain on site for several months, for what appears to be the kind of audit-like work that might be appropriate in a rate reduction proceeding, but certainly has no place in the EARP.

As you know, the EARP expressly provides that "Staff, OPC and other signatories may not file, encourage or assist others to file a rate reduction case through June 30, 2001," unless certain special conditions occur, which they have not. See EARP, § 7 (c). Thus, the signatories were very clear that rate reduction proceedings, including the various forms of discovery that make up much of those proceedings, were not to begin before the conclusion of the EARP.

The procedure for filing "recommendations" with the Commission concerning whether the EARP should be continued and under what terms, § 7 (g), equally clearly does not contradict the limitations of § 7(c) by somehow creating a rate reduction proceeding by another name. It is true that § 7 (g) invites the parties to suggest changes they believe to be appropriate, "including new rates, if recommended." This simple parenthetical reference to "new rates" allows the signatories flexibility: we can propose anything ranging from a specific new rate (based on any reasoning the individual signatory believes is persuasive) down to a simple conclusion that the rate needs to be changed without specifying what that

¹ As of this writing, these data requests are No. 13, Nos. 16-21, No. 23, No. 25-26, No. 29, No. 35, No. 40, No. 59, Nos. 61-72, Nos. 74-76 and No. 4114.

rate should be. It does not, however, supersede the moratorium contained in § 7(c).

The fact that the reference to "new rates" does not import a traditional ratemaking procedure into the EARP is further confirmed by the fact that these recommendations are part of the process by which the Commission can evaluate what, after all, has been an experiment. The Commission cannot independently take any affirmative action based on these recommendations. It is well established in Missouri law that the Commission cannot mandate an earnings sharing mechanism like that embodied in the EARP. Thus, the Commission could not order a new EARP based on these recommendations. Such recommendations can become provisions in a new EARP only by agreement of the signatories, followed by approval of the Commission.

Section 7(g) does not specifically provide for any mechanism of information disclosure to inform a signatory's analysis of the EARP. However, the EARP itself generally provides for the disclosure of a wealth of information that includes all that the signatories believed was needed to fulfill all responsibilities under the EARP, including the duty to make the recommendation required in § 7(g). See EARP, § 7(e). Again, nothing in these provisions of the EARP remotely suggests that any party is entitled to use the broader, far more burdensome, discovery techniques so common in a full-fledged ratemaking. What is particularly striking is that some of the Data Requests that are of concern have little to do with rates in any event.

In sum, because we believe the discovery strategy being pursued by the Staff is unauthorized by § 7(g), or anything else in the EARP -- indeed, is wholly at odds with its premises -- we cannot acquiesce in this strategy. We remain open to discussing this problem with you, particularly if you can show some basis under the EARP for these data requests or the on-site work you contemplate. . . .

7. As indicated, the Staff has discussed this matter with UE, and with UE and the presiding Regulatory Law Judge, and has not been able to resolve this matter. The Staff received a second letter from UE respecting the indicated data requests, which is how UE has objected to subsequent data requests to which it refuses to respond:

AmerenUE hereby objects to Data Request Nos. 13, 16-21, 23, 25-26, 29, 35, 40, 59, 61-72, 74-77 and 4114 in the above matter on the grounds that they are part of a discovery process that is not mandated or contemplated by the EARP. Specifically, such data requests are not expressly authorized by any provision of the EARP and are outside the scope of any provision of the EARP that arguably authorizes data requests. For example, the provision of the EARP for filing recommendations with the Commission concerning the continuation of the EARP,

that is, Section 7(g), does not provide for any mechanism of information disclosure beyond the monitoring disclosures mandated in Section 7(e). Furthermore, these data requests ask for information outside of those monitoring provisions.

8. UE's counsel, in the conference call with the presiding Regulatory Law Judge noted above, indicated that UE has responded to and will respond to some Staff data requests to which it could otherwise object.

9. The Staff read this letter as contending, among other things, that the terms of the Stipulation And Agreement in Case No. EM-96-149 do not allow the Staff to commence a revenue requirement cost of service audit prior to July 1, 2001. Counsel for UE has indicated that he can see how that interpretation may be imparted by the October 3, 2000 letter, but that was not intended.¹

10. As counsel for the Staff now understands the objection of UE, it is UE's position that the February 1, 2000 filing required by Section 7.g. of the Stipulation And Agreement does not allow a cost of service revenue requirement audit of UE, but merely permits an audit limited to the scope of audit for sharing period EARP monitoring purposes.

11. It is abundantly clear that the language of Section 7.c. of this Stipulation And Agreement permits the Staff to commence a revenue requirement cost of service audit prior to July 1, 2001. The language in Section 7.c. is similar to language in numerous other Stipulation and Agreements, and the Staff never has taken the position that this language means that the Staff cannot start a revenue requirement cost of service audit prior to the moratorium end date. Even if on some occasions, due to the lack of the availability of Staff or there being other

¹ If UE were to argue that the Staff could not commence an earning audit until July 1, 2001, then the Staff would find itself in the position of arguing that reciprocity requires that UE could not start preparing a rate increase case until July 1, 2001. First, no one could monitor when UE began preparing a rate increase case without being very intrusive, and second, the Staff would argue that there is no more logic to asserting that UE could not start preparing

priorities, the Staff has not started a revenue requirement cost of service audit until after the end of a moratorium, the Staff never has taken the position that it could not start the audit until after the end of the moratorium. There even is a Commission decision which makes this clear: Re Southwestern Bell Telephone Co., Case No. TR-88-23 and AO-87-48, Order, 29 Mo.P.S.C.(N.S.) 194 (1987) (Order approving Stipulation And Agreement relating to SWBT reducing its rates to reflect the impact of the Federal Tax Reform Act of 1986)(In conjunction with this 1987 Order, see Re Southwestern Bell Telephone Co., Case No. TR-86-84, Report And Order, 28 Mo.P.S.C.(N.S.) 510, 513-14 (1986)). Rather than the Staff merely having been authorized to file on or after July 1, 1988 an excess earnings complaint case by the Commission's acceptance of the Stipulation And Agreement in Case No. TR-86-84, the Commission in its Order in Case Nos. TO-88-23 and AO-87-48 ordered the Staff to file the results of its earnings analysis at the conclusion of the moratorium should the results of the Staff's audit cause the Staff to believe that SWBT's rates were excessive. The moratorium ended June 30, 1988 and the Staff filed a \$200 million earnings complaint case against SWBT in August 1988. The Commission in its August 28, 1987 Order in Case Nos. TR-88-23 and AO-87-48 ordered as follows:

. . . the Commission believes that a full investigation and audit of Southwestern Bell should be undertaken by the Staff as soon as reasonably practicable. Should the results of its audit persuade the Staff that Southwestern Bell's rates are excessive, Staff should file a complaint against Southwestern Bell, and its supporting direct evidence, on or about July 1, 1988. This will ensure that the Commission has the earliest opportunity to review the overall revenue requirement of Southwestern Bell. By authorizing the initiation of an audit, the Commission does not prejudge the issue of whether or not Southwestern Bell's rates are excessive, but merely determines that the matter should be investigated.

Id. at 196.

a rate increase case prior to July 1, 2001 than there is logic to contending that the Staff could not start an earnings audit of UE before July 1, 2001.

12. The Case No. TO-90-1 SWBT incentive regulation experiment, which preceded the first and second UE EARPs, is the template for the UE EARPs. Although the language is not identical, Section 4 (h) of the March 6, 1991 Joint Recommendation To Approve Revised Incentive Regulation Experiment For Southwestern Bell Telephone Company in Case No. TO-90-1, is the template for Section 7.h. of the Case No. EM-96-149 Stipulation And Agreement. The rate increase case/excess earnings complaint case moratorium in Case No. TO-90-1 ended as of December 31, 1992. The Staff stated in its October 1, 1992 Report to the Commission in Case No. TO-90-1 that "[i]f the audit results remain in the range currently estimated, the Staff expects to file a complaint against SWBT in January, 1993 seeking to reduce rates." (Page 31 to Attachment 2 to the instant Motion To Compel).

13. Even if Section 7.g. of the Case No EM-96-149 Stipulation And Agreement were not in said Stipulation And Agreement, the Commission nonetheless may have been called upon to settle a dispute between the Staff and UE as to what is the proper date for the Staff to commence an earnings audit of UE in advance of the June 30, 2001 termination of the moratorium. UE and the Staff have disagreed as to what is the proper scope of the monitoring provided for in the two UE EARPs, and, as the Commission is aware, UE has even contested this matter in the context of the Staff's adjustments to the third sharing period of the first EARP. UE and the Staff and OPC have sharply different views of what the EARPs are intended to be and how they are supposed to work. For the Staff, the EARPs serve as alternatives to traditional regulation, in that it they were thought to be structured to lead to more timely receipt by UE's customers of reductions in UE's revenue requirement than normally possible under traditional regulation (while allowing UE to retain some portion of such revenue requirement reductions as might occur under conditions of normal regulatory lag.). In short, the Staff views the EARPs as

a kind of continuous revenue requirement scrutiny, with procedures set up to lessen and limit the need for litigation of UE's revenue requirement. The EARPs are not intended to convert the Staff and ultimately the Commission into mere checkers of the mathematical accuracy of calculated credit amounts and auditors solely looking for fraud. Under the positions advocated by UE, said company becomes the sole and final arbiter of its earnings and the amount of sharing credits to be provided to customers under the EARPs. The Staff will return to this point later herein.

14. Section 4 (h) of the March 6, 1991 Joint Recommendation To Approve Revised Incentive Regulation Experiment For Southwestern Bell Telephone Company in Case No. TO-90-1 provided that three months before the scheduled end of the SWBT incentive regulation experiment, i.e., on October 1, 1992, SWBT, the Staff and OPC were to file their recommendations as to whether the incentive regulation experiment should be continued as is, continued with changes (including new rates if so recommended), or discontinued.

15. Pursuant to Section 4 (h), the Staff performed a revenue requirement cost of service audit of SWBT, and on October 1, 1992, three months before the December 31, 1992 conclusion of the SWBT incentive regulation experiment. The Staff filed in Case No. TO-90-1 a Report, a copy of which is appended hereto as Attachment 2.

16. In its Report, the Staff stated that it was engaged in an earnings audit of SWBT which in addition was intended to examine SWBT's operations for prospective modifications necessary to more appropriately calculate any customer credit/rate reduction calculation under a future alternative regulation plan. The Staff's October 1, 1992 Report related that the prior sharing period credit calculation was the starting point for the Staff's earnings audit for the October 1, 1992 Report, and Staff's findings to that point showed SWBT's rates were producing

an excessive level of earnings in the range of \$100 million to \$150 million per year. The Staff's Report further stated that

. . . It is not the Staff's intention to fully describe or develop herein the issues likely to be presented in the anticipated complaint case. This section is designed to provide a sense of the magnitude of the Staff's preliminary findings and an indication of the basis for these conclusions. Issues will be presented in greater detail in testimony in any filed complaint.

Staff's Report Regarding SWBT's Incentive Regulation Experiment, Case No. TO-90-1, October 1, 1992, p. 27 n. 1. Respecting the insufficiency of time between the October 1, 1992 Report and the end of the incentive regulation experiment, the Staff's Report also stated that

The Staff believes that there may be insufficient time to consider and decide regulatory alternative options by the expiration of the plan on December 31, 1992. If the audit results remain in the range currently estimated, the Staff expects to file a complaint against SWBT in January, 1993 to reduce rates. . . .

Id. at 31.

17. If Section 7.g. of the Stipulation And Agreement in Case No. EM-96-149 did not intend that the Staff perform an earnings audit before either July 1, 2001 or February 1, 2001, then the February 1, 2001 filing provided for by Section 7.g. makes no sense and serves no purpose. A filing on February 1, 2001 by the Staff based only on monitoring data as UE has seen fit to provide the Staff under its interpretation of Section 7.g. would be pointless because the Staff's analysis would be so narrowly confined so as to not permit the Staff to make truly informed and substantive recommendations as to whether the second EARP should be continued as is, continued with changes (including new rates, if recommended) or discontinued. The Staff has not performed a full-scale electric revenue requirement cost of service review of UE, since the Staff's excess earnings complaint case respecting UE in 1987, Case No. EC-87-114. In addition, the language of Section 7.g. clearly contemplates that the work to be performed is to

afford the opportunity for negotiations to occur between February 1, 2001 and July 1, 2001 which would permit a third EARP with no changes or with changes to go into effect with the concurrence of UE and the concurrence or nonopposition of other parties on July 1, 2001, upon the conclusion of the second EARP on June 30, 2001. (There may be a question as to whether additional entities may need to be afforded an opportunity to intervene and participate in such proceedings.). The Staff is neither planning nor proposing to file an excess earnings complaint or excess earnings complaint case testimony on February 1, 2001.

18. Case No. ER-95-411 is not only indicative of how long it took to negotiate the first EARP, it is possibly indicative of how long it might take to negotiate any alternative regulation plan to follow the second EARP, particularly if electric restructuring considerations are sought to be addressed in some manner. In the fourth quarter of 1994, the Staff submitted to UE the Staff's analysis of UE's revenue requirement in a process which later was to become Case No. ER-95-411. UE responded with a "UE/Customer Share In Savings Plan for Union Electric Company" that was attached to a letter dated January 27, 1995 from Donald E. Brandt to Kenneth J. Rademan. The Stipulation And Agreement in Case No. ER-95-411 was filed with the Commission on June 12, 1995.

19. All of the above discussion begs the issue of when does UE assert that the Staff can commence an earnings audit. Although the date February 1, 2001 does not appear in UE's letter of October 3, 2000 or any other UE letter stating objections to Staff data requests, UE apparently is now maintaining that the Staff cannot start its revenue requirement cost of service audit of UE before February 1, 2001. UE has smartly not taken the position, or it is possibly more accurate to say that UE has smartly decided not to pursue its contention that the Staff cannot start an earnings audit prior to July 1, 2001. Clearly, UE believes it has the semblance of

a credible position by arguing that the Staff cannot start its earnings audit of UE before February 1, 2001. UE is seeking no less than for the Commission to abrogate its statutory authority, abrogate the statutory authority of the OPC, abrogate the rights of the other signatories to the Case No. EM-96-149 Stipulation And Agreement and abrogate the rights of UE's ratepayers.

20. When the Staff has entered into the Stipulation And Agreements that have included moratoriums on utility company rate increase cases and Staff excess earnings complaint cases, the Staff generally has reminded the Commission of State ex rel. Jackson County v. Public Serv. Comm'n., 532 S.W.2d 20 (Mo. banc 1975), cert. denied, 429 U.S. 822, 97 S.Ct. 73, 50 L.Ed.2d 84 (1976) wherein intervenors sought to enforce a rate increase moratorium that the Commission had announced previously that it was imposing on Missouri Public Service Company. The Missouri Supreme Court stated that a moratorium was in conflict with the spirit of the Public Service Commission Law, that spirit being continuous regulation to meet changes in conditions as required by these changes in conditions. The Court quoted from a Missouri Supreme Court decision in State ex rel. Chicago, Rock Island, & Pacific Railroad Company, 312 S.W.2d 791, 796 (Mo. banc 1958) as follows:

"Its [Commission's] supervision of the public utilities of this state is a continuing one and its orders and directives with regard to any phase of the operation of any utility are always subject to change to meet changing conditions, as the commission, in its discretion, may deem to be in the public interest." To rule otherwise would make §393.270(3) of questionable constitutionality as it potentially could prevent alteration of rates confiscatory to the company or unreasonable to the consumers. [Citation omitted.]

532 S.W.2d at 29; See also, State ex rel. General Tel. Co. v. Public Serv. Comm'n, 537 S.W.2d 655, 661-62 (Mo.App.1976)²; State ex rel. Arkansas Power & Light Co. v. Public Serv. Comm'n, 736 S.W.2d 457, 462 (Mo.App. 1987); State ex rel. Associated Natural Gas Co. v. Public Serv. Comm'n, 706 S.W.2d 870, 880 (Mo.App. 1985); State ex rel. St. Louis v. Public Serv. Comm'n, 47 S.W.2d 102, 105 (Mo.banc 1931); Marty v. Kansas City Light & Power Co., 259 S.W. 793, 796 (Mo. 1923).

21. Mindful of the Jackson County case, the Staff has entered into Stipulations and Agreements containing rate increase case and Staff excess earnings complaint cases moratoriums when all parties to a proceeding have signed the Stipulation And Agreement or indicated that they have no objection to the Stipulation And Agreement and there does not appear that there is any known entity that likely would file a complaint with the Commission seeking that the Commission direct its Staff to conduct an earnings investigation of the utility in question. It is not the Staff's desire to restate at this stage the legal analysis contained in the Staff's initial and reply briefs to the Commission filed in August 1999 in Case No. EM-96-14. That should not be

² In the General Telephone case, the Court of Appeals held that the Commission's decision in a prior General Telephone Company case had no binding effect in a subsequent General Telephone Company case:

Insofar as the conclusion in the 1962 case is concerned, it has no binding effect in a future rate case. A concise statement of the applicable rule is found in 2 Davis, Administrative Treatise Section 18.09, 605, 610, (1958), as follows:

“* * * For an equity court to hold a case so as to take such further action as evolving facts may require is familiar judicial practice, and administrative agencies necessarily are empowered to do likewise. When the purpose is one of regulatory action, as distinguished from merely applying law or applying law or policy to past facts, an agency must at all times be free to take such steps as may be proper in the circumstances, irrespective of its past decisions. * * * Even when conditions remain the same, the administrative understanding of those conditions may change, and the agency must be free to act * * *.” (Footnotes omitted.)

Clearly the commission in this case was not bound by the action in the 1962 case.

537 S.W.2d at 661-62.

necessary because clearly the Staff did not limit its audit functions and activities by the terms of the Stipulation And Agreement in Case No. EM-96-149 as UE now appears to be contending.

22. The Staff would note that UE's objections to Staff Data Request Nos. 13, 16-21, 23, 25, 26, 29, 35 and 40 were not timely submitted to the Staff. These data requests were submitted to UE on August 17, 2000 and should have been objected to by August 27, 2000. The objecting letter received on October 4, 2000 was 38 days out of time. Also, UE's objections to Staff Data Request Nos. 50 and 55 were not timely submitted to the Staff. These data requests were submitted to UE on September 12, 2000 and should have been objected to by September 22, 2000. The objecting letter received on October 4, 2000 was 31 days out of time. Commission rule 4 CSR 240-2.090(2) requires, among other things, that:

...If the recipient objects to data requests or is unable to answer within twenty (20) days, the recipient shall serve all of the objections or reasons for its inability to answer in writing upon the requesting party within ten (10) days after recipient of the data requests, unless otherwise ordered by the Commission...

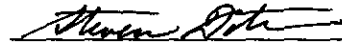
The Staff also would point out that UE is in violation of 4 CSR 240-2.090 (2) in that not "all of the objections" cited by counsel for UE on October 19, 2000 to the presiding officer as the grounds for UE's objections appear in UE's letter received on October 4, 2000 by the Staff. In part regarding UE's contention that the Staff has commenced its revenue requirement cost of service audit of UE much earlier than contemplated by the terms of the second EARP, the Staff would note that UE's delay in responding or objecting to the Staff's data requests. The Staff at this time is seeking direction from the Commission and a Commission Order directing UE to timely respond to the Staff data requests at issue.

Wherefore the Staff requests that the Commission issue an Order directing Union Electric Company to timely respond to Staff Data Requests relating to the Staff performing a revenue

requirement cost of service audit for purposes of meeting the Section 7.g. provision of the Stipulation And Agreement in Case No. EM-96-149 that was conditionally approved by the Commission in its Report And Order issued February 21, 1997 in Case No. EM-96-149.

Respectfully submitted,

DANA K. JOYCE
General Counsel

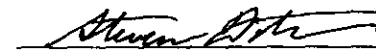


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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 25th day of October 2000.



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October 25, 2000**

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ATTACHMENT 1

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 08/17/00
Information Requested: See Attached

Requested By: John Cassidy

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the Union Electric Company office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title, number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies of data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control within your knowledge. The pronoun "you" or "your" refers to Union Electric Company and its employees, contractors, agents or others employed by or acting in its behalf.

Signed By: _____

Date Response Received: _____

Prepared By: _____

R

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 08/17/00
Information Requested:

1. Provide materials and supplies (excluding fuel), by month, for the twelve months ending June 30, 2000 for Missouri electric operations.
2. Provide prepayments for Missouri electric operations, by month, for the twelve months ending June 30, 2000. Please include a copy of each of the following: contracts on rents, annual assessment reports and any agreements on the freight of coal.
3. Provide customer deposits and customer advances by month, for the twelve months ending June 30, 2000 for Missouri electric operations.

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 08/17/00
Information Requested:

1. Provide the sales analysis report for Missouri Electric operations by month for the twelve months ending June 30, 2000.
2. For Missouri Electric operations, provide all revenue ledgers that will break out revenues by month, by customer class, by rate revenue, by revenue taxes and by unbilled revenues for the twelve months ending June 30, 2000.
3. Please update this data request for items 1 & 2 above, by month on an ongoing basis.

Requested By: John Cassidy

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

R

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 08/17/00
Information Requested:

For the Company's Missouri Electric Operations, please indicate any significant changes anticipated or known about for Rate Base for the years 2000 and 2001. Please describe and quantify.

Requested By: John Cassidy

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 08/17/00
Information Requested:

Please provide a copy of all salary surveys the Company has conducted, participated in or had access to for the years 1998 through the present. Please provide a date for each survey.

Requested By: John Cassidy

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 08/17/00
Information Requested:

Please provide the number of employees for UE Missouri electric operations and for Ameren on a monthly basis for the twelve months ending June 30, 2000 and by month on an ongoing basis. Provide these employee counts by union, management and other.

Requested By: John Cassidy

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

R

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 08/17/00
Information Requested:

Provide overtime hours and amounts by employee group or classification (as broken down in DR 19) by month for the period covering January 1, 1998 through June 30, 2000. Also, provide by month on an ongoing basis.

Requested By: John Cassidy

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman

Date Requested: 08/17/00

Information Requested:

Provide all formal guidelines and policies for overtime work for all wage groups in DR 20.

Requested By: John Cassidy

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 08/17/00
Information Requested:

Provide the most current Salary Plan and Appraisal System used by the Union Electric and Ameren.

Requested By: John Cassidy

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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Signed By: _____

Date Response Received: _____

Prepared By: _____

R

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 08/17/00
Information Requested:

Provide the ITC amortization for the twelve months ending June 30, 2000 for Missouri electric operations.

Requested By: John Cassidy

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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Signed By: _____

Date Response Received: _____

Prepared By: _____

R

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 08/17/00
Information Requested:

Provide the deferred tax provision amortization and balance, by account title and number for the twelve months ending June 30, 2000 for Missouri electric operations.

Requested By: John Cassidy

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
 Union Electric Company
 CASE NO. EM-96-149

Requested From: Eileen Bauman
 Date Requested: 08/17/00
 Information Requested:

On a monthly basis, for the period covering January 1, 1995 - June 30, 2000, provide the following information for Missouri electric operations:

1. The amount of uncollectibles charged off.
2. The amount of uncollectibles recovered.
3. The amount of miscellaneous uncollectibles.
4. A description of miscellaneous uncollectibles.
5. The amount of uncollectibles accrued.

Requested By: John Cassidy

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

R

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 08/17/00
Information Requested: See Attached

Requested By: John Cassidy

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 08/17/00
Information Requested:

For Union Electric Missouri Electric operations please provide the following:

1. Provide a descriptive listing of all employee benefits that are in excess of base wages such as incentive plans, bonuses, cars, insurance programs, etc... that are provided to any employee. Please specify those cases where a particular benefit is limited to a select employee or group of employees.
2. Provide a copy of all existing documentation describing the employee benefits. This documentation should include the criteria for receiving this additional compensation (who, when, amount and what each employee did to receive the benefit). Also, indicate any situation where participation by the employee is voluntary.
3. For each particular benefit that was limited to a select employee or group of employees, provide the respective employee code, the corresponding employee name and position.
4. Provide the dollar amount and accounts to which each particular employee benefit identified above was recorded during the twelve months ending June 30, 2000. Please update this information by month on a continuing basis.

R

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 08/17/00
Information Requested:

1. Provide the total number of residential automated/electronic electric meters that were in service at the following points in time: 6/30/97, 6/30/98, 6/30/99 and 6/30/2000.
2. Provide the total number of automated/electronic electric meters that were in service at the following points in time: 6/30/97, 6/30/98, 6/30/99 and 6/30/2000.

Requested By: John Cassidy

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

R

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 09/12/00
Information Requested:

1. Provide all dividend payments for the period covering January 1, 1985 through present. Provide the anticipated and the actual dividend payments during this time frame.
2. Provide dividend projections from now until December 31, 2004.

Requested By: John Cassidy

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 09/12/00
Information Requested:

Regarding the incentive compensation plan for UE Missouri electric operations:

1. Provide the dollars allocated by department for each twelve month period ending December 31, 1998, December 31, 1999 and December 31, 2000 (when available).
2. Provide the dollars that were returned by department for each twelve month period ending December 31, 1998, December 31, 1999 and December 31, 2000 (when available).

Requested By: John Cassidy

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 09/26/00
Information Requested:

Please set up a meeting to discuss the area of fuel. Please see the attached list of reports that we would also like to discuss.

Requested By: John Cassidy

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

Fuel Reports

Unit Availability – Scheduled, Forced and Partial Outages

Unit Generation – Instantaneous & Daily

Dispatch Logs

Interchange Sales & Price

Purchased Power & Price

Fuel Price / Generation Cost Per Unit

Unit de-ratings report

Station Use

Unit Heat Rates

Fuel Heat Rates

Coal Contracts

Fuel Mix by Boiler – Blended coal if applicable

Inventory Amounts by fuel types

Max. oil burn by unit – 2-3 days

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 09/29/00
Information Requested:

Please provide copies of report #1888 and CSRST 233 for the period January 1998 to June 2000 and updated to current. In addition, please have copies of report #1888 available for review for the period January 1996 to December 1997.

Requested By: Jim Russo

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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Signed By: _____

Date Response Received: _____

Prepared By: _____

R

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 09/29/00
Information Requested:

Please provide Report 33779 by month from January 1998 through June 2000. Update by month through the present and on an ongoing basis.

Requested By: Amanda McMellen

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 09/29/00
Information Requested:

Please provide the AMS Labor Download Report by month from January 1998 through June 2000. Update this by month through the present and on an ongoing basis.

Requested By: Amanda McMellen

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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Signed By: _____

Date Response Received: _____

Prepared By: _____

R

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 09/29/00
Information Requested:

Please provide a complete listing and detailed description of all payroll reports currently available.

Requested By: Amanda McMellen

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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Signed By: _____

Date Response Received: _____

Prepared By: _____

R

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 09/29/00
Information Requested:

Please provide dollar amounts and description for all distribution of incentive compensation payments by month from January 1998 through June 2000. Update this by month through the present and on an ongoing basis.

Requested By: Amanda McMellen

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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Signed By: _____

Date Response Received: _____

Prepared By: _____

R

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 09/29/00
Information Requested:

Please provide dollar amounts, hours and employee counts for contract vs. management total payroll for Ameren Services and UE Direct by month from January 1998 through June 2000. Update by month through the present and on an ongoing basis.

Requested By: Amanda McMellen

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 09/29/00
Information Requested:

Provide detailed descriptions of all deductions from paychecks that employees may have. (i.e. 401k, medical, dental, vision, life insurance etc..)

Requested By: Amanda McMellen

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 09/29/00
Information Requested:

Provide all payroll hours for Ameren Services and UE direct by month from January 1998 through June 2000, continuously updated to the most current available. Provide on an ongoing basis.

Requested By: Amanda McMellen

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

R

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 09/29/00
Information Requested:

1. Please provide all amounts paid to the law firm which now goes by the name of "Ryan, Phillips, Utrecht & Mackinnon" (or any previous names said law firm operated under) for the period covering January 1, 1993 through present. Indicate all accounts that were charged.
2. What previous name(s) did the law firm "Ryan, Phillips, Utrecht & Mackinnon" operate under?
3. Describe in detail all services that were received by UE from this law firm.

Requested By: John Cassidy

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

R

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 09/29/00
Information Requested:

Provide a copy of all correspondence & documentation UE has with the law firm now going by the name of "Ryan, Phillips, Utrecht & Mackinnon" (or under any previous names as requested in Staff Data Request No. 69) for the period covering January 1, 1993 through present.

Requested By: John Cassidy

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

R

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 09/29/00
Information Requested:

Provide all amounts paid for lobbying activities during the twelve months ending June 30, 2000.

- a. indicate the name of the lobbyist being paid, b. indicate amounts paid,
- c. indicate accounts that were charged
- d. describe specifically what UE received for each payment.

Requested By: John Cassidy

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 10/02/00
Information Requested:

Please provide all documentation describing the area of "business line planning." Identify all cost savings and revenue improvement programs developed to date and anticipated future programs. Provide the dollars associated with each program. Provide the business strategy associated with business line planning.

Requested By: Greg Meyer

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 10/02/00
Information Requested:

Please describe all actions the Company has undertaken to improve plant efficiency and to reduce fuel costs for each Ameren generating facility. Provide all cost savings or production savings achieved.

Requested By: John Cassidy

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

R

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman

Date Requested: 10/02/00

Information Requested:

Please provide a breakdown of all revenues received from Miscellaneous Service Revenues (FERC account #451 and Other Electric Revenues (FERC account 456) by month for the period January 1996 thru June 2000 and the monthly updates after June 2000 to current as they become available.

Requested By: Jim Russo

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

R

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman

Date Requested: 10/02/00

Information Requested:

Please provide all costs charged by Ernst & Young to assess and define Ameren Service's needs and to build the Alternative Retail Electric Supplier (ARES) System. Also please provide date of payments and discription of work performed along with the accounts charged.

Requested By: Paul Harrison

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 10/04/00
Information Requested:

Please provide copies of all internal audits performed from Jan 1, 1998 to present for Ameren Corporations and its subsidiaries.

Requested By: Paul Harrison

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

R

DATA INFORMATION REQUEST

Union Electric Company

CASE NO. EM-96-149

Requested From: Eileen Bauman

Date Requested: 10/05/00

Information Requested:

Please provide company FERC Form 1 for 1990 through 1997.

Requested By: Paul Harrison

Information Provided: _____

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Signed By: _____

Date Response Received: _____

Prepared By: _____

R

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 10/11/00
Information Requested:

Staff would like to set up a meeting with the appropriate Union Electric employees concerning the various components of cash working capital.

Requested By: Leasha Teel

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 10/18/00
Information Requested:

Please provide any internal audit or other calculation detailing the revenue gains or losses associated with the territorial agreement with Lewis County Electric Cooperative.

Requested By: John Cassidy

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the Union Electric Company office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title, number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies of data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control within your knowledge. The pronoun "you" or "your" refers to Union Electric Company and its employees, contractors, agents or others employed by or acting in its behalf.

Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST

Union Electric Company

CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 10/18/00
Information Requested: See Attached

Requested By: Paul Harrison

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman

Date Requested: 10/18/00

Information Requested:

Please provide the number of electric, electronic meter reading problems that have either been discovered by the company or reported by the customer.

Provide the number by rate class.

Provide a breakdown of the problems encountered if any (Underbilling, Overbilling, No billing, etc)

Also provide the actions the company has undertaken to correct this problem and describe what arrangements have been made with these customers.

Are there still customers where these problems have not been resolved to date? Please describe what arrangements have been made with these customers.

Please provide the above information for January 1999 through present and update through December 2000.

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 10/18/00
Information Requested:

In reference to Data Request 38, please provide the dollars associated with all prizes and/or promotional giveaways given to employees and/or the general public regardless of whether the giveaway contained a Company logo.

Requested By: John Cassidy

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 10/18/00
Information Requested:

Please provide all detail associated with the \$67 million of merger-related savings in year 2000. Provide a breakdown of savings by specific component and the amount actually realized to date.

Requested By: Greg Meyer

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bauman
Date Requested: 10/18/00
Information Requested:

Please provide a description and all detail associated with the Rock Island purchase by Ameren from Union Pacific.

Requested By: Jim Russo

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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Signed By: _____

Date Response Received: _____

Prepared By: _____

No. 87

DATA INFORMATION REQUEST
Union Electric Company
CASE NO. EM-96-149

Requested From: Eileen Bayman
Date Requested: 10/19/00
Information Requested:

Provide a copy of all interviews (internal or external) and all internal correspondence from all Ameren employees in relation to the Venice power plant outage. Provide for the period covering the time of the accident through the present.

Requested By: John Cassidy

Information Provided: _____

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EM-96-149 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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Signed By: _____

Date Response Received: _____

Prepared By: _____

DATA INFORMATION REQUEST
UNION ELECTRIC COMPANY
CASE NO. EM-96-149

Requested From: Eileen Bauman

Date Requested: August 28, 2000

Information Requested:

Please provide the actual yearly total gross and net generation, planned outage hours, forced outage hours, heat rate, variable O&M cost for each generating unit in UE system from 1990 to 1999 in spreadsheet file.

Requested By: Tom Lin, Electric Dept. (573) 526-5502

Information Provided:

Section 386.560 provides "Any person...who shall falsely make any statement required to be made to the public service commission, in which a penalty has not heretofore been provided for, shall be deemed guilty of a felony, and upon conviction shall be punished by a fine of not less than one thousand dollars nor more than five thousand dollars, or by imprisonment for not less than two years nor more than five years, or by both such fine and imprisonment;..."

If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title, number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to Union Electric Company and its employees, contractors, agents or others employed by or acting in its behalf.

Signed by: _____

Prepared by: _____

Date Response Received: _____

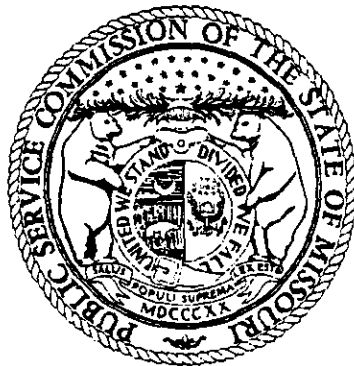
ATTACHMENT 2

MISSOURI PUBLIC SERVICE COMMISSION STAFF'S

REPORT REGARDING

SOUTHWESTERN BELL TELEPHONE COMPANY'S

INCENTIVE REGULATION EXPERIMENT



October 1, 1992

ATTACHMENT 2

**REPORT OF SOUTHWESTERN BELL TELEPHONE COMPANY'S
INCENTIVE REGULATION EXPERIMENT**

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SOUTHWESTERN BELL TELEPHONE

CASE NO. TO-90-1

INTRODUCTION

The existing incentive regulation experiment applicable to Southwestern Bell Telephone Company (SWBT or Company) was adopted by the Missouri Public Service Commission (Commission) on March 15, 1991 pursuant to a Joint Recommendation To Approve Revised Incentive Regulation Experiment For Southwestern Bell Telephone Company¹ submitted by various parties to Case No. TO-90-1.² SWBT is the only local exchange telecommunications company in Missouri operating under an incentive plan.

¹The Joint Recommendation to Approve Revised Incentive Regulation Experiment For Southwestern Bell Telephone Company will hereinafter be referred to as "Joint Recommendation". The SWBT revised incentive regulation experiment will hereinafter be referred to as "SBIRE".

²The Joint Recommendation was filed on behalf of Southwestern Bell Telephone Company; the Office of the Public Counsel (OPC); MCI Telecommunications Corporation (MCI); Telecom * USA, Teleconnect Long Distance Services and Systems, Inc., Teleconnect Company, American Communications, Inc. (all acquired by MCI Telecommunications Corporation's parent corporation on August 15, 1990); ATC; Hedges & Associates, Inc.; LDDS Communications (formerly Com-Link 21 Inc.); LDD, Inc.; CommuniGroup, Inc.; LTS, Inc.; Consolidated Network, Inc.; Mid-American Communication Corp.; Contact America, Inc.; Prime-Link Communication Corp.; Econo-Call, Inc.; Valu-Line of St. Joseph, Inc.; AT&T Communications of the Southwest, Inc., (AT&T); the City of Oak Grove; GTE North Incorporated (GTE); United Telephone Company of Missouri (United); US Sprint Communications Company Limited Partnership (Sprint); and the Commission Staff (Staff).

According to the terms of the Joint Recommendation, the experiment is to be conducted on a three year trial basis beginning January 1, 1990 and continuing through and including December 31, 1992. Staff, the Office of the Public Counsel (OPC), and SWBT were directed to meet during the final year of SBIRE "to review monitoring procedure reports and additional information as provided for in Attachment 3."³ (See Commission's 3-15-91 Order Granting Interventions and Approving Joint Recommendation, Case No. TO-90-1, Attachment A, page 13-14 of 75) Staff, OPC, and SWBT must "file recommendations with the Commission as to whether the incentive plan should be continued as is, continued with changes (including new rates, if so recommended), or discontinued." (Id.) This report contains Staff's current recommendations regarding SBIRE and the future regulation of SWBT.

A. BACKGROUND

On June 20, 1989, the Commission issued a Report and Order in four consolidated cases, commonly referred to collectively as Case No. TC-89-14, in which the Commission determined that SWBT's intrastate revenues should be reduced by approximately \$101 million, effective July 1, 1989. That Order also denied SWBT's request to implement a regulatory plan known as TeleFuture 2000. In a subsequent Order issued on June 30, 1989 in Case No. TC-89-14, the

³In addition to various discussions held between Staff and SWBT, Staff and OPC, OPC and SWBT, the Staff, OPC, and SWBT met formally on September 21-22, 1992 in compliance with this directive. Discussions involved the question of monitoring and possible recommendations regarding the regulatory treatment applied to SWBT after 12-31-92. No agreement among these parties has been reached to date.

Commission created Case No. TO-90-1 and directed the Staff, SWBT, and OPC to meet and to develop an "incentive plan" and to file a proposal on this plan with the Commission on or before September 1, 1989. (See Commission's 6-30-89 Order Concerning Motion For Stay, Depreciation Rates, and Establishing An Incentive Plan Docket, Case No. TC-89-14, et al., page 5)

SWBT sought a stay of the rate reduction order from the Commission which was denied by the Commission on June 30, 1989. (Id.) When the Commission denied the request for a stay, SWBT obtained a temporary restraining order ("TRO") from the Cole County Circuit Court (Case No. CV189-740) which prohibited the Commission from enforcing that part of its June 20, 1989 Report and Order which required SWBT to implement the ordered rate reduction.

Separate Petitions for Writs of Review of the Commission's June 20, 1989 rate reduction order were filed by SWBT (designated Case No. CV189-0808cc) and OPC (designated Case No. CV189-0809cc).⁴ AT&T, AT&T-IS, MCI, CompTel, GTE, United and Oak Grove were granted leave to intervene in the cases.

On September 5, 1989, the Cole County Circuit Court stayed the June 20, 1989 rate reduction order pending the outcome of the Writ of Review and required SWBT to deposit into the Court's registry (beginning October 1, 1989 and monthly thereafter) all sums collected on and

⁴Those cases were consolidated into Case Nos. CV189-0808cc, et al., and will hereinafter be referred to as Consolidated Case No. CV189-0808.

after July 1, 1989 which exceeded the amounts allowed by the June 20, 1989 rate reduction order.

On September 25, 1989, SWBT, OPC, and the Commission entered into a settlement agreement ("September 1989 Agreement") which purported to resolve the appeals. This agreement required SWBT to implement new rates to effectuate an approximately \$82 million rate reduction effective October 1, 1989; to issue one-time credits to its local exchange service customers in the amount of approximately \$20.7 million in an attempt to satisfy any obligation under the stay order; and, to implement an experimental incentive regulation plan.⁵ OPC and SWBT subsequently dismissed their appeals and the Circuit Court dissolved the stay.

MCI, AT&T and CompTel filed various motions seeking to vacate or to modify the Circuit Court order dismissing the writs and dissolving the stay. The Court granted those motions in part and ordered SWBT to deposit into the court registry all monies collected pursuant to the Stay Order from July 1, 1989 through and including September 26, 1989. On October 18, 1989, SWBT deposited approximately \$26.4 million into the court registry.

In addition, MCI, AT&T and CompTel filed Applications for Rehearing with the Commission regarding the September 1989 Agreement, which were denied by the Commission.

⁵Tariffs implementing the \$82 million rate reduction took effect October 1, 1989 as scheduled. That portion of the September 1989 Agreement was not the subject of the appeals of MCI and AT&T.

MCI and AT&T then filed separate Petitions for Writs of Review with the Cole County Circuit Court.

All parties and intervenors to the various litigation concerning Case No. TC-89-14, et al., and the September 1989 Agreement negotiated a comprehensive agreement in an effort to resolve all the litigation, any stay obligation, and the requirement of Case No. TO-90-1 to develop an incentive plan for SWBT. The Joint Recommendation proposed an experimental incentive agreement to be applied to SWBT and a "network modernization" agreement for certain construction and investment commitments in SWBT's infrastructure. Relevant portions of the Joint Recommendation are reproduced herein as Attachment 1.

The first year of the plan (1990) produced customer credits in the amount of \$22,825,000⁶. The 1990 credits were based upon a 17.98% return on equity (ROE) for SWBT-MO regulated intrastate operations before considering the approximately \$22.8 million credit. The return on equity was 16% after accounting for the credits.

SWBT's 1991 operating results produced credits in the amount of \$22,228,000 issued by SWBT to its customers during the June 1992 billing cycle pursuant to the terms of SBIRE and the Joint Recommendation. The 1991 results were based upon a 17.79% return on equity for

⁶This amount was offset by \$10,866,000 pursuant to the terms of the Joint Recommendation to partially account for the previously issued one-time credit of approximately \$20.7 million issued by SWBT in October of 1989. The remaining credit dollars were received by customers on their June 1991 bills.

SWBT-MO regulated intrastate operations before considering the approximately \$22.2 million credit. The return on equity was 15.90% after accounting for the credits.

B. EVALUATION CRITERIA

SBIRE contains no stated performance measures or evaluation criteria on which to judge the success or failure of the experiment. In its Order creating Case No. TO-90-1 to explore the development of an incentive regulation plan, the Commission stated that it believed that an "incentive" plan will increase operating efficiency and allow SWBT to effectively compete. (See Commission's 6-30-89 Order, page 3) While these may be the intended objectives, determining whether the experiment actually caused operating efficiency over and above what would normally take place or encouraged effective competition is difficult to meaningfully evaluate. This is particularly true because the parties have not agreed upon a standard by which to judge the plan, nor established the actual goal(s) to be accomplished.

Since SBIRE resulted from the settlement of multiple litigation and involved multiple parties, we assume that each party will view the success or failure of the plan from a different perspective and based upon individual interests. This may cause commentators to view the same aspect of the plan, e.g., the sharing grid ROE triggers, but judge differently whether it is a positive or negative aspect of the plan.

The Staff cannot objectively judge whether SBIRE has been a success or failure since no agreed upon goals, objectives or expectations exist by which to meaningfully measure the performance under the plan against traditional regulation. SWBT's performance in the areas of customer service, return on equity, and construction since the last case can be examined but this information cannot provide the answer to whether SBIRE caused this performance level.

Southwestern Bell customer service measurement has remained relatively stable during SBIRE. The composite service factor for each of the five Southwestern Bell states are:

	<u>Arkansas</u>	<u>Kansas</u>	<u>Missouri</u>	<u>Oklahoma</u>	<u>Texas</u>	<u>Total Company</u>
1991	96.9	97.0	96.3	96.6	96.5	96.5
1990	96.4	96.3	96.2	96.5	95.7	96.0
1989	96.8	95.7	96.3	96.0	95.6	95.9

The higher the factor the better the service provision. More detailed information derived from the surveillance reports received from SWBT by the Telecommunications Department is shown graphically in Attachment 2. These charts show SWBT's performance in certain quality of service measurement areas that are monitored by the Staff.

During SBIRE's first two years SWBT's intrastate financial results have declined only slightly as evidenced by the reduction in the amount of customer credits from the years 1990 to

1991. During this same period, SWBT-MO deregulated financial results improved. The recorded return on equity for each of the five SWBT states is as follows:

	<u>Arkansas</u>	<u>Kansas</u>	<u>Missouri</u>	<u>Oklahoma</u>	<u>Texas</u>	<u>Total Company</u>
1991	12.88%	10.75%	12.16%	13.27%	12.09%	12.06%
1990	13.14%	10.62%	13.22%	13.08%	14.52%	13.66%
1989	15.38%	11.38%	14.32%	11.44%	13.34%	13.31%

The return on equity for SWBT-MO has declined as measured on a total state basis. However, the Yellow Page profit is not reflected in the cited ROE percentages because this profit is recorded in another SWBT subsidiary. Likewise, recognition of the expense disallowances from Case No. TC-89-14 are also not reflected in these ROE percentages. If the Yellow Page imputation⁷, the recognition of the disallowances from Case No. TC-89-14, and the agreements reached during monitoring are factored into the ROE calculation, it shows that SWBT-MO earned approximately 17.98% and 17.79% ROE for 1990 and 1991, respectively, pre-sharing.

The Company's construction expenditures have increased. Construction expenditures in Missouri were \$207 million, \$253 million and \$276 million for the years 1989, 1990, 1991, respectively.

⁷Section 386.330.4 RSMo Supp. 1991 explicitly permits the Commission to impute to SWBT during the ratemaking process the revenues and costs associated with the Yellow Pages operations even though it exists as a separate subsidiary. The Commission routinely and consistently exercises this option.

C. REPORT FORMAT

This report is divided primarily into three broad sections. In addition to the INTRODUCTION which covers the background and preliminary matters necessary to put this report in context, this report contains a section discussing options available to the Commission both procedurally and substantively, and a section briefly outlining Staff's work to date on its evaluation of SWBT's earnings. As Staff's work continues both in the area of evaluating SWBT's earnings and in the area of developing a proposed plan, should the Commission proceed in that direction, the positions expressed herein may be modified.

REGULATORY AND PROCEDURAL ALTERNATIVES

Generally, Staff agrees with the assumption in the Joint Recommendation that the options available to the Commission are essentially: continue the plan as is, modify the plan, or continue traditional regulation. While the Joint Recommendation directs Staff, OPC and SWBT to file recommendations on these broad options, it is silent on how procedurally these options should be examined or exercised. Staff believes the Commission may be presented with any one or a combination of the following options⁸ which request it to:

- Extend SBIRE as is with no modifications;
- Consider a negotiated settlement, if presented;
- Continue traditional regulation after January 1, 1993 by deciding any complaint or rate case presented under traditional ratemaking methods;
- Consider alternative regulatory frameworks either by setting a procedural schedule to examine the recommendations presented in Case No. TO-90-1 or by establishing a new docket to examine the issues;

⁸Staff does not purport to list every available option. There may be others presented that Staff has not considered.

- Order effective January 1, 1993 an immediate rate reduction of approximately \$62 million⁹ to return SWBT to its last authorized return on equity or adopt an Accounting Authority Order to accrue the dollars associated with returning to the last authorized rate of return while alternative plan options or a complaint are being considered.

A discussion of each option presented follows.

A. EXTEND SBIRE AS IS

The Staff does not recommend the extension of SBIRE as currently crafted for another three year term. As will be discussed in the EARNINGS INVESTIGATION section, the Staff believes the current plan, particularly the sharing grid triggers, results in excessive rates being paid by customers as measured against traditional ratemaking methods. All of these "excess" earnings are then paid to the holding company, Southwestern Bell Corporation (SBC), since SWBT is not permitted by SBC to retain any earnings. Since SWBT is not allowed to retain earnings, these funds are not available for Missouri infrastructure investment unless SBC decides to make such reinvestment. Experience has shown that increased SBC earnings may be just as likely to be placed in deregulated operations or in foreign investments, e.g., Telmex, as in

⁹There is a revenue impact of approximately \$18 million associated with the difference between the 14.1% ROE (where sharing begins under SBIRE) and the last authorized ROE of 12.61%. The amount of earnings subject to sharing in 1990 and 1991 indicates that there is approximately \$44 million in earnings above the 14.1% ROE. These figures total \$62 million.

Missouri regulated operations. While the Staff is not seeking a requirement that SWBT's earnings, in whole or part, be targeted solely to reinvestment in Missouri's infrastructure, specific expense allowances (i.e., amortizations) could be established to the extent these factors (e.g., network modernization) are considered by the Commission as a policy objective.

Although the Staff is not recommending that the Commission continue the existing plan as is for another three year term, there is an immediate advantage to customers in extending SBIRE for one year while a complaint case and/or the fate of SBIRE are decided. When SBIRE expires on December 31, 1992, the obligation to credit customers associated with SBIRE also expires.¹⁰ Consequently, unless the Commission immediately acts to reduce SWBT's rates to adjust earnings to the last authorized level (12.61% ROE), SWBT's current rates will continue to produce excessive unshared revenues until a complaint case can be decided. Without SBIRE's credit obligation provision, all of these "excessive" earnings will be retained by SWBT (and in turn, passed to SBC) due to regulatory lag. Extension of SBIRE for one year would at least permit customers to share in the "excess" earnings while the complaint and/or fate of SBIRE are decided.

SWBT has cited two advantages of SBIRE: investment in infrastructure and upward earnings flexibility. (Response to Staff Data Request No. 2109, SWBT earnings audit) SBIRE has committed SWBT to replace all electro-mechanical switches and N-carrier interoffice

¹⁰SWBT is obligated however, to issue credits, if any, for 1992 which will be reflected on the June, 1993 billing cycle regardless of the outcome of this plan review.

facilities in Missouri by December 31, 1992 and to upgrade all customer service from multi-party to one-party service and to eliminate multi-party service by December 31, 1997. The Company has met this schedule to date except as waived by Commission order. While SBIRE may have resulted in accelerated construction schedules vis-a-vis previous SWBT schedules for these specific projects, it is not clear that the same result would have been precluded under traditional regulation.

Staff believes the obligation to eliminate all multi-party service by the end of 1997 remains regardless of SWBT's regulatory status after December 31, 1992. If SBIRE is continued as is, such an extension in and of itself would not obligate SWBT to any new or additional investments. Consequently, Staff seriously questions whether "investment in infrastructure" is an advantage for the next three year period if SBIRE is continued as is. As to the second cited advantage of "upward earnings flexibility", the Staff sees no benefit to SWBT customers in the goal of substantially increasing SBC's earnings.

B. ADOPT A NEGOTIATED SETTLEMENT

As stated, the Staff, OPC and SWBT have met to discuss the results under the existing plan and potential modifications to the plan. No agreement has been reached to date but discussions may continue as a result of Commission action in this docket. If an agreement among OPC, the Staff and SWBT, or any combination of parties, is eventually reached and

presented to the Commission, the parties to Case No. TO-90-1 should have, at a minimum, the opportunity to comment on any such agreement.

C. CONTINUE TRADITIONAL REGULATION

By its own terms, SBIRE expires December 31, 1992. Consequently, regulation of SWBT returns to traditional methods on January 1, 1993 unless a new plan is instituted on that date or SBIRE is extended beyond its current term. In order to determine appropriate earning levels under traditional regulatory methods, the Staff is in the process of auditing the Company. A separate section of this report discusses, in broad terms, the Staff's preliminary findings. Based upon these findings, the likely vehicle for the Commission to determine appropriate rates will be a complaint case brought by the Staff which could be filed as early as January 1, 1993.

Regardless of what other action, if any, it takes, the Staff urges the Commission to "re-base" rates to an appropriate level. For example, the Commission could continue its review of alternative regulatory schemes in this docket or in a new docket while the complaint proceeds. The results in the complaint case could serve as the base line level for the new plan. Another option would be to consolidate a complaint case and review of SBIRE, perhaps resulting in

alternatives among which the Company may choose.¹¹ Under any scenario, however, the Staff urges that a complaint case and the possible rate reduction not be unnecessarily delayed as the remaining issues are debated.

D. CONSIDER ALTERNATIVE REGULATORY PLANS

If the Commission wishes to pursue alternative regulatory options,¹² the Staff recommends that either a new docket be created or that a procedural schedule be set in Case No. TO-90-1 that provides for prefiled testimony and hearings to evaluate the terms and conditions of any proposed plan.

If the Commission wishes to pursue an alternative regulatory plan for SWBT as previously discussed, the Staff does not recommend continuation of the existing plan, as is, but urges certain modifications to accomplish the goal of providing some earnings flexibility to SWBT while keeping SWBT's earnings within an acceptable level. While the Staff has spent

¹¹For example, one choice may be a particular rate reduction with no earnings sharing plan and the other choice may be a lesser rate reduction combined with an earnings sharing plan. Or the Commission may set rates at the same level, regardless of the alternative regulatory options offered.

¹²While SBIRE is termed an "incentive" plan, the Staff believes a more accurate description of the plan's contemplated purpose is an "alternative regulatory plan." The ability to retain a portion of earnings above pre-established triggers may well encourage the Company to obtain those earning targets, however, as discussed, it is difficult, if not practically impossible, to conclusively establish any causal link between the plan and the Company's actions.

considerable energy developing the proposed plan that follows, further analysis may lead to changes to the Staff's proposal.

As the Staff internally debated the merits of various plan options, it became evident that the product would be guided by the Staff's view of the plan's goal and the workability or practicality of certain options considered. The Staff concluded after much debate that the appropriate goal of any alternative regulatory scheme, at this time, is to provide a mechanism to ensure that earnings remain within a reasonable range and not to produce a plan that forever displaces traditional ratemaking methods. Practical and legal considerations influenced this decision.¹³ Several choices result from this decision, e.g., whether to propose rate reductions or customer credits; to allow for the effect of exogenous factors or not; the appropriate crafting of the sharing grid and whether automatic or periodic changes to the grid should occur, etc. For example, while permanent rate reductions more closely resemble traditional regulation and ensure that rates reflect efficiencies or cost savings so that only new gains are shared with customers each year, the Staff concluded that the prospect of permanent rate reductions would lead to greater disputes over the dollar amount of the annual adjustment and whether increased earnings are the result of continuing or one-time action. Staff judged what would amount to contested

¹³If the goal of the proposed plan is to replace traditional regulation and be self-correcting, it may be argued that relief for exogenous factors should be afforded. Exogenous factors may be cost increases or decreases. The Staff has concerns with the acceptability and the legality of the rate increases which would be possible if relief for exogenous factors is required. There are also practical concerns involving how the determination would be made as to what is and is not "beyond the Company's control" and the incentive which may be created to over- (or under-) estimate the cost or revenue impact of such a factor.

annual audits to calculate the shared amount to be administratively impractical given Staff's current resource constraints, and therefore recommends customer credits.

It is important to remember that the plan suggested herein is a "package" and that changes to individual pieces of the package may cause the proposed plan to produce, in total, an unreasonable result. To aid in the discussion, and as a point of reference, the Staff's alternative regulatory plan will be discussed in terms of modifications to SBIRE. The Staff's plan proposes modifications to the following areas of SBIRE:

- sharing grid
- monitoring procedures
- earnings adjustments
- interest on credits
- plan duration
- exogenous factor relief
- rate design

In addition to modifications to the above areas, the Staff urges an initial rate reduction designed to re-base rates to a new revenue requirement to be determined in the anticipated earnings complaint case.

The following aspects of SBIRE would remain unchanged¹⁴:

- use of customer credits and related rate design to distribute the customer credits
- use of a fixed capital structure
- use of the Commission's allowances and disallowances, as will be decided in the Staff's complaint case
- exclusion of lobbying expense, aircraft expense, charitable contributions, and institutional advertising costs ("traditional" disallowances)
- establishment of a sharing grid based on return on equity
- in the event of a SWBT-initiated rate case, credit obligations for that year and the prior year continue to exist, with SBIRE terminating for future years.

¹⁴The actual capital structure used in the plan may be different than that used in SBIRE. What remains "unchanged" is the requirement that the capital structure used remain "fixed" from period to period. Likewise, the allowances and disallowances determined in any complaint case would be used for purposes of calculating earnings although the actual allowances and disallowances may vary from those decided in Case No. TC-89-14.

1. Sharing Grid

The Staff believes the existing sharing grid produces unreasonably high earnings, therefore, the following grid is proposed, based on ROE:

Above 17.61	SWBT-MO retains no earnings	Customer retains 100% in credits
12.61% - 17.61%	SWBT-MO retains 50%	Customer retains 50% in credits
Below 12.61%	SWBT-MO retains all earnings	No credit

This proposed sharing grid allows the Company an opportunity to earn a maximum ROE of 15.1%, after sharing. This return is 250 basis points greater than the last authorized ROE, 12.61% (authorized in Case No. TC-89-14) and is more than 250 basis points greater than the Staff's current estimate of an appropriate ROE for SWBT. The Staff's current estimate of SWBT-MO's required ROE is below 12.6%.

2. Monitoring Procedures

Attachment 3 reflects Staff's proposed modifications to the existing monitoring procedures. Generally, these modifications reflect the adjustments described in this report and are intended to aid the Commission in guarding against cross subsidization of nonregulated ventures. The modifications also include additional reporting requirements such as productivity factors and modernization measurements. If, as Staff suggests, the results of any Staff earnings

complaint are used in conjunction with any alternative regulatory plan. Attachment 3 will need further modifications to reflect the decisions in that case instead of or in addition to Case No. TC-89-14.

3. Earnings Adjustments

During the Staff's earnings investigation, it became evident that certain additional adjustments to any earnings credit calculation may be necessary to more appropriately reflect SWBT's cost of service. These adjustments involve:

- *Distribution of Southwestern Bell Corporation (SBC) costs;*
- *Cost Allocation Manual (CAM) issues;*
- *Majestic Hotel costs; and*
- *Technology Resource Institute costs.*

The Staff anticipates raising these issues, among others, in any future review of SWBT's earnings, e.g., a complaint case initiated by the Staff, and proposes that the Commission's decisions on these issues be incorporated into any alternative regulatory plan implemented. This list of adjustments is not exhaustive. Additional adjustments may be proposed as necessary. A brief description of each adjustment follows:

a) Distribution of Southwestern Bell Corporation Costs

Staff is auditing Southwestern Bell Corporation's (SBC) 1991 allocation of costs to Missouri. Approximately 40% of SBC's costs are directly assigned to a specific SBC subsidiary or to SBC itself. The majority of the remaining 60% of SBC's costs are allocated to SBC subsidiaries with only a small amount retained by SBC. The Staff is concerned that this allocation procedure results in more costs being allocated to the telephone company (as opposed to deregulated subsidiaries and/or SBC) than is appropriate based upon what the proportionate share of direct cost assignments would suggest. For example, SWBT is directly assigned approximately 30% of the direct costs from SBC but is allocated approximately 75% of SBC's allocable costs. This discrepancy of allocating 75% of the allocable costs when only 30% of the direct costs are assigned to the telephone company raises the concern of whether SBC's allocation procedure is appropriate. Under this procedure, even though 70% of the direct activities of SBC benefit SBC or a subsidiary other than SWBT, the proportionate share of the general overhead expenses supporting these direct activities is not allocated to SBC or the other subsidiary but instead allocated to SWBT. Staff is examining this issue further and will propose adjustments as necessary.

b) Cost Allocation Manual

The Cost Allocation Manual (CAM) is the most appropriate accounting mechanism for the separation of costs between regulated and deregulated operations. CAM results were not available during the test year used in Case No. TC-89-14, therefore, the Staff removed deregulated costs by another method. Since the CAM is now available, the Staff proposes to use the CAM results as the basis for determining deregulated expenses, but must first review the reasonableness of the CAM. As part of this review, the Staff will explore the major CAM modifications that SWBT has implemented since 1988 which shift expenses from deregulated operations to regulated operations to determine the reasons for these shifts. If any shifts appear unreasonable, the Staff will propose an adjustment to reverse these expense shifts and return the costs to the deregulated operations.

c) Majestic Hotel

The Majestic Hotel is a downtown St. Louis hotel that is owned by a partnership that includes SWBT. SWBT guarantees a certain number of rooms at a certain rate on a permanent basis. The Staff is investigating this practice and will propose an adjustment to the cost of service to the extent that the rates and/or guarantees paid by SWBT appear unreasonable.

d) Technology Resource Institute

Technology Resource Institute is the research organization of SBC. SWBT's charges from this affiliate have increased during the plan's duration by double digit percentages. This raises two immediate concerns: SWBT may be charged an excessive amount for the purpose of reducing the charges to non-regulated affiliates; and, in turn, SWBT may charge too much of this excessive expense to regulated operations to avoid charges to its deregulated operations. The Staff will propose adjustments to address these concerns, if necessary, at the next available opportunity.

4. Credits

As discussed, conceptually, the Staff prefers the use of permanent rate reductions instead of customer credits since rate changes are used in traditional regulation. However, the Staff's experience with SBIRE has shown customer credits to have certain administrative and practical advantages over permanent rate reductions. The main advantage is that customer credits allow more flexibility and less adversarial proceedings. Therefore, Staff proposes that credits be continued as the method to share earnings with ratepayers under any plan, but proposes to add interest. Currently, customers must wait, on the average, approximately one half year to receive the credit. The Company has use of the customers' money during this delay. The Staff proposes that customers receive interest for this period calculated using the prime interest rate for December 31, 199X as published in The Wall Street Journal less one percentage point. Other

alternatives include an offset to rate base for these monies in the determination of the customer credits, or adjusting the sharing grid to recognize the effect of interest.

5. Duration

The Staff proposes to eliminate the element of a fixed duration from any alternative regulatory plan. Instead, the Staff proposes that the term of the plan remain fixed for at least three years, and that at the end of the three years any party could request a review of the plan and/or termination of the plan. For example, a complaint case could be filed as early as January 1 of the fourth year assuming it runs on a calendar year basis. The plan would continue in effect as initially implemented until a Commission order arising from a complaint case and/or review decides otherwise.

6. Exogenous Relief

SBIRE specifically states that there is no relief for exogenous factors. While the Staff generally favors this approach, the Staff recognizes that two potential Commission decisions could greatly affect SWBT's earnings. These decisions involve expanded calling scopes and the possibility of IntraLATA Toll Presubscription. If the Commission order in either case results in an annual revenue loss and/or expense increase greater than \$10 million, SWBT would be allowed to propose rate increases.

7. Rate Design

SBIRE contains a rate freeze on local rates, Extended Area Service, access line service connection, Outside Base Rate Area mileage charges and touchtone; and a revenue neutrality commitment on access charge changes. The Staff, at this time, is not proposing to include similar commitments but will examine rate design issues in the complaint case. Once that rate design examination is completed, the Staff may determine that rate freezes for certain services are warranted.

E. IMMEDIATE RATE REDUCTION OR ADOPTION OF ACCOUNTING AUTHORITY ORDER

As previously discussed, if SBIRE expires December 31, 1992 and no new plan goes into effect January 1, 1993, SWBT will continue to earn in excess of its last authorized ROE (12.61%). The Staff estimates that, holding all other items constant, there is approximately \$62 million associated with returning earning levels from that achieved under SBIRE to the authorized 12.61% ROE level. This figure ignores all other issues typically raised in rate cases or complaints. It seems unreasonable to knowingly permit SWBT to continue earning at the pre-sharing level when the obligation to share has ceased. The Staff urges the Commission to consider all available options to ensure the return to reasonable earnings levels, including the

adoption of an Accounting Authority Order to accrue the dollars pending treatment in the next rate case or complaint case or an immediate rate reduction.

EARNINGS INVESTIGATION

As discussed, the Staff is examining whether SWBT's current rates are excessive through an earnings audit employing techniques similar to those of traditional regulation. This earnings audit is also intended to examine SWBT's operations for prospective modifications (e.g., removing prepaid pensions from rate base) necessary to more appropriately calculate any continued customer credit/rate reduction calculation under a future alternative regulatory plan. The Staff's findings to date show that SWBT's current rates produce an excessive level of earnings in the range of \$100 to \$150 million per year.¹⁵ Under traditional considerations, the Staff considers SWBT to be a candidate for an earnings complaint.

The final 1991 incentive plan credit calculation was the starting point for the Staff's earnings audit. Calendar year 1991 was the Staff's test year. The following modifications to the 1991 credit calculation were made or are anticipated to be made:

- removed prepaid pensions from rate base and adjusted the booked pension expense from a negative amount to zero

¹⁵This range is believed to be conservative based upon the approach used in developing the audit. If a complaint is filed by the Staff, the rate reduction sought will be within this range or higher. It is not Staff's intention to fully describe or develop herein the issues likely to be presented in the anticipated complaint case. This section is designed to provide a sense of the magnitude of the Staff's preliminary findings and an indication of the basis for these conclusions. Issues will be presented in greater detail in testimony in any filed complaint.

- removed the discontinued amortization of inside wire. This adjustment reflects the expiration of the ten year amortization of the historical balances of inside wire investment. SWBT-MO's inside wire operations are currently deregulated.
- reflected the impact of payroll reductions for employee reduction programs. The Management Force Adjustment Program (MFAP) and the Enhanced Management Pension (EMP) were two voluntary employee reduction programs offered by SWBT during 1990 and 1991, respectively. In addition, SWBT initiated an Enhanced Pension (EP) program in 1992 which is a voluntary non-management employee reduction program.
- removed the costs related to the 1990 Management Force Adjustment Program (MFAP). It is anticipated that the majority of costs associated with MFAP will be recovered by SWBT-MO prior to the expiration of SBIRE.
- reflected the Staff's current estimate of the SBC's rate of return.
- evaluated the risk differences and the resulting required return on equity differences between SBC and SWBT-MO as determined by a Staff-retained consulting firm.

- evaluated the reasonableness of the prices paid for services provided to SWBT-MO and the revenues received for services provided by SWBT-MO in transactions with subsidiaries of SBC as determined by a Staff-retained consulting firm.

The Staff's audit is not yet complete. However, some of the reasons SWBT appears to be earning above an appropriate level are known:

- 1) The \$18 million difference between the 14.1% return on equity reflected in SBIRE and the 12.61% authorized return on equity in Case No. TC-89-14;
- 2) The \$44 million revenue levels associated with a \$22 million credit amount; and
- 3) The \$14 million associated with the ending of the inside wire amortization.
- 4) Revenue Growth
- 5) Lower required ROE

RECOMMENDATION

Section 392.530 RSMo requires that the provisions regarding the regulation of telecommunications companies be construed to:

- 1) Promote universally available and widely affordable telecommunications services;
- 2) Maintain and advance the efficiency and availability of telecommunications services;
- 3) Promote diversity in the supply of telecommunications services and products throughout the state of Missouri;
- 4) Ensure that customers pay only reasonable charges for telecommunications services;
- 5) Permit flexible regulation of competitive telecommunications companies and competitive telecommunications services; and

- 6) Allow full and fair competition to function as a substitute for regulation when consistent with the protection of ratepayers and otherwise consistent with the public interest.

These may be viewed as the goals of telecommunications regulation in Missouri and, consequently, the goals of any alternative regulatory plan. SWBT may have different goals and may seek a plan that permits maximum earnings with minimum intrusion.¹⁶

From the Staff's perspective, the "incentives" created by SBIRE are difficult to determine. One touted advantage to this type of plan is the hope that permitting the Company to share cost savings will encourage efficiencies not otherwise sought. One disadvantage, however, is the creation of a greater incentive (and ability since detailed audits are not performed) to simply shift costs from nonregulated to regulated operations in an effort to reduce or eliminate the amounts subject to sharing.

The Staff believes that there may be insufficient time to consider and decide regulatory alternative options by the expiration of the plan on December 31, 1992. If the audit results remain in the range currently estimated, the Staff expects to file a complaint against SWBT in January, 1993 seeking to reduce rates. If the Commission wishes to pursue alternative regulatory plans, the Staff recommends the setting of a procedural schedule in Case No. TO-90-1 or the

¹⁶The Company has cited one disadvantage of SBIRE, which is a perceived over-emphasis on SWBT's Missouri earnings. (Response to Staff Data Request No. 2109, SWBT earnings audit).

creation of a new docket in which to take evidence and to hold hearings. The plan outlined herein will likely serve as the basis of any Staff proposal. As this tentative plan illustrates, the Staff's review of SBIRE led it to conclude that significant changes are required to return the results under the plan to reasonable levels. Consequently, the Staff recommends against extending SBIRE, as is, for another three year term.¹⁷

If the Commission wishes to pursue alternative regulatory options, the Staff recommends that the results of any complaint case be used as the base from which to make decisions. However, implementation of any rate reductions warranted by any complaint should not be unreasonably delayed as parties engage in conceptual or theoretical regulatory alternative discussions.

¹⁷As previously discussed, one option which may be pursued to ensure that customers are not disadvantaged simply by the expiration of SBIRE and the time necessary to process a complaint and/or docket examining alternative regulatory plans is to extend the plan (and credit obligation) one year, while decisions are being made. Another option is to issue an accounting authority order to accrue the dollars associated with returning to the last authorized rate of return. A third option is to explore an immediate rate reduction designed to hold all other things equal by reflecting the rate impact of SBIRE's expiration. The rationale for this is similar to that advanced by the LECs regarding the rate increases from implementation of the Community Optional Service (COS) case.

BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE
STATE OF MISSOURI

IN THE MATTER OF AN INCENTIVE PLAN)
FOR SOUTHWESTERN BELL TELEPHONE) CASE NO. TO-90-1
COMPANY)
)
)

JOINT RECOMMENDATION TO APPROVE REVISED
INCENTIVE REGULATION EXPERIMENT
FOR SOUTHWESTERN BELL TELEPHONE COMPANY

This Joint Recommendation is made by Southwestern Bell Telephone Company ("Southwestern Bell" or "Company"), the Public Counsel ("Public Counsel"), MCI Telecommunications Corporation and affiliated companies listed on Appendix B hereto ("MCI"), AT&T Communications of the Southwest, Inc. ("AT&T"); the City of Oak Grove ("Oak Grove"), the CompTel of Missouri members listed on Appendix B hereto ("CompTel"); GTE North, Incorporated ("GTE"); United Telephone Company of Missouri ("United"); US Sprint Communications Company Limited Partnership ("Sprint"); and the Staff of the Public Service Commission of the State of Missouri ("Staff"). All of the aforementioned entities are collectively referred to herein as "parties."

The parties have entered into this Joint Recommendation under the following circumstances:

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26.

On June 20, 1989, the Missouri Public Service Commission ("PSC") issued its Report and Order in Case Nos. TC-89-14, et al. (Hereinafter "Case No. TC-89-14"). That Order denied Southwestern Bell's request to implement a plan known as TeleFuture 2000 and required Southwestern Bell to reduce its intrastate revenues by \$101,323,000.00, effective July 1, 1989. All parties to this Joint Recommendation were parties to Case No. TC-89-14.

On June 23, 1989, Southwestern Bell filed a Motion to Stay the PSC's June 20, 1989 Report and Order. When the PSC denied that request on June 30, 1989, Southwestern Bell sought and obtained a temporary restraining order ("TRO") from the Cole County Circuit Court in Case No. CV189-740. The TRO prohibited the PSC from enforcing that part of its June 20, 1989 Report and Order which required Southwestern Bell to implement tariffs reducing rates for services rendered on and after July 1, 1989.

On June 30, 1989, the PSC initiated this Case No. TO-90-1. This proceeding was initiated following the PSC's denial of Southwestern Bell's TeleFuture 2000 proposal in Case No. TC-89-14. The stated purpose of this case was to consider an incentive regulation plan for Southwestern Bell. Although AT&T and MCI sought to intervene, their motions were denied as premature.

On July 21, 1989, Southwestern Bell and Public Counsel filed Petitions for Writs of Review of the PSC's June 20, 1989 Report and Order, which were designated Case Nos. CV189-0808cc (Southwestern Bell) and CV189-0809cc (Public Counsel). Those two cases were consolidated into Case Nos. CV189-0808cc, et al., and both of them are hereinafter referred to as Consolidated Case No. CV189-0808. AT&T, AT&T Information Systems, Inc., MCI, CompTel, GTE, United and Oak Grove filed motions to intervene in that consolidated case, and all such motions were granted.

On September 5, 1989, the Cole County Circuit Court stayed the PSC's June 20, 1989 Report and Order, pending the outcome of Consolidated Case No. CV189-0808. The Stay Order required Southwestern Bell to deposit into the Court's registry all sums collected on and after July 1, 1989 which exceeded the amounts allowed by the rates established pursuant to the PSC's June 20, 1989 Report and Order.

On September 25, 1989, Southwestern Bell, Public Counsel and the PSC reached an agreement to resolve the Petitions for Writs of Review filed by Southwestern Bell and Public Counsel. (A copy of the September 1989 Agreement is attached as Appendix A.) The parties to the September 1989 Agreement agreed to

implement an experimental incentive regulation plan for Southwestern Bell. The September 1989 Agreement also provided that Southwestern Bell would implement new rates effecting an \$82.019 million rate reduction effective October 1, 1989. Further, in an attempt to satisfy any obligation remaining on Southwestern Bell under the Cole County Circuit Court's September 5, 1989 Order, Southwestern Bell, Public Counsel and the PSC agreed that Southwestern Bell would issue a one-time credit to its local exchange service customers, in a total amount of approximately \$20,749,000.00, which Southwestern Bell issued in its October 1989 billing cycle.

On September 26, 1989, Southwestern Bell and Public Counsel dismissed their actions for review and presented a proposed order dissolving the Stay to the Cole County Circuit Court. On that same date, the Cole County Circuit Court entered an Order of Dismissal and Dissolution of Stay in Consolidated Case No. CV189-0808.

On or about October 5, 1989, MCI, AT&T and CompTel filed various motions seeking to vacate or modify the Cole County Circuit Court's September 26, 1989 Order in Consolidated Case No. CV189-0808. On October 24, 1989, the Court granted those motions in part and ordered Southwestern Bell to deposit all monies collected pursuant to the aforementioned TRO and Stay

Order from July 1, 1989 through and including September 26, 1989 into the Court's registry.

In response to the Court's October 24, 1989 Order, Southwestern Bell unsuccessfully sought a Writ of Prohibition from the Missouri Court of Appeals (Case No. WD 42611) and from the Missouri Supreme Court (Case No. SC 72354). On October 18, 1990, Southwestern Bell deposited \$26,393,642.00 with the Cole County Circuit Court to satisfy the pay-in obligation imposed by that Court's October 24, 1989 Order. (Hereinafter, the \$26,393,642 and all interest earned on that sum are referred to as "Stay Monies").

MCI, AT&T and CompTel also filed Applications for Rehearing with the PSC regarding the September 1989 Agreement. When those applications were denied, MCI and AT&T filed Petitions for Writs of Review of the PSC's decision with the Cole County Circuit Court. The Petitions for Writs of Review were docketed as Case Nos. CV189-1186 (AT&T), CV190-37 (AT&T) and CV190-43 (MCI).

In an effort to resolve the above-captioned Case No. TO-90-1, as well as the litigation pending in Consolidated Case No. CV189-0808 and Case Nos. CV189-1186, CV190-37 and CV190-43, the parties agree to the terms of this Joint Recommendation and recommend its adoption by the PSC.

Specifically, the parties acknowledge the following circumstances and recommend that the PSC adopt the plan described herein to treat Southwestern Bell earnings during a three-year experiment beginning January 1, 1990.

1. The Parties acknowledge that effective October 1, 1989, Southwestern Bell implemented tariffs designed to reduce its intrastate revenues prospectively by \$82.019 million on an annual basis. The rate reduction was consistent with the rate design outlined in Attachment 1.

2. The Parties acknowledge that in an effort to satisfy all refund obligations imposed on Southwestern Bell as a result of the Cole County Circuit Court's September 5, 1989 Stay Order, Southwestern Bell issued a one-time credit to the bills of local exchange service customers in a total amount of approximately \$20,749,000.00. The credits were distributed to said local exchange service customers during the October 1989 billing cycle.

3. The Parties further acknowledge that Southwestern Bell has agreed to the following terms regarding network modernization: Southwestern Bell agrees to implement a network modernization program by

replacing all of its electro-mechanical switches and N-carrier interoffice facilities in Missouri by December 31, 1992. The Company further agrees to upgrade all customer service from multi-party to one-party service and eliminate its multi-party service offering by December 31, 1997. Southwestern Bell also agrees to upgrade all multi-party service to one-party service by January 1, 1991, in wire centers where adequate serviceable facilities currently exist. Upon conversion to one-party line service, the customer will pay the applicable one-party line rates, including all mileage charges. The Company's proposed schedule for replacement of electro-mechanical switches and N-carrier facilities and elimination of multi-party service is shown on Attachment 2. The Company will file quarterly progress reports on the above network modernization program.

4. The terms and conditions of the incentive regulation plan are as follows:

(a) The incentive regulation experiment shall be a three (3) year trial beginning January 1, 1990, and continuing through and including December 31, 1992. For the duration of the three (3) year trial, Southwestern Bell will share with its customers any earnings at and above the 14.1% return on equity (ROE) level according to the following sharing grid:

<u>Earnings Level</u>	<u>Sharing Percentages</u>
Up to 14.1% ROE	100% Company
14.1% to 14.5% ROE	60% Customer, 40% Company
14.5% and above ROE up to 17.25% ROE cap ¹	50% Customer, 50% company
Above 17.25% ROE cap ¹	100% Customer

(b) For purposes of determining any sharing amounts, allowances and disallowances from the PSC's June 20, 1989 Order in Case No. TC-89-14 will be made to earnings as specified under the terms stated in Attachment 3 including Southwestern Bell's utilization of 1985 Yellow Pages level of contribution. Notwithstanding the aforementioned, no imputation of Yellow Pages contribution shall be made for the limited purpose of determining the 17.25% ROE cap as described in paragraph 4(a).

¹ The 17.25% ROE cap is to be calculated based on the procedures described in Attachment 3 with two modifications. Southwestern Bell Telephone Company's actual capital structure shall be used to calculate the cap and no imputation of Yellow Pages contribution shall be reflected in the calculation of the earnings cap. All other ROE figures in the grid shall be calculated based on the procedures described in Attachment 3 without the two modifications described herein.

(c) For purposes of determining any sharing amounts, Southwestern Bell agrees to exclude from its cost of service items it has traditionally excluded (e.g., lobbying expense, aircraft expense, charitable contributions and institutional advertising costs).

(d) Southwestern Bell will comply with the monitoring procedures set forth in Attachment 3. Southwestern Bell will also provide sufficient information to permit customers who obtain intrastate Missouri switched access, special access and billing and collection services (hereinafter "Access Customers") to verify that their shares of the incentive regulation plan credits were accurately calculated. Such information will include the following, whether or not any credits are issued:

(1) Southwestern Bell's total intrastate Missouri operating revenues for the monitoring period;

(2) Southwestern Bell's intrastate Missouri switched access revenues, special access revenues and billing and collection revenues for the monitoring period; and

(3) Upon request, Southwestern Bell will provide each Access Customer with the amounts

billed to that customer for intrastate Missouri switched access, special access and billing and collection services for the monitoring period.

The parties may present to the PSC for resolution any disputes which arise regarding the sufficiency of the information provided or the calculation of the individual complaining party's actual credit.

(e) The incentive regulation experiment will not contain any relief for any party for exogenous factors, except as provided in Attachment 3.

(f) For purposes of this experiment, there will be three monitoring years: calendar years 1990, 1991 and 1992.

(g) For each monitoring year in which Southwestern Bell's earnings indicate that sharing is required pursuant to the sharing grid shown in paragraph 4(a) and the monitoring procedures stated in Attachment 3, Southwestern Bell shall issue one-time credits to its customers, consistent with the following procedures and rate design:

Each and every Southwestern Bell Access Customer shall receive a share of all customer credits calculated as follows:

		Each Access Customer's total Southwestern Bell billed amounts for Missouri intrastate switched access, special access, and billing and collection services during the monitoring period	
Total Customer Credits	X	<hr/>	Amount to be = Distributed to that Access Customer ²
		Southwestern Bell's total intrastate Missouri operating revenues for the monitoring period	

The amount to be distributed to all other customers will be determined by subtracting the total of all Access Customer credits from the Total Customer Credits. Distribution of this remainder will be made by a one-time credit to local exchange access lines in a manner that is consistent with existing rate relationships. Access Customers will also receive local exchange service credits to the extent that they order local exchange service.

² For example, if Southwestern Bell's total billed amounts for intrastate Missouri switched access, special access and billing and collection services for Company A comprises 2% of Southwestern Bell's total intrastate Missouri operating revenues during the 1990 monitoring period, that Access Customer would receive 2% of the total credits to be distributed to Southwestern Bell customers. If Company A orders local exchange service, it will also receive additional credits attributable to that local exchange service.

All customer credits shall appear on customer bills issued during the June billing cycle that immediately follows the end of each monitoring year. Customers of record in each June billing cycle will be eligible for any prior year's credit. A notice regarding the credits shall accompany each customer bill.

Southwestern Bell agrees that the \$20,749,000.00 one-time credit issued in October of 1989 to customers based on local exchange service access lines will not be disturbed in any way. Southwestern Bell shall be permitted to make the following offsets against the 1990 incentive regulation credits to be made in June 1991: Southwestern Bell shall be allowed to adjust downward the total 1990 incentive plan credits to be applied in 1991 by the amount of the net additional Stay Monies credits to be applied to June 1991 customer bills pursuant to the Court Order in Consolidated Case No. CV189-0808, and all amounts paid to Sprint, Fidelity Telephone Company and the Contel companies in settlement of Consolidated Case No. CV189-0808, up to a maximum adjustment of \$9.4 million, except as noted below. Said adjustment shall not include any sums paid to any local exchange company for billing or other expense to effectuate the Stay Money credits nor shall it include any sums paid to AT&T, MCI, United, GTE, CompTel and Oak Grove (including Oak Grove's foreign exchange

customers) pursuant to the settlement of Consolidated Case No. CV189-0808. If said adjustment to the 1990 incentive plan credits exceeds \$9.4 million, one-half of the amount by which said adjustment exceeds \$9.4 million also shall be applied as a downward adjustment to the total 1990 incentive plan credits. The total adjustment to the 1990 incentive plan credits made pursuant to this paragraph shall not exceed the total amount of the 1990 incentive plan credits before such adjustment is applied.

Certain reports currently are due April 1, 1991 to the Staff and Public Counsel and April 15, 1991 to the Public Service Commission regarding incentive plan credits for 1990. If the additional calculations for 1990 credits make it impractical for Southwestern Bell to prepare these reports by their due dates, they may be delayed by agreement of Staff and Public Counsel.

(h) In the final year of the incentive regulation experiment, Southwestern Bell, the Staff and Public Counsel shall meet to review monitoring procedure reports and additional information as provided for in Attachment 3. Three months before the scheduled end of the incentive regulation experiment, Southwestern Bell, the Staff and Public Counsel will file their recommendations with the PSC as to whether the incentive plan

should be continued as is, continued with changes (including new rates, if so recommended), or discontinued, and serve copies thereof on all parties to Case No. TO-90-1. The parties reserve any and all rights they may have regarding the continuation, modification or elimination of the incentive regulation experiment.

(i) During the three (3) year experiment, Southwestern Bell agrees it will not directly or indirectly propose or seek legislation in the Missouri General Assembly which voids the conditions or length of the incentive regulation experiment described in this Joint Recommendation.

For purposes of any legislation that may be enacted by the Missouri General Assembly, the provisions of this Joint Recommendation constitute an existing experimental incentive regulation plan currently in existence, with an initial term of three years beginning January 1, 1990 and ending December 31, 1992.

(j) During the three (3) year incentive regulation experiment, Southwestern Bell will not propose increases in local exchange service rates, EAS rates, access line service connection charges, OBRA mileage charges, Touch Tone charges and access charges. Nothing in this paragraph 4(j) is intended to limit Southwestern Bell's ability to propose rate decreases.

Notwithstanding its commitment that it will not propose access charge increases, Southwestern Bell retains the right to propose "revenue neutral" changes within the class of intrastate Missouri access charges. (For purposes of this revenue neutral provision, access charges shall not include charges for billing and collection services.) As used in this Joint Recommendation, the term "revenue neutral" means that Southwestern Bell's access revenues will be the same both immediately before and immediately after any rate changes are implemented. However, this provision may not be used to make "revenue neutral" changes that result in increases in recurring access rate elements as a result of decreases in nonrecurring access rate elements. Nothing in this paragraph 4(j) precludes any party from opposing any "revenue neutral" changes in Southwestern Bell's intrastate Missouri access charges on any grounds other than that such changes are contrary to Southwestern Bell's agreement herein not to increase access charges.

(k) Nothing in the three (3) year experiment shall preclude Southwestern Bell from proposing tariffs for new or additional offerings or products or from proposing tariffs for new features for existing service offerings or products, including but not limited to access services.

5. Unless Southwestern Bell's earnings fall below 12.61% ROE, Southwestern Bell agrees not to file a general rate case prior to January 1, 1993. To calculate its ROE for the purposes of this paragraph 5, Southwestern Bell shall adjust its revenues, expenses and earnings levels reported to the PSC according to the monitoring and implementation procedures described in Attachment 3. In the event Southwestern Bell files a rate case, any credits due for the current or prior year will remain the obligation of Southwestern Bell. Southwestern Bell recognizes that it undertakes the risk that the aggregate level of revenues may be inadequate in the future in light of changed circumstances. The Staff and Public Counsel have entered into this Joint Recommendation in reliance upon the provisions of this paragraph, and these provisions constitute an essential part of the consideration bargained for by the Staff and Public Counsel.

6. Neither the Staff nor Public Counsel shall file a complaint, show cause order, petition, application, or other pleading alleging that Southwestern Bell is earning in excess of its required return and proposing that Southwestern Bell reduce the aggregate level of gross annual revenues produced by the tariffs on file pursuant to this plan prior to January 1, 1993. By its

approval of this Joint Recommendation, the PSC recognizes that it undertakes the risk that Southwestern Bell's aggregate revenues may exceed a level otherwise considered to be adequate in the future in light of changed circumstances. Southwestern Bell has entered into this Joint Recommendation in reliance upon the provisions of this paragraph 6 and its provisions constitute an essential part of the consideration bargained for by Southwestern Bell.

7. In exchange for AT&T's agreement to the terms and conditions of this Joint Recommendation, Southwestern Bell represents and agrees that the replacement of electro-mechanical switches with newer technology pursuant to the September 1989 Agreement as acknowledged in paragraph 3 of this Joint Recommendation is not the result of any bona fide requests for equal access by an interexchange carrier. The electro-mechanical switches subject to this representation are listed on Attachment 2.

8. This Joint Recommendation is specifically contingent upon the PSC approving the Joint Recommendation subject to the condition that all parties to the Joint Recommendation jointly file with the PSC by May 31, 1991 a final, non-appealable order from the Cole County Circuit Court in Consolidated Case No. CV189-0808 regarding the distribution of Stay Monies. Such court

order must be filed with the PSC in Case No. TO-90-1, in the form reflected in Appendix C, or in some other form that is mutually agreeable to all of the parties to this Joint Recommendation. The inability or failure to file such a court order by May 31, 1991 will result in the Joint Recommendation and any PSC order approving same becoming void ab initio.

9. By executing this Joint Recommendation, the parties shall not be deemed to have approved or acquiesced in any ratemaking principle, valuation methodology, method of cost of service determination, cost allocation or any legal principle underlying any of the provisions and agreements contained in this Joint Recommendation. This Joint Recommendation shall not prejudice, bind or affect any party in any other manner or proceeding, except to the extent necessary to give effect to the terms of this specific Joint Recommendation. Neither the contents of this Joint Recommendation nor any negotiations concerning this Joint Recommendation shall be used as proof of an admission by any party hereto in any case or proceeding except to the extent necessary to obtain approval or enforcement of the terms of this Joint Recommendation.

10. The terms, conditions and agreements set forth in this Joint Recommendation have resulted from

extensive negotiations among the parties and are intended to resolve all issues presented in Case No. TO-90-1. The parties hereto reserve the right to withdraw their consent to this Joint Recommendation if the PSC does not enter a conditional order that is materially consistent with this Joint Recommendation within thirty (30) calendar days after filing of same with the PSC. Written notice of any withdrawal must be provided to all other parties no later than ten (10) calendar days following the occurrence of the event that triggered the right to withdraw. If a party timely withdraws, TO-90-1 shall proceed as if this Joint Recommendation had not been made.

11. By making the acknowledgements set forth in paragraphs 1, 2 and 3 hereof, the parties hereto which were not parties to the September 1989 Agreement shall not be deemed to have taken any position regarding such matters. The parties hereto which were parties to the September 1989 Agreement shall be deemed to have renewed their agreement to the matters set forth in paragraphs 1, 2 and 3. By approving this Joint Recommendation, the PSC shall be deemed to have renewed its agreement to the matters set forth in paragraphs 1, 2 and 3.

12. The PSC Staff shall have the right to submit to the PSC, in memorandum form, an explanation of

its rationale for entering into this Joint Recommendation, and to provide to the PSC whatever further explanation the PSC requests. The Staff's memorandum shall not become a part of the record of this proceeding and shall not bind or prejudice the Staff in any future proceeding or in this proceeding in the event the PSC does not approve the Joint Recommendation. Any rationales advanced by Staff in such a memorandum are its own and are not acquiesced in or otherwise adopted by the other parties.

WHEREFORE, PREMISES CONSIDERED, on this 6th day of March, 1991, the undersigned agree to, and recommend that the PSC adopt, this Joint Recommendation and Attachments 1 through 3 hereto. If approved, the terms of this Joint Recommendation shall be deemed to be effective as of September 25, 1989.

SOUTHWESTERN BELL
TELEPHONE COMPANY

By [Signature]

STAFF OF THE MISSOURI PUBLIC
SERVICE COMMISSION

By [Signature]

GTE NORTH, INCORPORATED

By [Signature]

Brydon, Swearingen
& England, P.C.
W. R. England

MCI TELECOMMUNICATIONS
CORPORATION, AND AFFILIATED
COMPANIES

By [Signature]

Curtis, Oetting, Heinz,
Garrett & Soule, P.C.
Leland B. Curtis
Carl J. Lumley

AT&T COMMUNICATIONS
OF THE SOUTHWEST, INC.

By [Signature]

Lathrop, Norquist
& Miller
Paul S. DeFord

COMTEL OF MISSOURI

By [Signature]

Hendren and Andrae
Richard S. Brownlee III
Donald C. Otto, Jr.

UNITED TELEPHONE COMPANY
OF MISSOURI

By [Signature]

SENIOR ATTORNEY

CITY OF OAK GROVE

By [Signature]

Jeremiah D. Finnegan

THE PUBLIC COUNSEL

By [Signature]

US SPRINT COMMUNICATIONS
COMPANY LIMITED PARTNERSHIP

By [Signature]

MONITORING PROCEDURES

Attachment 3

Monitoring procedures:

1. For the purpose of determining sharing, each monitoring period will be twelve months in length. Ninety (90) days after the end of the period, a preliminary earnings report along with a proposed sharing report will be submitted to the Staff and OPC. A final earnings report and proposed sharing report will be submitted to the Commission within one hundred and five (105) days after the end of the period. The monitoring report will be similar to Schedule 1.
2. The report will be calculated as follows:
 - a. The Company's actual utility operating (i.e. "above the line") earnings for Missouri will be the basis for all monitoring, i.e. actual booked revenues, actual booked expenses and average rate base. MR (Part 32) results will be separated by the period's average twelve month separations factors and overlaid with agreed upon adjustments and previously Commission ordered off-book adjustments.
 - b. The depreciation expense to be included in SWBT results shall be based on the most current PSC approved depreciation rates. SWBT/Staff/OPC has the right during the trial period to request that the Commission consider such depreciation-related matters as reserve deficiencies, special amortizations or new rates. If such applications are approved by the PSC, then the results of such applications (whether increases or decreases to depreciation expense) will be included in the earnings results on which this incentive plan is based.
 - c. Adjustments may also be necessary to exclude from the monitoring period any prior year effects of the implementation of the TC-89-14 Order and its related settlement which affect the reversal of any accounting accruals made by SWBT.
 - d. Adjustments then would be made to actual earnings to reflect the Commission's Order in Case No. TC-89-14, et. al. Only adjustments which are ongoing in nature will be included. These are:
 - Imputation of 1985 level of Yellow Pages contribution
 - Disallowance of business meals, long term/short term (LT/ST) compensation incentive plan, and institutional advertising
 - Use of Staff's method of working capital
 - Use of Staff's method of removing deregulated services

- Use of Staff's interest calculation for income taxes
 - Removal of the rate base component for cost of removal/salvage
 - Removal of that portion of maintenance of service charges (MSC) attributable to InLine customers
 - Use of Staff's method for calculating net compensable property
 - Capital structure of 54.63% equity/45.37% debt
- e. Company agrees to exclude from the cost of service items which have been traditionally excluded in SWBT ratemaking proceedings, e.g. lobbying expense, corporate aircraft expense, contributions to charitable organizations, and institutional advertising costs.

Company further agrees to exclude from the cost of service any antitrust judgments or violations of the Securities Act of 1933, the Securities and Exchange Act of 1934 or applicable Rules of the Securities Exchange Commission promulgated thereunder, provided that any such violation is materially predicated on acts which are found to constitute, as the result of a judgment or other final adjudication, misconduct, fraud or dishonesty.

Additionally, Company agrees to inform Staff and OPC of any new category of cost included in the Company's Missouri intrastate results that exceeds \$300,000, including any FASB pronouncements of GAAP incorporated by the FCC into Part 32 of the USOA. Company further agrees to inform Staff/OPC of any new cost included in the calculation of costs at SBC which are allocated to SWBT-Missouri Division and included in the monitoring results.

- f. Company earnings then will be adjusted to normalize the effects of any "sharing" credits from the prior year that are embedded in the earnings. For example, if in year two of the plan, credits are given to customers based on a sharing of earnings realized in year one of the plan, then year two results will be restated to reflect what the level of earnings would have been without the credits.
- g. The earnings levels upon which sharing is based are those as described in items 2b through 2f. No additional disallowances or adjustments will be made to Company's achieved results except as provided in paragraph 2h of this section. In addition, if Staff/OPC find evidence that operating results have been manipulated to reduce amounts to be shared with customers or to misrepresent actual earnings or expenses they may file a complaint with the Commission requesting that a full investigation and hearing be conducted regarding their complaint.

- h. The amount of earnings to be "shared" will be based on these adjusted results.

Allowance or disallowance of specific categories of cost in the revenue requirement determination of Case No. TC-89-14 will not be subject to litigation by any party during the plan period (e.g., Capital Deployment, Bellcore, Wages and Salaries, Capital Structure, etc.). The only exceptions to this prohibition are (1) any FASB pronouncements of GAAP which are incorporated by the FCC into Part 32 of the USOA, but only if the revenue requirement of the issue exceeds 0.25% of Missouri intrastate operating revenues (including the 1985 Yellow Page imputation amount), and (2) depreciation filings described in paragraph 2b.

At the end of the plan period, Staff and OPC reserve the right to challenge the continued inclusion of any FASB pronouncement of GAAP incorporated by the FCC into Part 32 of the USOA with an associated revenue requirement effect of less than 0.25% of Missouri intrastate operating revenues (including the 1985 Yellow Page imputation amounts).

SWBT/Staff/OPC reserve the right to bring issues which cannot be resolved by the parties which are related to the operation or implementation of the incentive plan to the Commission for resolution. Examples include disagreements as to the mechanics of calculating the monitoring report, interpretations of the TC-89-14 Order, alleged violations of this agreement, or alleged manipulations of earnings results. Said allegation of manipulation could include significant variations in the level of expenses associated with any category of costs where no reasonable explanation has been provided. The Commission will determine in the first instance whether a question of manipulation exists and should be heard.

Finally, Staff/OPC has the right to present to the Commission concerns over any category of cost that exceeds \$300,000 that has been included in Company's monitoring results and has not been included previously in any SWBT ratemaking proceedings. (See paragraph 2e above). All final decisions on matters described in paragraphs 2g and 2h will be incorporated into the Company's monitoring period under review after all signatory parties have been given the opportunity to present their views to the Commission.

3. There would be two monitoring reports. The first report would be generated by the Company and provided to Staff and OPC by the first business day of March of the year to be examined. This report would be based upon the Company's Commitment Budget. Intrastate results would be provided

based on the separations factors used in the Company's commitment budget for the year examined.

If the total state commitment budget "Total Operating Expense" exceeds the prior year actuals by a minimum of ten million dollars (\$10M) total state basis, Company will prepare an analysis detailing the major items contributing to the entire increase. Major items will be defined as a minimum impact of one million dollars (\$1M) total state basis. Staff and OPC may inquire into any item contributing to the increase even though the associated impact is less than one million dollars (\$1M) total state basis.

The second report will provide the actual results of the year to be examined as stated in paragraph 2a.

Company agrees to provide to Staff and OPC the following:

- a. Selected MR/FR reports as designated in Schedule 2 will be provided to Staff/OPC each month during the monitoring period.
- b. Monthly fluctuation reports will be provided to Staff and OPC by the Company. These reports will be on a total state basis as they are today and will address significant month over month deviations occurring in the Company's FR and MR books. Additionally, the Company agrees to provide to Staff and OPC a report detailing budget versus actual deviations monthly.
- c. Staff and OPC will be provided with reports on SBC allocations by account and affiliate transactions along with explanations for any significant month over month fluctuations (defined as 5% fluctuation with a minimum level of \$500,000). Staff and OPC may inquire into any fluctuation amounting to less than \$500,000. Also provided will be copies of the SWBT Business Plan, SWBT-Mo Business Plan and the current year Missouri budget with the underlying planning assumptions. If questions arise from the review of the provided data, the Company agrees to respond to these requests through informal meetings or by the provision of additional information within twenty days from the date of such information request, unless good cause is shown.
- d. By June of the last year of the trial, Company agrees to provide to Staff and OPC certain data not already provided in the required submission of the annual monitoring report, MR/FR reports, and annual Form M filing. This data would comprise additional data that is normally a part of the Minimum Filing Requirements.

The additional data is as follows:

- A schedule detailing SWBT-Missouri's construction expenditures during the trial period.
- A schedule detailing SWBT-Missouri's working capital requirement during year two of the plan.
- A schedule detailing SWBT-Missouri's separations factors during the first two years of the plan.
- Comparative SWBT-Missouri's balance sheets and unadjusted income statements for the first two years of the plan.

These schedules will be prepared in accordance with prior Company practice in complying with Missouri PSC Rule 4 CSR 240-2.060.

- e. SWBT will retain monthly quality of service data used to prepare the quarterly quality of service report for Staff and OPC review.

Differences between the parties should be brought to the Commission's attention for guidance as early in the process as possible.

As stated above, the final report will be filed by April 15 (or the first business day thereafter) following the monitoring period. Signatory parties have 30 days after this report is filed to provide notice that there may be areas of disagreement not previously brought to the attention of the Commission that need to be resolved. Based on the final determination by the Commission, earnings will be restated, where necessary, and credits will be applied in the June billing period.

Nothing in this agreement is intended to impinge or restrict in any manner the exercise by the Commission of any statutory right, including the right to access to information pursuant to Section 392.210 and 392.400, and any statutory obligation.

SOUTHWESTERN BELL TELEPHONE COMPANY
AVERAGE RATE BASE

TOTAL ACTUAL	INTRA FACTOR	INTRA AMOUNT	FR ADJUSTS	INTRA FR	COMMISSION MONITORING ADJUSTMENTS	ADJUSTED INTRASTATE MONITORING
-----------------	-----------------	-----------------	---------------	-------------	---	--------------------------------------

ADD:

Telecommunications Plant
in Service
M & S
Cash Working Capital
Prepayments

LESS:

Depreciation Reserve
Customer Deposits
ACC Deferred Income Taxes
Unamort ITC-A Pre-JDIC
Net Investment = (B)

(B)

INTEREST CALCULATION

1. Intra Rate Base	(B)
2.	
3.	
4. Debt Ratio	%
5. Capital for Debt	1 x 4
6. Cost of Debt	()
7. Interest Expense	5 x 6
8. Monthly Interest	7/12

INCOME TAX CALCULATION

9. Operating Income Before Taxes
10. Operating Other Taxes
11. Operating Income
Additions to Book Income
12. Disallowed Depreciation
13. Not Used
14. Prior GS&L Amort Deducted
15. S/T IDC
16. Other Disallowed Expenses
17. Capitalized Property Tax
18. Total Additions
Deductions from Book Income:
19. Interest Deduction (line 7)
20. Cost of Removal & Salvage
21. Vacation Pay Accrual
22. Total Deductions
23. Total Adjustments

- 24. Taxable Income
- 25. Effective FIT Rate
- 26. Effective SIT/Local Rate
- 27. Federal Income Taxes
- 28. State/Local Income Taxes

Adjustments to Income Tax Expense

- 29. ITC Amortized
- 30. Amort of Tax Rate Chg
- 31. Total Adj to Inc. Tax Exp.

- 32. Net Federal Income Tax

SOUTHWESTERN BELL TELEPHONE COMPANY
PERIOD ENDING - 19XX

	TOTAL ACTUAL	INTRA FACTOR	INTRA AMOUNT	FR ADJUSTS	INTRA FR	COMMISSION MONITORING ADJUSTMENTS	ADJUSTED INTRASTATE MONITORING
	-----	-----	-----	-----	-----	-----	-----
REVENUES:							
Local Service							
Long Distance - Interstate							
- Intrastate							
- Total							
Total Network Serv. Rev.							
Access Revenue - Interstate							
- Intrastate							
End User							
Total Network Access Rev.							
Other							
Uncollectibles							
Total Operating Revenues							
EXPENSES:							
Central Office							
Outside Plant							
Testing							
Info Origination/Termination							
Plant Admin & Support							
Depreciation & Amortization							
Marketing							
Call Completion & Number Serv.							
Customer Services							
Accounting & Finance							
External Relations							
Human Resources							
Information Management							
Legal							
Procurement							
Benefits							
Other Operating Expenses							
Total Operating Expenses							
Net Operating Revenues							

SOUTHWESTERN BELL TELEPHONE COMPANY
PERIOD ENDING - 19XX

TOTAL ACTUAL	INTRA FACTOR	INTRA AMOUNT	FR ADJUSTS...	INTRA FR	COMMISSION MONITORING ADJUSTMENTS	ADJUSTED INTRASTATE MONITORING
-----------------	-----------------	-----------------	------------------	-------------	---	--------------------------------------

Other Operating Income and Expenses

Operating Income Before Taxes

OPERATING TAXES:

- Federal Income
- State & Local Income
- Property
- Gross Receipts
- Capital Stock
- Other Taxes

Total Operating Taxes

Operating Income (A)

Net Investment (B)

(C) Overall Return Ratio (Operating Income (A))/(B)

(D) Less Portion of Return
Relating to Debt (B x % x ___ = (line 7 next page)

(E) Return Portion Relating to
Equity (C - D)

(F) Equity Percentage of Capital (B x %)
Structure

Achieved Cost of Equity (E - F)

Schedule 2

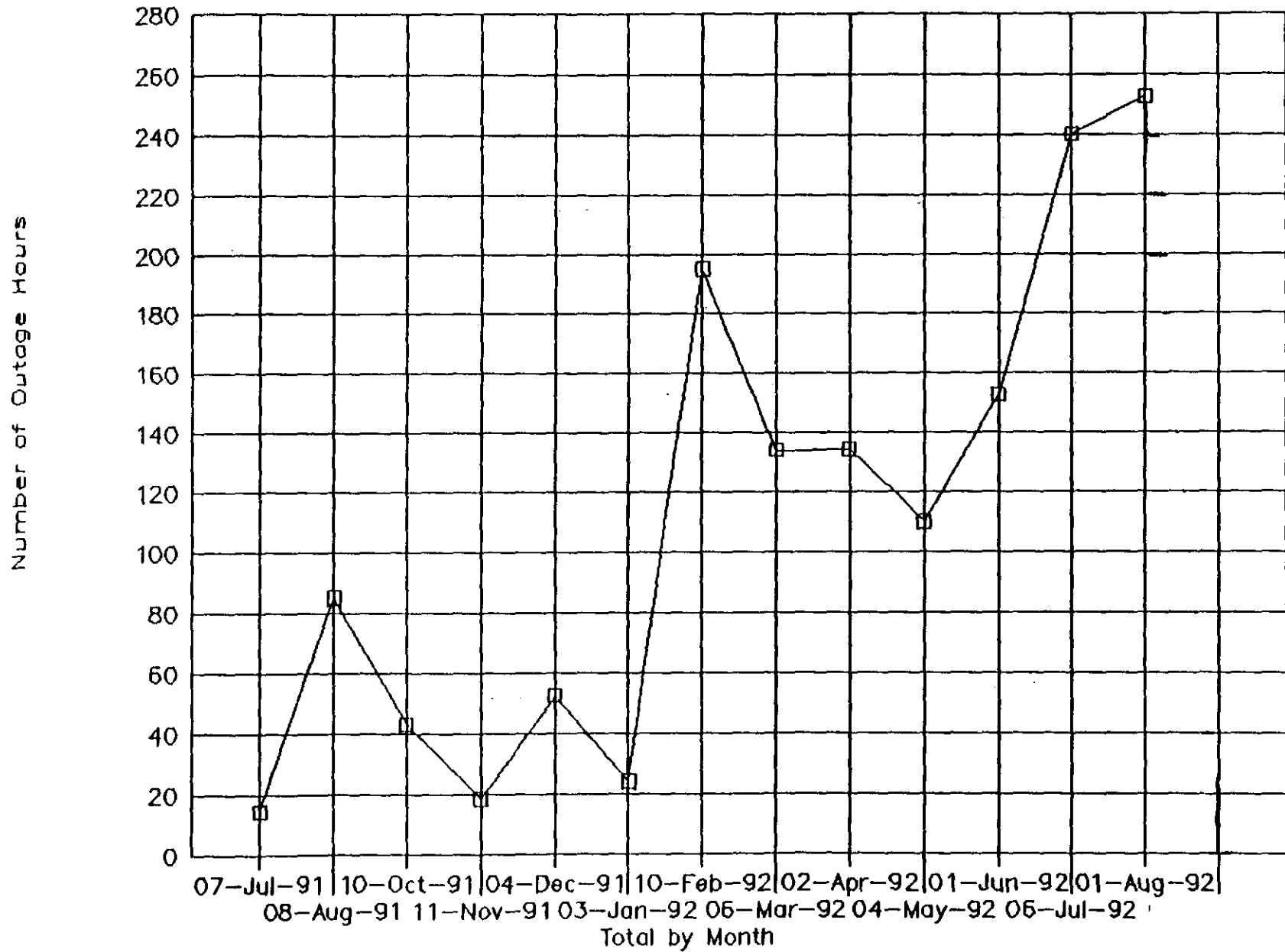
REPORTS PACKAGE SWBT WILL PROVIDE
STAFF/OPC EACH MONTH*

<u>Report Number</u>	<u>Title</u>
FR102	Actual Results Versus Budget - Total Operations
MR/FR10	Summary of Reports
FR35	Off-Book Entries
MR4	Operating Revenues
MR5	Operating Expenses
MR6	Changes in Telecommunications Plant Accounts
MR16	Accumulated Depreciation and Amortization

* Note: Other reports will be made available as requested.

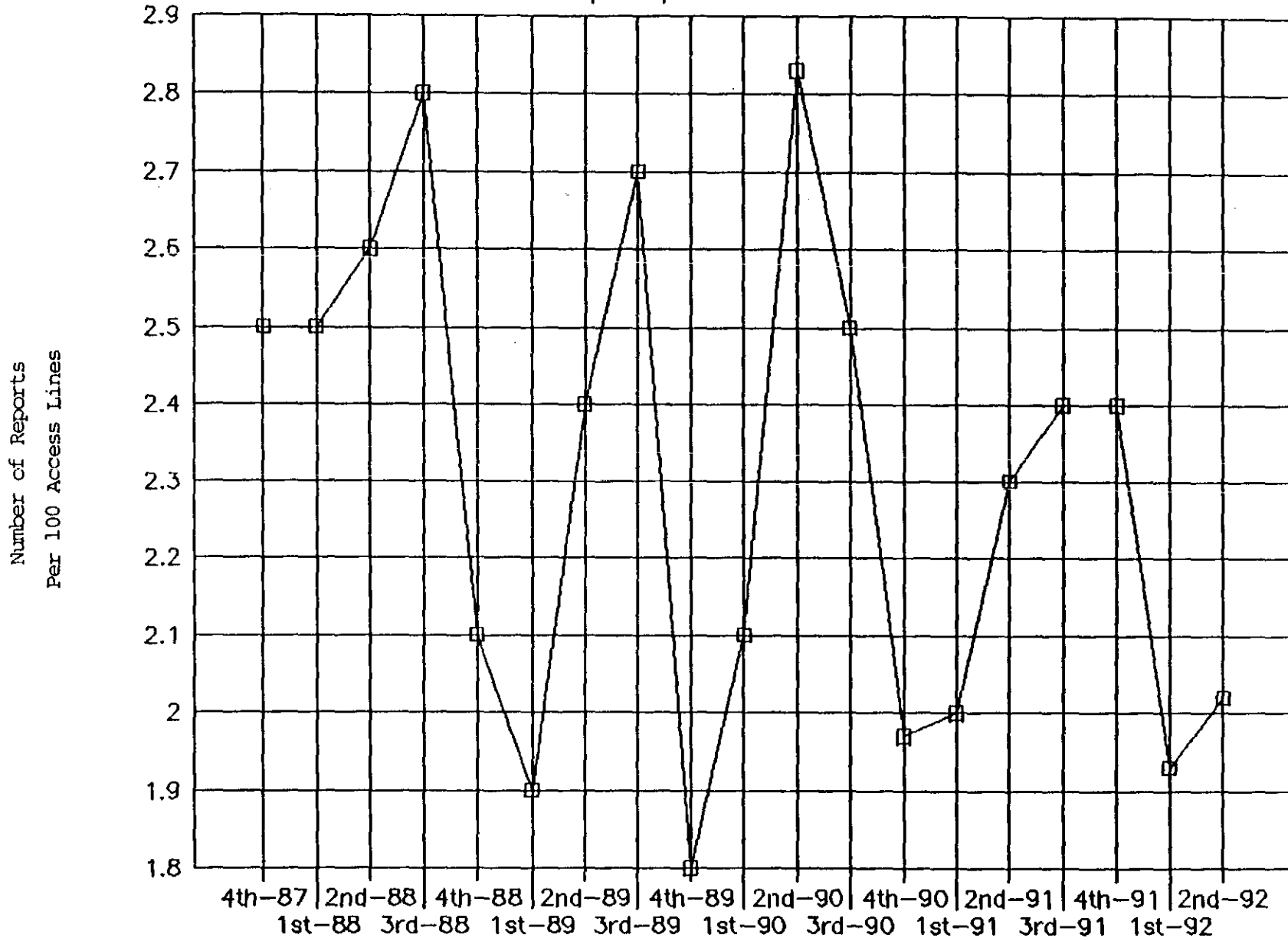


Southwestern Bell Telephone Outage



SWBT Quality Of Service Report

Trouble reports per 100 access lines



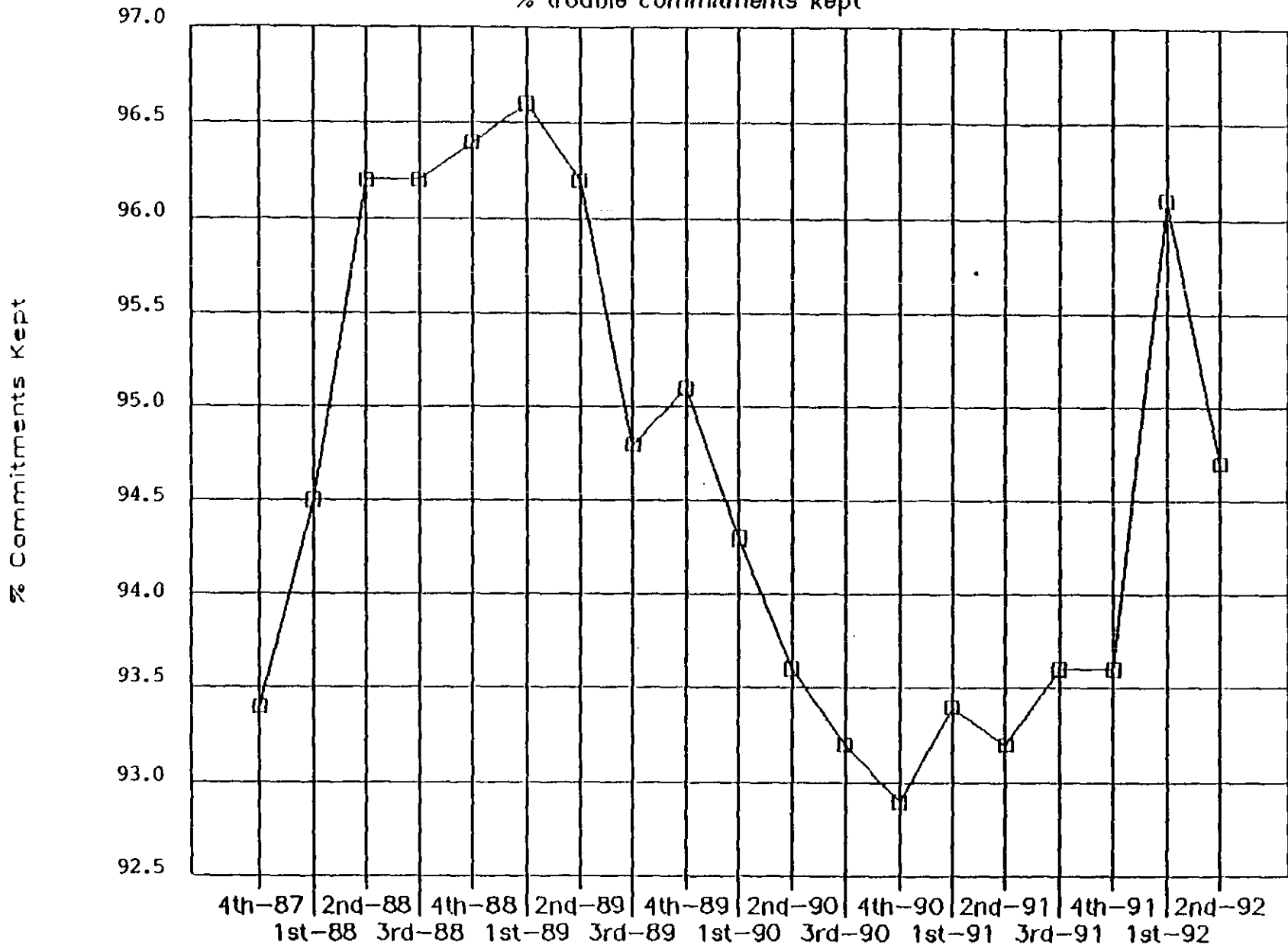
SWBT Quality Of Service Report

Trouble reports cleared within 24 hours



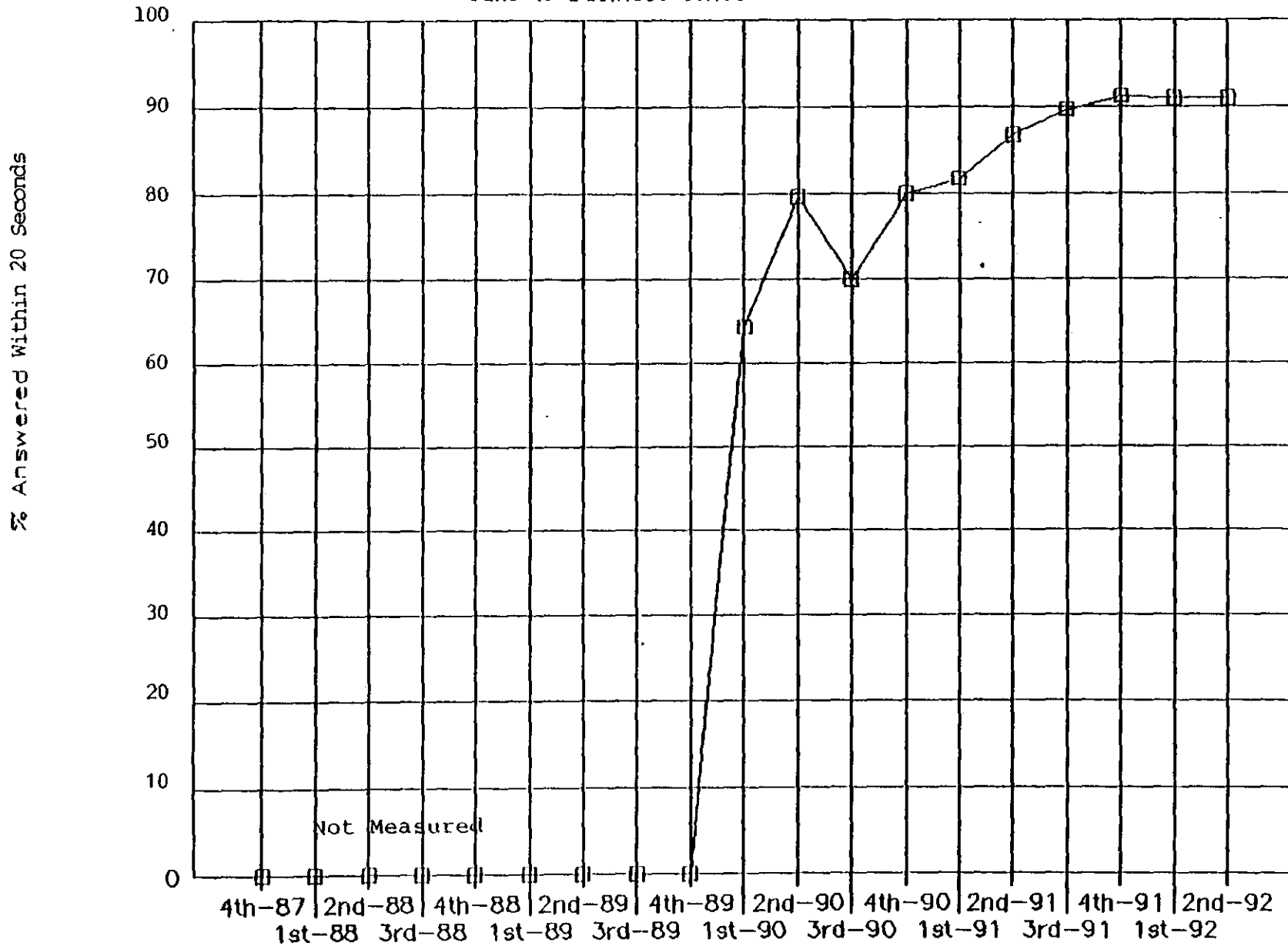
SWBT Quality Of Service Report

% trouble commitments kept



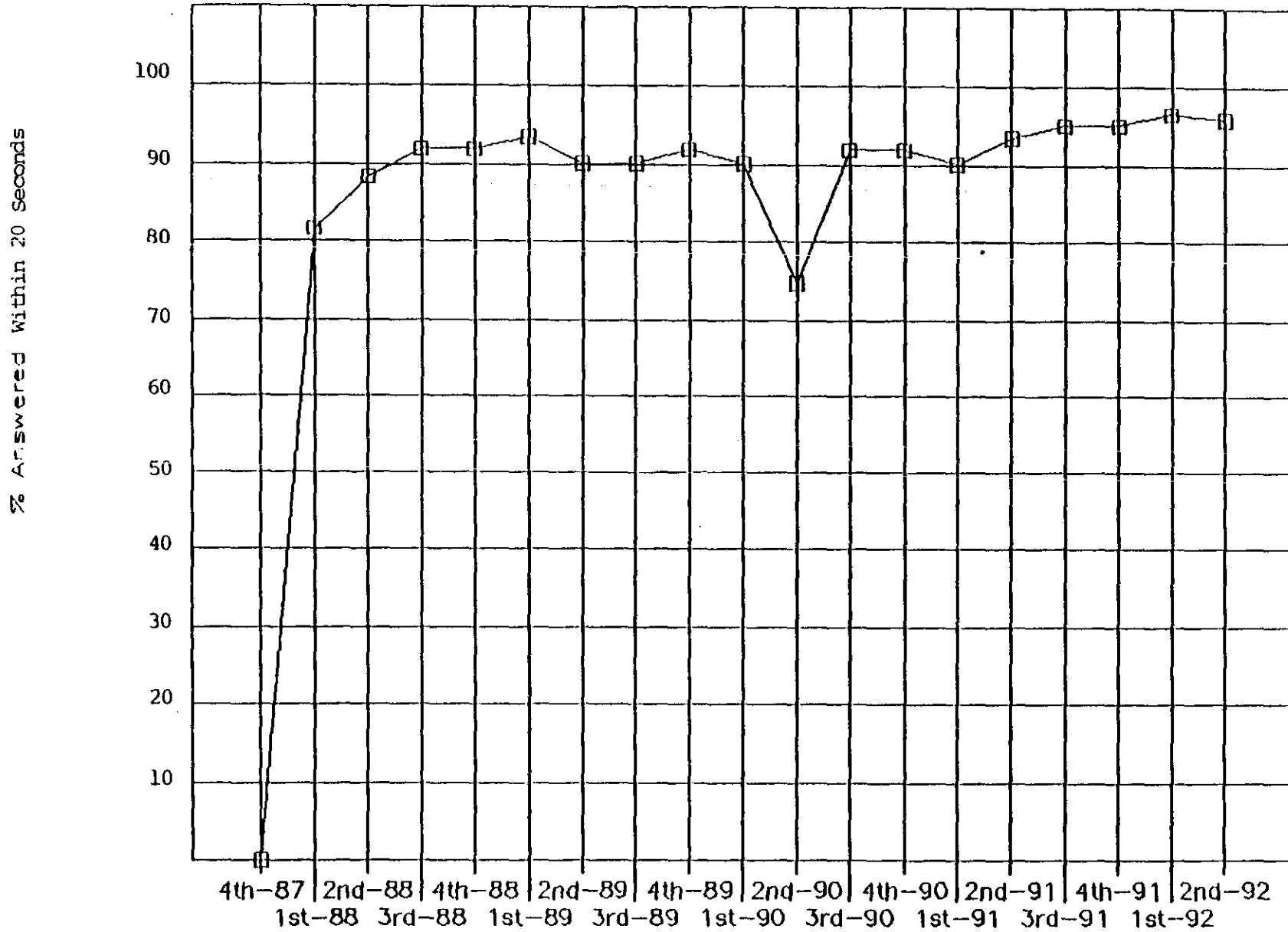
SWBT Quality Of Service Report

calls to business office Answered Within 20 Seconds



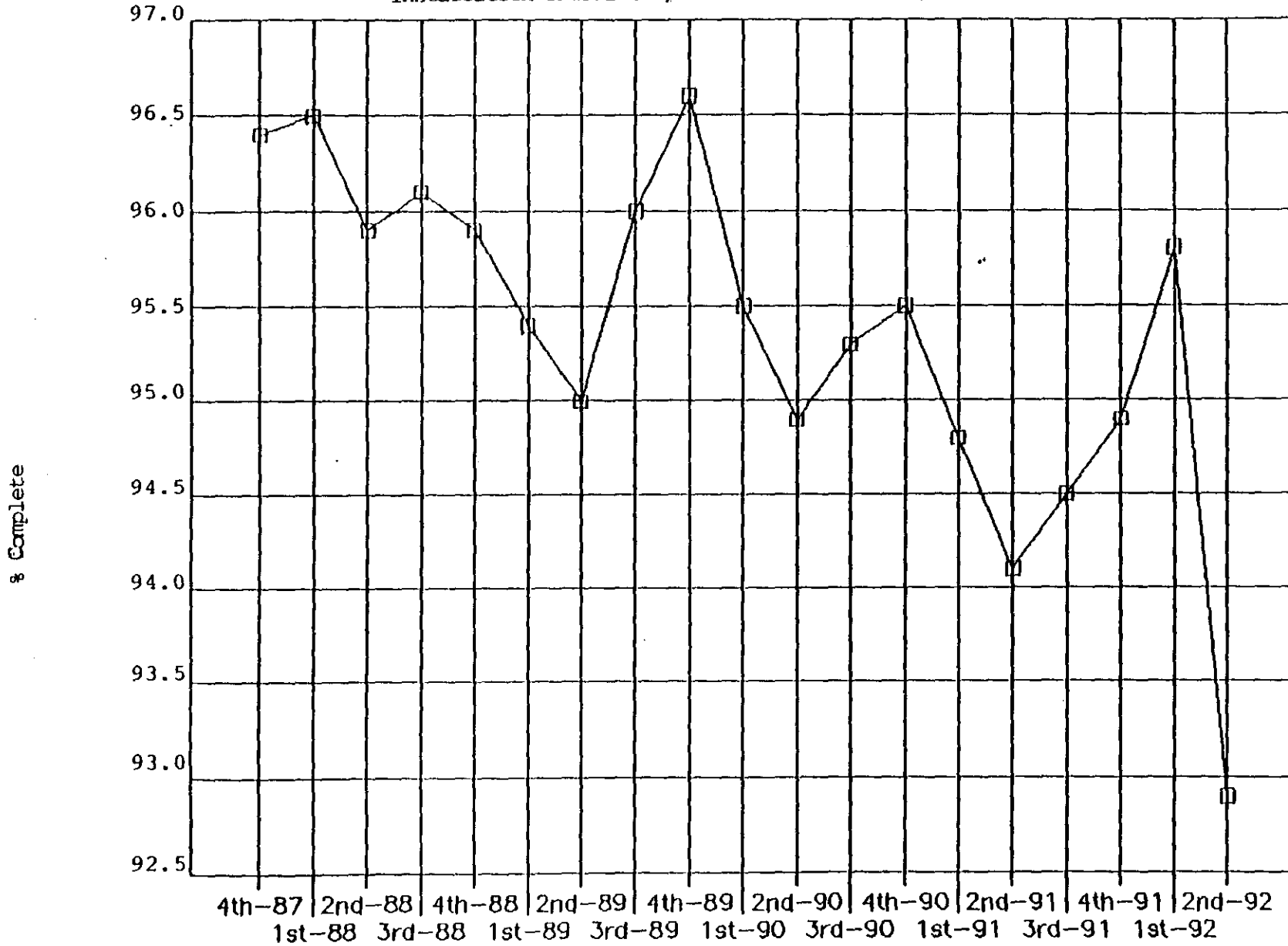
SWBT Quality Of Service Report

calls to repair service answered within 20 seconds



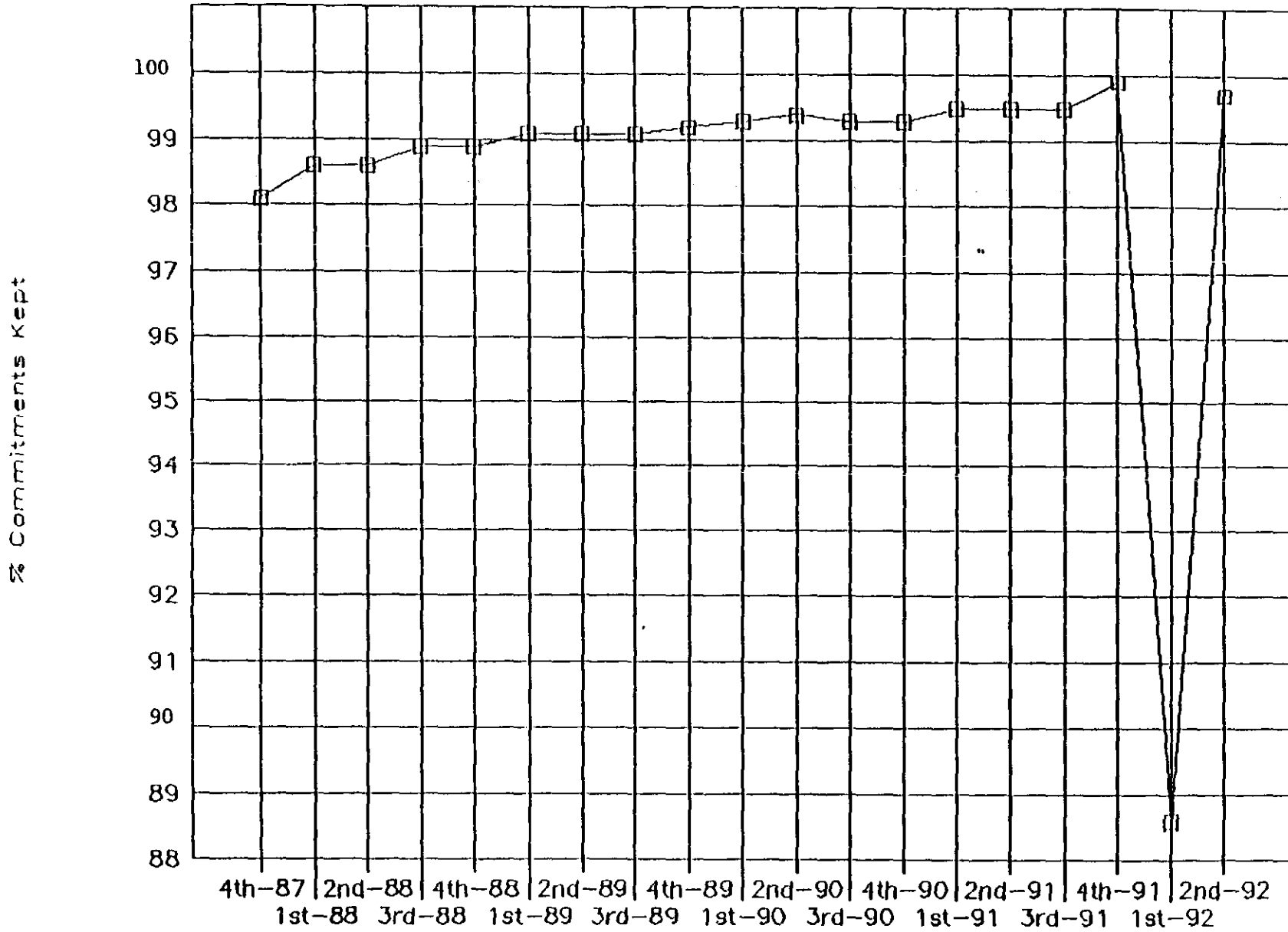
SWBT Quality Of Service Report

Installation Orders Complete Within 5 Working Days



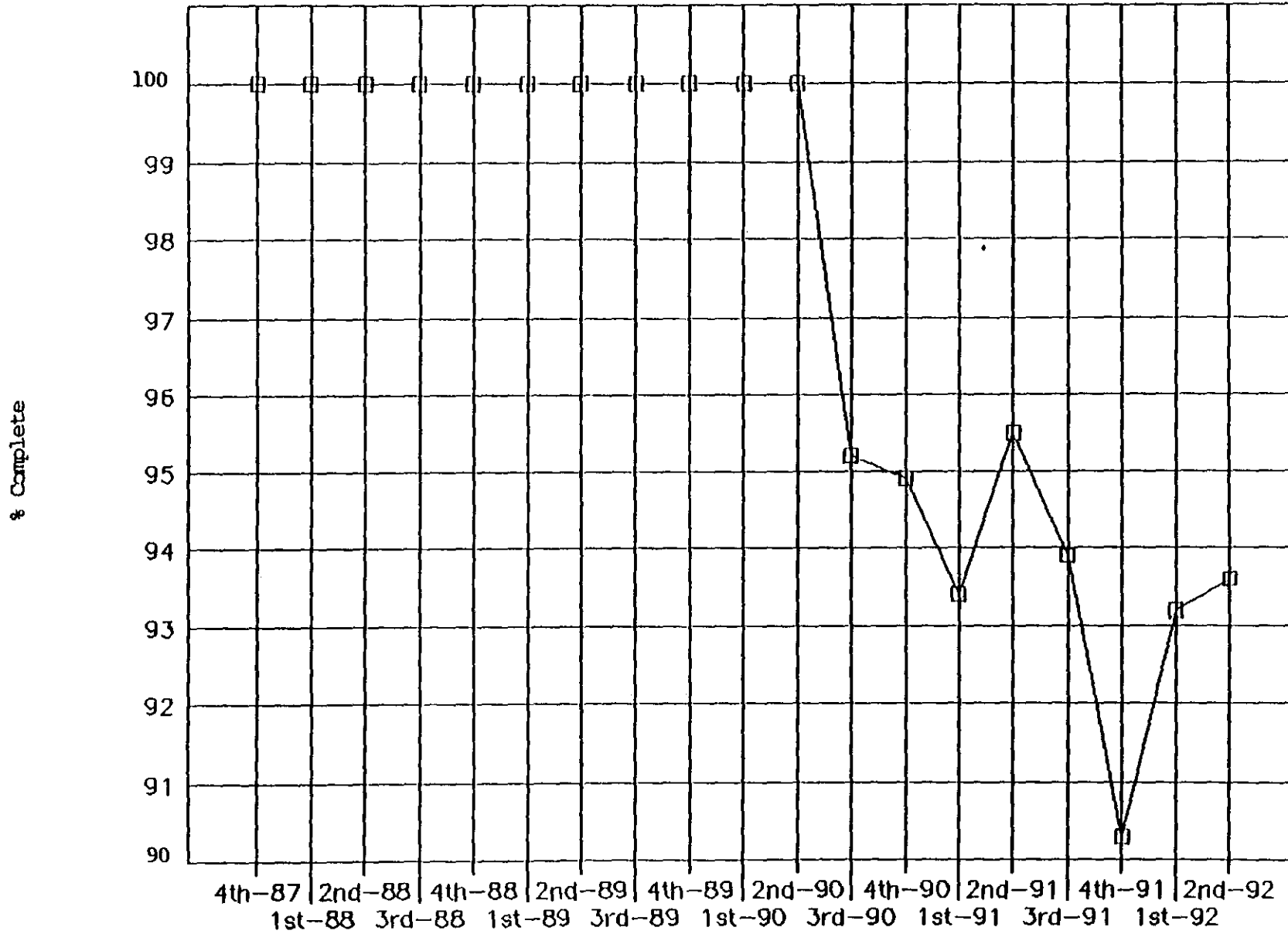
SWBT Quality Of Service Report

Installation Commitments Kept



SWBT Quality Of Service Report

Regrade Orders Complete Within 30 Days





MONITORING PROCEDURES

Monitoring Procedures:

1. For the purpose of determining sharing, each monitoring period will be twelve months in length. Ninety (90) days after the end of the period, a preliminary earnings report along with a proposed sharing report will be submitted to the Staff and OPC. A final earnings report and proposed sharing report will be submitted to the Commission within one hundred and five (105) days after the end of the period. The monitoring report will be similar to Schedule 1.
2. The report will be calculated as follows:
 - a. The Company's actual utility operating (i.e., "above the line") earnings for Missouri will be the basis for all monitoring, i.e., actual booked revenues, actual booked expenses and average rate base. MR (Part 32) results will be separated by the period's average twelve month separations factors and overlaid with agreed upon adjustments and previously Commission ordered off-book adjustments.
 - b. The depreciation expense to be included in SWBT results shall be based on the most current PSC approved depreciation rates. SWBT/Staff/OPC has the right during the trial period to request that the Commission consider such depreciation-related matters as reserve deficiencies, special amortizations or new rates. If such applications are approved by the PSC, then the results of such applications (whether increases or decreases to depreciation expense) will be included in the earnings results on which this alternative regulatory plan is based.
 - c. Adjustments then would be made to actual earnings to reflect the Commission's Order in Case No. TC-89-14, et al. and/or subsequent complaint or rate case(s). Only adjustments which are ongoing in nature will be included. These are:
 - Imputation of 1985 level of Yellow Pages contribution
 - Disallowance of business meals, long term/short term (LT/ST) compensation incentive plan, and institutional advertising
 - Use of Staff's method of working capital
 - Use of Cost Allocation Manual results to remove deregulated services, investment, revenues, and expenses
 - Use of Staff proposal to treat deregulated expense related to inside wire
 - Use of Staff's affiliated transaction adjustments
 - Use of Staff's method to assign TRI expenses
 - Use of Staff's method to assign SBC holding company expenses
 - Use of Staff's interest calculation for income taxes
 - Removal of the rate base component for cost of removal/salvage

- Removal of that portion of maintenance of service charges (MSC) attributable to InLine customers
 - Use of Staff's method for calculating net compensable property
 - Capital structure of _____ equity/_____ debt
- d. Company agrees to exclude from the cost of service items which have been traditionally excluded in SWBT ratemaking proceedings, e.g., lobbying expense, corporate aircraft expense, contributions to charitable organization, and institutional advertising costs.

Company further agrees to exclude from the cost of service any judgments or violations, provided that any such violation is materially predicated on acts which are found to constitute, as the result of a judgment or other final adjudication, misconduct, fraud or dishonesty.

Additionally, Company agrees to inform Staff and OPC of any new category of cost included in the Company's Missouri intrastate results that exceeds \$300,000, including any FASB pronouncements of GAAP incorporated by the FCC into Part 32 of the USOA. Company further agrees to inform Staff/OPC of any new cost included in the calculation of costs at SBC which are allocated to SWBT-Missouri Division and included in the monitoring results.

- e. Company earnings will then be adjusted to normalize the effects of any "sharing" credits from the prior year that are embedded in the earnings. For example, if in year two of the plan, credits are given to customers based on a sharing of earnings realized in year one of the plan, then year two results will be restated to reflect what the level of earnings would have been without the credits.
- f. The earnings levels upon which sharing is based are those as described in items 2b through 2e. No additional disallowances or adjustments will be made to Company's achieved results except as provided in paragraph 2g of this section. In addition, if Staff/OPC find evidence that operating results have been manipulated to reduce amounts to be shared with customers or to misrepresent actual earnings or expenses they may file a complaint with the Commission requesting that a full investigation and hearing be conducted regarding their complaint.
- g. The amount of earnings to be "shared" will be based on these adjusted results.

Allowance or disallowance of specific categories of cost in the revenue requirement determination of Case No. TC-89-14 will not be subject to litigation

by any party during the plan period (e.g., Capital Deployment, Bellcore, Wages and Salaries, Capital Structure, etc.). The only exceptions to this prohibition are (1) any FASB pronouncements of GAAP which are incorporated by the FCC into Part 32 of the USOA, but only if the revenue requirement of the issue exceeds 0.25% of Missouri intrastate operating revenues (including the 1985 Yellow Page imputation amount), and (2) depreciation filings described in paragraph 2b.

At the end of the plan period, Staff and OPC reserve the right to challenge the continued inclusion of any FASB pronouncement of GAAP incorporated by the FCC into Part 32 of the USOA with an associated revenue requirement effect of less than 0.25% of Missouri intrastate operating revenues (including the 1985 Yellow Page imputation amounts).

SWBT/Staff/OPC reserve the right to bring issues which cannot be resolved by the parties which are related to the operation or implementation of the incentive plan to the Commission for resolution. Examples include disagreements as to the mechanics of calculating the monitoring report, interpretations of the TC-89-14 Order, alleged violations of this agreement, or alleged manipulations of earnings results. Said allegation of manipulation could include significant variations in the level of expenses associated with any category of costs where no reasonable explanation has been provided. The Commission will determine in the first instance whether a question of manipulation exists and should be heard.

Finally, Staff/OPC has the right to present to the Commission concerns over any category of cost that exceeds \$300,000 that has been included in Company's monitoring results and has not been included previously in any SWBT ratemaking proceedings. (See paragraph 2d, above). All final decisions on matters described in paragraphs 2f and 2g will be incorporated into the Company's monitoring period under review after all signatory parties have been given the opportunity to present their views to the Commission.

3. There would be two monitoring reports. The first report would be generated by the Company and provided to Staff and OPC by the first business day of March of the year to be examined. This report would be based upon the Company's Commitment Budget. Intrastate results would be provided based on the separations factors used in the Company's Commitment Budget for the year examined.

If the total state commitment budget ("Total Operating Expense" exceeds the prior year actuals by a minimum of ten million dollars (\$10M) total state basis, Company will prepare an analysis detailing the major items contributing to the entire increase. Major items will be defined as a minimum impact of one million dollars (\$1M) total state basis.

Staff and OPC may inquire into any item contributing to the increase even though the associated impact is less than one million dollars (\$1M) total state basis.

The second report will provide the actual results of the year to be examined as stated in paragraph 2a. This report will also provide the following related to the year to be examined:

- Total Factor Productivity (TFP)
- Expense ratios such as maintenance or payroll expense per access line; and
- Modernization measures such as the number of central offices equipped with SS7, amount of interoffice fiber in place and the number of central offices equipped to handle ISDN.

Company agrees to provide to Staff and OPC the following:

- a. Selected MR/FR reports as designated in Schedule 2 will be provided to Staff/OPC each month during the monitoring period.
- b. Monthly fluctuation reports will be provided to Staff and OPC by Company. These reports will be on a total state basis as they are today and will address significant month over month deviations occurring in the Company's FR and MR books. Additionally, the Company agrees to provide to Staff and OPC a report detailing budget versus actual deviations monthly.
- c. Staff and OPC will be provided with reports on SBC allocations by account and affiliate transactions along with explanations for any significant month over month fluctuations (defined as 5% fluctuation with a minimum level of \$500,000). Staff and OPC may inquire into any fluctuation amounting to less than \$500,000. Also provided will be copies of the SWBT Business Plan, SWBT-Mo Business Plan and the current year Missouri budget with the underlying planning assumptions. If questions arise from the review of the provided data, the Company agrees to respond to these requests through informal meetings or by the provision of additional information within twenty days from the date of such information request, unless good cause is shown.
- d. By June of the last year of the trial, Company agrees to provide to Staff and OPC certain data not already provided in the required submission of the annual monitoring report, MR/FR reports, and annual Form M filing. This data would comprise additional data that is normally a part of the Minimum Filing Requirements.

The additional data is as follows:

- A schedule detailing SWBT-Missouri's construction expenditures during the trial period.
- A schedule detailing SWBT-Missouri's working capital requirement during year two of the plan.
- A schedule detailing SWBT-Missouri's separations factors during the first two years of the plan.
- Comparative SWBT-Missouri's balance sheets and unadjusted income statements for the first two years of the plan.

These schedules will be prepared in accordance with prior Company practice in complying with Missouri PSC Rule 4 CSR 240-2.060.

- e. SWBT will retain monthly quality of service data used to prepare the quarterly quality of service report for Staff and OPC review.

Differences between the parties should be brought to the Commission's attention for guidance as early in the process as possible.

As stated above, the final report will be filed by April 15 (or the first business day thereafter) following the monitoring period. Signatory parties have 30 days after this report is filed to provide notice that there may be areas of disagreement not previously brought to the attention of the Commission that need to be resolved. Based on the final determination by the Commission, earnings will be restated, where necessary, and credits will be applied in the June billing period.

Nothing in this agreement is intended to impinge or restrict in any manner the exercise by the Commission of any statutory right, including the right to access to information pursuant to Section 392.210 and 392.400, and any statutory obligation.

SOUTHWESTERN BELL TELEPHONE COMPANY
AVERAGE RATE BASE

	<u>TOTAL ACTUAL</u>	<u>INTRA FACTOR</u>	<u>INTRA AMOUNT</u>	<u>FR ADJUSTS</u>	<u>INTRA FR</u>	<u>COMMISSION MONITORING ADJUSTMENTS</u>	<u>ADJUSTED INTRASTATE MONITORING</u>
ADD:							
Telecommunications Plant in Service							
M & S							
Cash Working Capital							
Prepayments							
LESS:							
Depreciation Reserve							
Customer Deposits							
ACC Deferred Income Taxes							
Unamort ITC-A Pre-JDIC							
Net Investment = (B)							(B)

INTEREST CALCULATION

1. Intra Rate Base	(B)
2.	
3.	
4. Debt Ratio	%
5. Capital for Debt	1 x 4
6. Cost of Debt	()
7. Interest Expense	5 x 6
8. Monthly interest	7/12

INCOME TAX CALCULATION

9. Operating Income Before Taxes
10. Operating Other Taxes
11. Operating Income
Additions to Book Income
12. Disallowed Depreciation
13. Not Used
14. Prior GS&L Amort Deducted
15. S/T IDC
16. Other Disallowed Expenses
17. Capitalized Property Tax
18. Total Additions
Deductions from Book Income:
19. Interest Deduction (line 7)
20. Cost of Removal & Salvage
21. Vacation Pay Accrual
22. Total Deductions
23. Total Adjustments
24. Taxable Income
25. Effective FIT Rate
26. Effective SIT/Local Rate
27. Federal Income Taxes
28. State/Local Income Taxes
Adjustments to Income Tax Expense
29. ITC Amortized
30. Amort of Tax Rate Chg
31. Total Adj to Inc. Tax Exp.
32. Net Federal Income Tax

SOUTHWESTERN BELL TELEPHONE COMPANY
PERIOD ENDING - 19XX

	<u>TOTAL ACTUAL</u>	<u>INTRA FACTOR</u>	<u>INTRA AMOUNT</u>	<u>FR ADJUSTS</u>	<u>INTRA FR</u>	<u>COMMISSION MONITORING ADJUSTMENTS</u>	<u>ADJUSTED INTRASTATE MONITORING</u>
REVENUES:							
Local Service							
Long Distance							
- Interstate							
- Intrastate							
- Total							
Total Network Serv. Rev.							
Access Revenue							
- Interstate							
- Intrastate							
End User							
Total Network Access Rev.							
Other							(B)
Uncollectibles							
Total Operating Revenues							
EXPENSES:							
Central Office							
Outside Plant							
Testing							
Info Origination/Termination							
Plant Admin & Support							
Depreciation & Amortization							
Marketing							
Call Completion & Number Serv.							
Customer Services							
Accounting & Finance							
External Relations							
Human Resources							
Information Management							
Legal							
Procurement							
Benefits							
Other Operating Expenses							
Total Operating Expenses							
NET OPERATING REVENUES							
Other Operating Income & Expenses							
Operating Income Before Taxes							
OPERATING TAXES:							
Federal Income							

SOUTHWESTERN BELL TELEPHONE COMPANY
PERIOD ENDING - 19XX

	<u>TOTAL ACTUAL</u>	<u>INTRA FACTOR</u>	<u>INTRA AMOUNT</u>	<u>FR ADJUSTS</u>	<u>INTRA FR</u>	<u>COMMISSION MONITORING ADJUSTMENTS</u>	<u>ADJUSTED INTRASTATE MONITORING</u>
State & Local Income							
Property							
Gross Receipts							
Capital Stock							
Other Taxes							
Total Operating Taxes							
Operating Income (A)							
Net Investment (B)							
(C) Overall Return Ratio {Operating Income (A)/(B)}							
(D) Less Portion of Return Relating to Debt (B x % x _____ = [line 7 next page])							
(E) Return Portion Relating to Equity (C - D)							
(F) Equity Percentage of Capital Structure (B x %)							
Achieved Cost of Equity (E - F)							

Schedule 2

REPORTS PACKAGE SWBT WILL PROVIDE
STAFF/OPC EACH MONTH*

<u>Report Number</u>	<u>Title</u>
FR102	Actual Results Versus Budget - Total Operations
MR/FR10	Summary of Reports
FR35	Off-Book Entries
MR4	Operating Revenues
MR5	Operating Expenses
MR6	Changes in Telecommunications Plant Accounts
MR16	Accumulated Depreciation and Amortization

* Note: Other reports will be made available as requested.





