



Missouri Public Service Commission

Commissioners
SHEILA LUMPE
Chair
HAROLD CRUMPTON
CONNIE MURRAY
ROBERT G. SCHEMENAUER
M. DIANNE DRAINER
Vice Chair

POST OFFICE BOX 360
JEFFERSON CITY, MISSOURI 65102
573-751-3234
573-751-1847 (Fax Number)
http://www.ecodev.state.mo.us/psc/

GORDON L. PERSINGER
Acting Executive Director
Director, Research and Public Affairs
WESS A. HENDERSON
Director, Utility Operations
ROBERT SCHALLENBERG
Director, Utility Services
DONNA M. KOLILIS
Director, Administration
DALE HARDY ROBERTS
Secretary/Chief Regulatory Law Judge
DANA K. JOYCE
General Counsel

February 17, 1999

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

FILED
FEB 17 1999
Missouri Public
Service Commission

RE: EM-96-149 - 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.

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and fourteen (14) conformed copies of a STAFF RESPONSE TO UE REQUEST FOR AN ORDER ESTABLISHING FURTHER PROCEEDINGS WITH RESPECT TO THE MEANING OF THE GOVERNING LEGAL STANDARD.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

[Handwritten signature of Steven Dottheim]

Steven Dottheim
Chief Deputy General Counsel
(573) 751-7489
(573) 751-9285 (Fax)

Enclosure
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED

FEB 17 1999

Missouri Public
Service Commission

Case No. EM-96-149

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)

**STAFF RESPONSE TO UE REQUEST FOR AN ORDER
ESTABLISHING FURTHER PROCEEDINGS WITH RESPECT
TO THE MEANING OF THE GOVERNING LEGAL STANDARD**

Comes now the Staff of the Missouri Public Service Commission (Staff) in response to the February 1, 1999 filing of Union Electric Company, d/b/a AmerenUE ("UE"), i.e., Union Electric Company's Reply to The Staff And Public Counsel Response To The Request For Commission Guidance Or, In The Alternative, Union Electric Company's Request For An Order Establishing Further Proceedings With Respect To The Meaning Of The Governing Legal Standard. The Staff continues to advocate adoption of the procedural schedule it proposed in its February 1, 1999 filing and in support thereof states as follows:

1. As a preliminary matter, the Staff must address the matter of the January 15, 1999 Prehearing Conference. On January 15, 1999, a Prehearing Conference was held for the purpose of the parties proposing a procedural schedule. The Staff had thought that it was mutually agreed at said Prehearing Conference that the parties would propose the procedural schedule that the Staff filed on February 1, 1999 for Commission determination of all issues, and that the only item respecting that proposed schedule that needed Commission resolution, other than Commission approval of the specific dates, was the procedural issue of whether the Staff, Public Counsel and other parties in addition to UE should be permitted by the Commission to file direct,

rebuttal and surrebuttal testimony and schedules, or just rebuttal and cross-surrebuttal testimony and schedules. Instead, UE at page 10 of its February 1, 1999 filing characterizes the schedule filed by Staff on February 1, 1999 as "the Staff proposal." Based on UE's February 1, 1999 filing, evidently the undersigned counsel for the Staff was mistaken as to what had occurred at the Prehearing Conference. The Staff makes note of this only to explain why the Staff characterized the procedural schedule that it filed on February 1, 1999 as mutually agreed upon, except for the matter of what parties would file direct, rebuttal and surrebuttal testimony. Even if there was no misunderstanding as to what had been agreed upon, the Staff would not seek to bind a party to a procedural schedule that the party thought better of at a not too distant later time. The Staff still supports the schedule that it filed on February 1, 1999.

2. In the main, UE's February 1, 1999 filing is in response to the Staff's and the Office of Public Counsel's ("Public Counsel") filings on December 3, 1998. UE took 59 days to respond to these filings. The December 3, 1998 Staff Response To Union Electric Company Request For Commission Guidance stands on its own, though the Staff respectfully requests that due to UE having taken two months to respond, the Commissioners and Regulatory Law Judge reacquaint themselves with the Staff's November 25, 1998 and December 3, 1998 filings. The Staff will not burden the record and repeat what is contained in those pleadings other than to note again that the Stipulation And Agreement approved by the Commission in Case No. ER-95-411 provides bases for challenging UE's calculation of a particular year's earnings credit other than on the basis of "manipulation" on the part of UE. In fact, in addition to the language cited in the Staff's prior pleadings, the "Reconciliation Procedure," which is "Attachment C" to the Case No. ER-95-411 Stipulation And Agreement, and which is referred to several times in UE's February 1, 1999 filing, contains the statement in item "2.g." that "UE/Staff/OPC reserve the

right to petition the Commission for resolution of disputed issues relating to the operation or implementation of this Plan.”

3. UE requests in its February 1, 1999 filing that the Commission set a procedural schedule that does not address the issues raised by the Staff in its November 25, 1998 Motion For Setting An Expedited Early Prehearing Conference and its December 3, 1998 Staff Response To Union Electric Company Request For Commission Guidance. UE wants to limit the proceedings to a determination by the Commission, on the basis of UE’s, the Staff’s and Public Counsel’s pleadings, that UE’s interpretation of the word “manipulation” as used in the Case No. ER-95-411 Stipulation And Agreement is correct, without UE having to address substantively, or even acknowledge, the issues raised by the Staff. In addition, UE asserts that the Commission should find as follows:

“the Company’s traditional accounting practices and other accounting policies in accordance with GAAP are not susceptible to Staff challenge or to Commission review” - UE’s February 1, 1999 Reply Or Request For An Order, pp. 8-9;

“existing accounting procedures in accordance with past practice and GAAP are not subject to Staff challenge or Commission review” – Id. at 11;

“existing accounting methods in accordance with past practice and GAAP are by definition reasonable and not subject to Staff challenge or Commission review” – Id. at 12;

“Where the Company’s accounting procedures are consistent not only with past practice, but also with generally accepted accounting principles (GAAP), as is the case here, those procedures are by definition reasonable – that is, not ‘manipulation’ both as a matter of common sense and within the meaning of the Stipulation.” – Id. at 1-2;

“Long-established accounting principles, in conformity with past practice and GAAP, are the proper standard.” – Id. at 3;

“GAAP is authoritative.” – Id. at 3;

“the Company’s existing accounting policies, which are in accordance with GAAP, prescribe the appropriate accounting methods. – Id. at 4-5;

“existing accounting policies in conformity with past practice and GAAP cannot constitute ‘manipulation’” - Id. at 9;

“existing accounting policies in conformity with settled practice and GAAP cannot constitute ‘manipulation’” – Id. at 10.

In the alternative, UE requests that the Commission approve the procedural schedule requested in UE’s February 1, 1999 response in order to allow UE “to develop a factual record on the narrow question of ‘manipulation’” without addressing the substantive issues raised by the Staff in its November 25, 1998 Motion For Setting An Expedited Early Prehearing Conference and its December 3, 1998 Staff Response To Union Electric Company Request For Commission Guidance. (UE’s February 1, 1999 Reply Or Request For An Order, pp. 10-12; UE’s GAAP and SEC arguments will be addressed below).

Thus, the procedural schedule that UE is requesting would not have the Commission address any of the following issues identified by the Staff in its various filings, but would have the Commission decide these issues strictly in an abstract manner. The areas in dispute are as follows:

Year 2000 (Y2K) Costs

Other Computer Costs

Merger Transaction Costs

Injuries and Damages Expense

Deferred Taxes

Decommissioning Trust Fund Deposits

Territorial Agreements

Advertising

Weather Normalization of Earnings Credits

4. As previously noted, UE took 59 days to respond to the Staff's and Public Counsel's December 3, 1998 pleadings. As a consequence, UE should not be permitted to delay the Commission from reaching the substantive issues. UE has benefited from delay and continues to benefit from delay in two ways: (i) no interest accrues on the third year earnings credit, which dollars UE has the use of until these dollars are credited to the bills of UE's customers, and (ii) no interest accrues on the rate reduction which in essence commenced as an accrual beginning September 1, 1998 (once the amount of the rate reduction is determined by the Commission, an accrual calculated on the basis of the rate reduction commencing September 1, 1998 will be credited to customers for usage starting September 1, 1998, and the rate reduction will continue on a going forward basis as a decrease in rates and charges based on a rate design yet to be determined).

5. The undersigned counsel stated in paragraph "2" at page 2 of the February 1, 1999 Staff Proposal Respecting Procedural Schedule that "this is the first time that the determination of a year's sharing credits is going to hearing, so there is no prior Commission practice to rely on." A further review of the record in the Southwestern Bell Telephone Company ("SWBT") experimental alternative regulation plan docket, Case No. TO-90-1, revealed that although each year of the plan ended in a settlement of SWBT's earnings sharing credit obligation without the necessity of a hearing, the Staff did file in 1994 an Identification Of Issues And Proposed Procedural Schedule, when it appeared that Commission resolution of various areas of disagreement would be necessary. Appended hereto, as Attachment 1, is the Staff's pleading, SWBT's Response, the Commission's Order Establishing Procedural Schedule and the Commission's Order Approving Stipulation And Agreement. In identifying the areas of disagreement, the Staff's pleading in the SWBT experimental alternative regulation docket did

not use the word "manipulation." The schedule proposed by the Staff, and not objected to by SWBT, was not comprised of two phases as is the schedule proposed in the present docket by UE. The schedule ordered adopted by the Commission in Case No. TO-90-1 provides for the Staff and the Office of the Public Counsel ("Public Counsel") to file direct and surrebuttal testimony and schedules and for SWBT to file only rebuttal testimony and schedules.

6. Regarding the Staff's own use of the word "manipulation" and the purported intended connotations of that word asserted by UE in its filings, the Staff would note that the Staff refers to its revenue requirement cost of service program as the "Exhibit Manipulation System (EMS)." Appended hereto, as Attachment 2, is the cover page, table of contents and first page of the Staff's EMS User's Manual, dated December 20, 1990.

7. Before addressing UE's generally accepted accounting principles ("GAAP") argument, the Staff believes that it would be instructive to review the effect on the Commission of the law or practice of two federal agencies, the Securities and Exchange Commission (SEC) and the Federal Energy Regulatory Commission (FERC). UE on at least one other occasion has attempted to use the SEC as the basis for arguing that certain treatment is required from the Commission. In State ex rel. Utility Consumers Council of Missouri, Inc. v. Public Serv. Comm'n, 562 S.W.2d 688, 696, cert. denied, 439 U.S. 866, 99 S.Ct. 192, 58 L.Ed.2d 177 (1978), the Court of Appeals, St. Louis District, noted that UE had objected in an evidentiary hearing to cross-examination on the specific amounts and the timing of future rate increases and projected net operating income, on the ground that public disclosure of the figures was precluded by the Securities Act of 1933, 15 U.S.C.A. Section 77e(c), in that UE had registered an issuance of securities with the SEC. The Commission sustained the objection. The Court of Appeals held that the Commission erred in sustaining the objection. Id. at 696, 694.

8. The Staff believes that it would be instructive also to review the effect of the Commission's adoption of the FERC's Uniform System of Accounts ("USOA"). Section 393.140(4) RSMo 1994 provides that the Commission has power, in its discretion, to prescribe uniform methods of keeping accounts, records and books, and prescribe, by Order, forms of accounts, records and memoranda to be kept by electrical corporations engaged in the manufacture, sale or distribution of electricity for light, heat or power. The "purpose" clause of 4 CSR 240-20.030 Uniform System of Accounts – Electrical Corporations states as follows:

This rule directs electrical corporations within the commission's jurisdiction to use the uniform system of accounts prescribed by the Federal Energy Regulatory Commission for major electric utilities and licensees, as modified here . . .

Even though the Commission has adopted the FERC uniform system of accounts for recordkeeping, it has not adopted the FERC uniform system of accounts for ratemaking, as evidenced by 4 CSR 240-20.030(4), which states in part as follows:

In prescribing this system of accounts, the commission does not commit itself to the approval or acceptance of any item set out in any account for the purpose of fixing rates or in determining other matters before the commission. . . .

9. UE contends in its February 1, 1999 filing that the Stipulation And Agreement approved by the Commission in Case No. ER-95-411 and the Reconciliation Procedure, which is Attachment C to that Stipulation And Agreement, bind the parties and the Commission to GAAP, which UE further argues is required by the regulations of the SEC. First, it should be noted that there is no reference to either GAAP or the SEC in either the Stipulation And Agreement approved by the Commission in Case No. ER-95-411 or the Reconciliation Procedure which is Attachment C to that Stipulation And Agreement.

Second, it should be commented that, in general, the Commission has not limited itself to generally accepted accounting principles for either regulatory accounting or ratemaking

purposes. Accounting standards are not necessarily the same for regulated and unregulated enterprises. Regulatory accounting, i.e., accounting for regulated enterprises, and financial accounting, i.e., accounting for unregulated enterprises, are different. Accounting standards for regulated enterprises generally are set by the Statement of Financial Accounting Standards No. 71, Accounting For The Effects Of Certain Types Of Regulation ("SFAS 71"). SFAS 71 is a component of generally accepted accounting principles, which, in general, establishes what are generally accepted accounting principles for regulated enterprises. SFAS 71 specifies, for regulated enterprises, under what circumstances regulated enterprises may account for costs in a different manner than unregulated entities, due to the regulatory ratemaking process. The differences between regulatory accounting and unregulated financial accounting are made clear by Paragraphs 4 and 7 of SFAS 71, which state, in relevant part, as follows:

4. Accounting requirements that are not directly related to the economic effects of rate actions may be imposed on regulated businesses by orders of regulatory authorities and occasionally by court decisions or statutes. This does not necessarily mean that those accounting requirements conform with generally accepted accounting principles. For example, a regulatory authority may order an enterprise to capitalize and amortize a cost that would be charged to income currently by an unregulated enterprise. Unless capitalization of that cost is appropriate under this Statement, generally accepted accounting principles require the regulated enterprise to charge the cost to income currently.

7. Authoritative accounting pronouncements that apply to enterprises in general also apply to regulated enterprises. However, enterprises subject to this Statement shall apply it instead of any conflicting provisions of standards in other authoritative pronouncements.⁴

Footnote 4. For example, a regulator might authorize a regulated enterprise to incur a major research and development cost because the cost is expected to benefit future customers. The regulator might also direct that cost to be capitalized and amortized as an allowable cost over the period of expected benefit. If the criteria of paragraph 9 of this Statement were met, the enterprise would capitalize the cost even though FASB Statement No. 2, *Accounting for Research and Development Costs*, requires such costs to

be charged to income currently. Statement 2 would still apply to accounting for other research and development costs of the regulated enterprise, as would the disclosure requirements of Statement 2.

10. UE's Form 10-K filed with the SEC for the fiscal year ended December 31, 1997 notes at page 21 the difference in regulatory and financial accounting:

The Company's accounting policies and financial statements conform to GAAP applicable to rate-regulated enterprises and reflect the effects of the ratemaking process in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." Such effects concern mainly the time at which various items enter into the determination of net income in order to follow the principle of matching costs and revenues. For example, SFAS 71 allows the Company to record certain assets and liabilities (regulatory assets and regulatory liabilities) which are expected to be recovered or settled in future rates and would not be recorded under GAAP for nonregulated entities. In addition, reporting under SFAS 71 allows companies whose service obligations and prices are regulated to maintain assets on their balance sheets representing costs they reasonably expect to recover from customers, through inclusion of such costs in future rates.

11. Two examples follow of instances where predecessors of this Commission have determined not to adopt GAAP applicable to unregulated enterprises. One example is that previous Commissions have chosen a financial test as the basis for the decision whether a utility should be permitted normalization of income taxes, which is GAAP treatment applicable to unregulated enterprises, rather than flow through of income taxes, which is non-GAAP treatment. In Re Southwestern Bell Telephone Co., Case No. TR-81-208, et al., Report And Order, 24 Mo.P.S.C.(N.S.) 606, 629-31 (1981), the Commission explained as follows:

SWB and Staff disagree as to the appropriate ratemaking treatment of certain tax timing differences. Specifically, SWB proposes normalization treatment of the tax timing differences related to the Company's vacation costs and cost of removal and salvage. . . . When tax-timing differences are normalized [sic] the company involved receives currently the benefit of the related tax deduction, but is permitted, for ratemaking purposes, to spread the savings effect of the tax deduction over the life of the asset involved. The Staff proposes that the tax timing differences . . . be accorded flow through treatment for ratemaking purposes. . . .

SWB contends that normalization of such tax timing differences is consistent with generally accepted accounting principles in that such treatment

matches the ultimate income tax effect with the related item of income or expense, and records both in the same accounting period, while flow through treatment reflects in income tax expense only the current period tax liability. . . .

. . . According to the Staff, the Company's request for normalization of the tax timing benefits involved is based upon the desire to improve its cash flow rather than a concern for consistency with generally accepted accounting principles. . . .

. . . [T]he Commission has utilized a "cash flow test" for determining whether normalization treatment should be authorized for particular utilities. See Re: Missouri Public Service Company, Case No. 18,502E (1976). Accordingly, the Commission has held that normalization treatment should be authorized only upon a showing that the subject utility is experiencing significant cash flow problems. This cash flow test has been consistently applied by the Commission over recent years, including in SWB's most recent contested rate case in Missouri, and has been reaffirmed in several Commission cases decided in recent months. Re: Southwestern Bell Telephone Company, Case No. TR-79-213, et al. (1979); Re: United Telephone Company, Case No. TR-80-235, et al. (1981); Re: St. Joseph Light & Power Company, Case No. ER-81-43, et al. (1981); and Re: The Gas Service Company, Case No. GR-81-155 (1981). . . [T]he Commission reaffirms its acceptance of the cash flow test, and said test should be applied in the instant case.

A second example of a Commission decision not to adopt GAAP relates to Financial Accounting Standard No. 106 ("FAS 106"). In Re United Telephone Co. of Missouri, Case Nos. TR-91-103 and TO-93-309, Report And Order, 2 Mo.P.S.C.3d 403, 421-24 (1993), the Commission rejected the accrual method of accounting for other post retirement employee benefits ("OPEBs") stating as follows regarding FAS 106:

In 1990, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard No. 106 (FAS 106) concerning the accounting treatment and financial reporting of OPEB costs. FAS 106 states that the accrual method of accounting should be used for OPEB costs for financial reporting purposes for most entities, beginning January 1, 1993. In addition, and in supplementation of FAS 106, the emerging issues task force [EITF] of the FASB created several standards interpreting FAS 106 and providing for its implementation. . . .

It is UTM's [United Telephone of Missouri] position, as supported by intervenors SWBT and GTE, that all FASB pronouncements are considered part of the generally accepted accounting principles (GAAP) currently in use by both

the regulated utilities and the Commission. UTM is of the opinion that the Commission is obliged to accept FAS 106 as part and parcel of the GAAP standards. UTM proposes, as set out above and suggested by the EITF, a 20-year phase-in of prior costs, [transitional benefit obligation] (TBO), and a full recovery of current costs.

UTM maintains that the use of GAAP standards are required by the Securities and Exchange Commission in conjunction with the external auditing of investor-owned companies. UTM states that failure to receive a "clean" external audit can result in a lowering of the companies' financial rating and, therefore, a loss of ability to raise both equity and debt capital.

. . . [A]s the result of action by the FAS Board, which is associated with, but not a direct agency of the Securities and Exchange Commission, an attempt is being made to force employers to account for accrued, rather than pay-as-you-go, OPEB benefits. It might be noted that the FAS Board does not act with the force of law, either at a federal or state level. . . .

. . . The Commission believes that allowing the FAS Board to dictate such a profound effect in rates, and in the balance maintained by the Commission between the ratepayer and the utility through the ratemaking process, without the benefit of the due process normally accorded both the company and the ratepayer in Missouri would usurp the powers and duties of the Commission and violate the clear mandate of the people of the state in giving this Commission its responsibility. The FAS Board is neither elected by nor representative of any constituency. It is the opinion of this Commission that, to allow such a body to simply dictate a rate outcome so far-reaching and expensive to the citizens of Missouri, could well be characterized as an abrogation by the Commission of the public trust placed in it. This is wholly unacceptable to this Commission.

(See Section 386.315 RSMo 1994, Laws Missouri 1994, H.B. 1405; Commission recognition of FAS 106 treatment is required under certain conditions).

12. Based on the above discussion, it should be clear that UE's interpretation of the Stipulation And Agreement approved by the Commission in Case No. ER-95-411 as binding the Commission and the signatories to the use of GAAP in calculating credit amounts is a major departure from past Commission practice in setting utility rates. There is no support for a contention that this is what the Staff or the Commission intended to agree to, or did agree to.

Neither the Staff nor the Commission has limited itself to GAAP for regulatory accounting or ratemaking.

13. UE in its February 1, 1999 pleading characterizes as a virtue its change in accounting policies concerning computer software costs to track the change in GAAP, and chastises the Staff's mere mention of the change in GAAP from expensing such costs to the Staff's proposed capitalization of such costs. UE in fact charges the Staff at page 3 of its February 1, 1999 filing with "manipulating numbers and avoiding truly neutral accounting practices." To the contrary, it is the Staff that is maintaining a consistent position. The Staff notes in its November 25, 1998 Motion For Setting An Expedited Early Prehearing Conference, at page 2 of Attachment 1, "that GAAP appears to be moving to the same position that the Staff is recommending, i.e., capitalization of computer software costs."

14. UE in its February 1, 1999 filing quotes from the rebuttal testimony of Staff accountant Mark L. Oligschlaeger on incentive regulation in Case No. ER-97-394, et al., the 1997 rate case of Missouri Public Service, a Division of UtiliCorp United, Inc. The sentence in Mr. Oligschlaeger's rebuttal testimony preceding the sentence quoted by UE is necessary in order to put the sentence quoted by UE in context. That sentence states as follows:


Sliding-scale incentive regulation should be thought of as a surrogate for traditional regulation, in that it can lead to rate changes or the issuance of rate credits to customers without the time and personnel needs of a full-blown traditional rate case, and ideally without the same degree of an adversarial relationship between the parties. . . .

(Oligschlaeger, Rebuttal Testimony, p. 5, Case No. ER-97-394, et al.) Clearly, Mr. Oligschlaeger did not indicate that up-front agreement on monitoring and the calculation of earnings could or would eliminate (i) the possibility of disagreements arising or (ii) the need for Commission proceedings to resolve disputes that do arise.

Wherefore the Staff requests that the Commission adopt the procedural schedule contained in the Staff Proposal Respecting Procedural Schedule filed on February 1, 1999 in the instant docket.

Respectfully submitted,

DANA K. JOYCE
General Counsel



Steven Dottheim
Chief Deputy General Counsel
Missouri Bar No. 29149

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-7489 (Telephone)
(573) 751-9285 (Fax)

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 17th day of February, 1999.



FILED

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

JUN 15 1994

MISSOURI
PUBLIC SERVICE COMMISSION

In the matter of an incentive)
plan for Southwestern Bell)
Telephone Company)

Case No. TO-90-1

IDENTIFICATION OF ISSUES AND PROPOSED PROCEDURAL SCHEDULE

Come now the Staff of the Missouri Public Service Commission (Staff) and the Office of the Public Counsel (Public Counsel) and respectfully state as follows:

1. The Staff and Public Counsel have identified the following areas of disagreement with the final 1993 earnings sharing reports filed by Southwestern Bell Telephone Company (SWBT):

- Financial Accounting Standard (FAS) 112
- 1993 Flood Costs
- Kansas City Data Center
- FAS 106
- Net Restructuring Costs
- 1993 TEAM Award
- Stock Value II/Sharing Plan II
- KC Market Area Assignment
- Deregulated Services Costs
- Sales-Salaries/Wages
- Contracted Services & Consulting Fees
- Material Overruns for Operational Projects
- Interest Component of IDC
- Income Taxes-Cost of Removal/Salvage

It is the understanding of the Staff and Public Counsel that only these items are to be considered as "issues" subject to Commission resolution for purposes of the 1993 credit calculations.

2. The Staff and Public Counsel propose the following procedural schedule to facilitate the Commission's resolution of the above:

Direct Testimony and Schedules of the Staff and Public Counsel---September 16, 1994

Rebuttal Testimony and Schedules of Southwestern Bell Telephone Company---October 14, 1994

Surrebuttal Testimony and Schedules of the Staff and Public Counsel---October 28, 1994

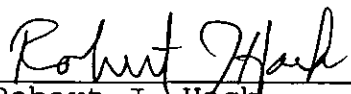
Hearing Memorandum---November 2, 1994

Cross-examination---November 9-11, 1994

Although the Staff and Public Counsel would prefer to resolve this matter more quickly, barring timely settlement of Case No. GR-94-220, pre-existing scheduling commitments prevent the Staff personnel assigned to this docket from adequately addressing this matter any sooner than the schedule shown above.

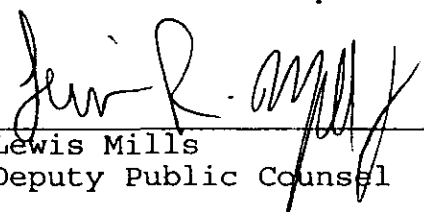
Wherefore, the Staff and Public Counsel respectfully request that the Commission set this matter for hearing in accordance with the proposed procedural schedule set forth in paragraph 2.

Respectfully submitted,



Robert J. Hack
General Counsel

Attorney for the Staff of the
Missouri Public Service
Commission
P. O. Box 360
Jefferson City, MO 65102
(314) 751-8705



Lewis Mills
Deputy Public Counsel

Attorney for the Office of
the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102
(314) 751-1304

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered this date to all parties of record on this 15th day of June, 1994.

Robert J. Auld

Service List For Case No. TO-90-1

Randy Bakewell
Assistant Public Counsel
P.O. Box 7800
Jefferson City MO 65102

W.R. England, III
Attorney at Law
P.O. Box 456
Jefferson City MO 65102

Katherine C. Swaller
Attorney at Law
100 N. Tucker Blvd.,
Rm. 630
St. Louis MO 63101

Thomas A. Grimaldi
Senior Attorney
5454 W. 110th St.
Overland Park KS 66211

Paul S. DeFord
Attorney at Law
2345 Grand Avenue
Suite 2600
Kansas City MO 64108

Jeremiah D. Finnegan
Attorney at Law
1209 Penntower Bldg.
3100 Broadway
Kansas City MO 64111

Richard S. Brownlee
Attorney at Law
235 East High Street
P.O. Box 1069
Jefferson City MO 65102

William M. Barvick
Attorney at Law
240 East High St.,
Suite 202
Jefferson City MO 65102

Carl J. Lumley
Attorney at Law
130 South Bemiston
Suite 200
Clayton MO 63105

Service List For Case No. TO-90-1

Randy Bakewell
Assistant Public Counsel
P.O. Box 7800
Jefferson City MO 65102

W.R. England, III
Attorney at Law
P.O. Box 456
Jefferson City MO 65102

Katherine C. Swaller
Attorney at Law
100 N. Tucker Blvd.,
Rm. 630
St. Louis MO 63101

Thomas A. Grimaldi
Senior Attorney
5454 W. 110th St.
Overland Park KS 66211

Paul S. DeFord
Attorney at Law
2345 Grand Avenue
Suite 2600
Kansas City MO 64108

Jeremiah D. Finnegan
Attorney at Law
1209 Penntower Bldg.
3100 Broadway
Kansas City MO 64111

Richard S. Brownlee
Attorney at Law
235 East High Street
P.O. Box 1069
Jefferson City MO 65102

William M. Barvick
Attorney at Law
240 East High St.,
Suite 202
Jefferson City MO 65102

Carl J. Lumley
Attorney at Law
130 South Bemiston
Suite 200
Clayton MO 63105

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED

JUN 23 1994

In the matter of an incentive)
plan for Southwestern Bell)
Telephone Company.)

MISSOURI
PUBLIC SERVICE COMMISSION
Case No. 8806

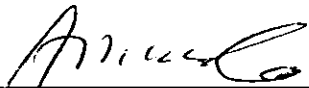
SOUTHWESTERN BELL TELEPHONE COMPANY'S
RESPONSE TO PROPOSED PROCEDURAL SCHEDULE

1. Southwestern Bell's only specific comment on the procedural schedule proposed by the Staff and Office of Public Counsel (OPC) is that the Commission should consider establishing November 4 instead of November 2 as the deadline for the Hearing Memorandum. Because Staff and OPC surrebuttal will not be filed until October 28 under the proposed schedule, a November 2 deadline might not provide enough time to finalize the Hearing Memorandum.

2. In the meantime, discussions regarding the issues identified by Staff and OPC could take place to determine if any or all of these issues could be resolved by agreement in advance of the proposed schedule.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

By 
ALFRED G. RICHTER, JR.
ANN E. MEULEMAN
KATHERINE C. SWALLER
Attorneys for Southwestern Bell
Telephone Company
100 N. Tucker, Room 630
St. Louis, Missouri 63101-1976
314-247-5224

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing document were served upon all parties of record as indicated on the attached service list, by first-class postage prepaid, U.S. Mail.

Dated at St. Louis, Missouri, the 22 day of June,
1994.



Alfred G. Richter, Jr.

PAUL S. DEFORD
ATTORNEY AT LAW
2345 GRAND AVENUE
SUITE 2600
KANSAS CITY, MO 64108

WILLIAM R. ENGLAND
BRYDON, SWEARENGEN &
ENGLAND P.C.
312 E. CAPITOL AVENUE
P.O. BOX 456
JEFFERSON CITY, MO 65102

WILLIAM M. BARVICK
ATTORNEY AT LAW
240 E. HIGH STREET
JEFFERSON CITY, MO 65101-1280

EDWARD J. CADIEUX
MCI TELECOMMUNICATIONS
CORP.
100 S. FOURTH STREET
SUITE 200
ST. LOUIS, MO 63102

RANDY BAKEWELL
OFFICE OF THE PUBLIC COUNSEL
HARRY S. TRUMAN BUILDING
P.O. BOX 7800
JEFFERSON CITY, MO 65102

JEREMIAH D. FINNEGAN
ATTORNEY AT LAW
1209 PENNTOWER BUILDING
3100 BROADWAY
KANSAS CITY, MO 64111

ROBERT HACK
GENERAL COUNSEL
MISSOURI PUBLIC SERVICE
COMMISSION
P.O. BOX 360
JEFFERSON CITY, MO 65102

RICHARD S. BROWNLEE, III
HENDREN & ANDRAE
235 E. HIGH STREET
P.O. BOX 1069
JEFFERSON CITY, MO 65102

LELAND B. CURTIS
CARL J. LUMLEY
CURTIS, OETTING, HEINZ,
GARRETT & SOULE, P.C.
130 SOUTH BEMISTON, SUITE 200
ST. LOUIS, MO 63105

JULIE D. NELSON
ATTORNEY AT LAW
AT&T COMMUNICATIONS OF
THE SOUTHWEST, INC.
8911 CAPITOL OF TEXAS ST.
HIGHWAY
SUITE 1300
AUSTIN, TX 78759

THOMAS GRIMALDI
UNITED TELEPHONE COMPANY OF
MIDWEST
5454 WEST 110TH ST.
OVERLAND PARK, KS 66211

JAMES C. STROO
GTE TELEPHONE OPERATIONS
CENTRAL AREA
1000 GTE DRIVE
P.O. BOX 307
WENTZVILLE, MO 63385

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held at its office
in Jefferson City on the 29th
day of June, 1994.

In the matter of an incentive plan for Southwestern)
Bell Telephone Company.) Case No. TO-90-1
)

ORDER ESTABLISHING PROCEDURAL SCHEDULE

On April 15, 1994, Southwestern Bell Telephone Company (SWB) filed its earnings sharing report for the final year of the Incentive Regulation Plan, and the report indicates that no customer credits are due for 1993. On June 15, 1994, Commission Staff and the Office of Public Counsel (OPC) filed a letter stating their position on customer credits. In the letter Staff and OPC list the areas of disagreement with SWB's report and propose a procedural schedule to address these areas. Staff and OPC indicate they believe credits are due customers. SWB filed a response suggesting another date for the hearing memorandum to be filed.

The Commission has considered SWB's report and Staff's and OPC's letter and finds that a procedural schedule should be adopted so the parties can present their evidence concerning the areas of disagreement as listed in Staff's and OPC's letter. Due to scheduling conflicts, the Commission will move the hearing dates from their proposed dates to November 21, 22 and 23, 1994. The hearing memorandum date will also be moved as proposed by SWB.

IT IS THEREFORE ORDERED:

1. That the following procedural schedule be hereby adopted for this case:

Staff and OPC direct testimony	September 16, 1994
SWB rebuttal testimony	October 14, 1994
Staff and OPC surrebuttal testimony	October 28, 1994
Hearing memorandum	November 4, 1994
Hearing	November 21, 22 and 23, 1994

The hearing will commence at 10:00 a.m. and will be held in the Commission's hearing room on Floor 5A of the Harry S Truman State Office Building, 301 West High Street, Jefferson City, Missouri. Any person with special needs as addressed by the Americans with Disabilities Act shall notify the Chief Hearing Examiner (314/751-7497) at least ten (10) days prior to the hearings.

2. That this order shall become effective on the date hereof.

BY THE COMMISSION



David L. Rauch
Executive Secretary

(S E A L)

Mueller, Chm., McClure and
Perkins, CC., concur.
Crumpton, C., not participating.
Kincheloe, C., absent.

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held at its office
in Jefferson City on the 19th
day of October, 1994.

In the matter of an incentive plan for Southwestern)
Bell Telephone Company.) Case No. TO-90-1
)

ORDER APPROVING STIPULATION AND AGREEMENT

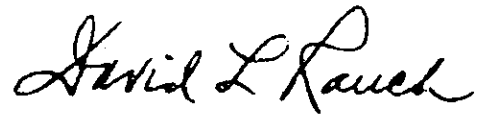
On August 31, 1994, Commission Staff, the Office of Public Counsel and Southwestern Bell Telephone Company (SWB) filed a Stipulation And Agreement (Stipulation) in this case which reflected an agreement among these three parties that SWB customers are entitled to certain one-time credits as a result of SWB's 1993 earnings levels. These credits are due pursuant to the terms of the extension for one year of the Incentive Regulation Plan approved by the Commission. The agreement reflects that customers will receive one-time credits totaling \$10 million as a settlement of all issues involving the 1993 earnings of SWB. The agreement was made contingent on the resolution of the appeals of Case No. TC-93-224. On October 5, 1994, the three parties filed a motion requesting the Commission issue an order by October 14, 1994, approving the Stipulation since no other party opposed the Stipulation.

The Commission has reviewed the Stipulation and the original positions of the parties and finds that the Stipulation is reasonable and should be approved. No party opposed the Stipulation. These one-time credits to customers reflect the earnings of SWB during 1993 as agreed to by the three signatory parties. 1993 is the last year of the plan and the issuance of these credits will conclude the experiment in alternative regulation.

IT IS THEREFORE ORDERED:

1. That the Stipulation And Agreement filed by Commission Staff, Office of Public Counsel and Southwestern Bell Telephone Company is hereby approved.
2. That Southwestern Bell Telephone Company shall issue one-time credits to customers of Ten Million Dollars (\$10,000,000) in accordance with the terms of the Incentive Regulation Plan and Stipulation And Agreement approved by the Commission in ordered paragraph 1.
3. That this docket will be closed on the effective date of this order.
4. That this order shall become effective on the 25th day of October, 1994.

BY THE COMMISSION



**David L. Rauch
Executive Secretary**

(S E A L)

Mueller, Chm., McClure, Perkins,
and Kincheloe, CC., concur.
Crumpton, C., not participating.

EMS

Exhibit Manipulation System

Missouri Public Service Commission
Accounting Department

User's Manual

Version 1.00

20-Dec-90

Table of Contents

Introduction	2
General Information	2
Starting and Ending EMS.	2
Backing Up Your Data.	3
Commonly Used Keys	4
Menu Selections	4
EMS Version Number	4
Main Menu	5
Create New Case	6
Copy a Case	8
Select Case to Work With.	10
Editing Data.	11
Adding Detail Records	13
Deleting Detail Records	15
Updating Detail Records	15
Add a Section	16
Delete a Section	16
Change Section Title	17
Move a Section	17
Calculation & Printing	18
Display & Printer Options	19
Delete a Case.	20
Central File	20
Rate Base	26
Income Statement	27
Total Plant	28
Depreciation Reserve	30
Income Tax	31
Cash Working Capital	32
Tax Rate Tables	34
Adjustments	35

I. Introduction

The Exhibit Manipulation System (hereafter EMS) was originally developed in 1979 to aid the PSC auditors in the preparation and presentation of a rate case. Now, EMS has been redeveloped to take advantage of the Personal Computers in place at the PSC. EMS is ideally suited for the PC for several reasons:

- * The volume of data is relatively small and does not need to be shared across a computer network.
- * Personal Computers provide the computing power in the field avoiding the need to communicate with a mainframe.
- * Schedules can be immediately calculated and printed locally avoiding distribution problems.

EMS has been written in Clipper which is a language based on the dBase. Clipper transforms the code into a machine executable form which runs much faster than straight dBase. Additionally, dBase does not need to be installed on each machine using EMS.

EMS supports the following accounting schedules and tables:

Income Tax	Cash Working Capital
Rate Base	Depreciation Expense
Depreciation Reserve	Revenue Requirement
Total Plant	Income Statement
Adjustments to Income Statement	Adjustments to Total Plant
Adjustments to Depreciation Reserve	Federal Tax Rate Table
State Tax Rate Table	

EMS supports all of the printers at PSC including Okidata, IBM, HP and CItch. The user may choose various paper sizes as well. EMS automatically adjusts the pitch and lines per page to fit the selected paper.

Note: Once data is entered which replaces other information, the old data is gone. This program is disk intensive. Do not be alarmed because data is constantly being "read from" and "written to" the disk.

II. General Information

This section contains information common throughout EMS.

1) Starting and Ending EMS.

To begin an EMS session, power up your PC in the normal fashion. Be sure to enter the correct date and time. EMS will use the system date and time on screens as well as all printouts. Once the PC Main Menu is displayed choose "Exhibit Manipulation System" and the program will load. When the EMS Main Menu appears you are ready begin working.

**SERVICE LIST FOR
CASE NOS. EM-96-149
Revised: February 11, 1999**

John B. Coffman
Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

Richard S. Brownlee, III
Hendren and Andrae
P.O. Box 1069
Jefferson City, MO 65102

Gary W. Duffy/Sandra Morgan
Brydon, Swearingen & England P.C.
312 East. Capitol Ave.
P.O. Box 456
Jefferson City, MO 65102-0456

Diana M. Schmidt
Bryan Cave LLP
211 North Broadway, Suite 3600
St. Louis, MO 63102-2750

James M. Fischer
Attorney at Law
101 W. McCarty Street, Suite 215
Jefferson City, MO 65101

Paul S. DeFord
Lanthrop & Norquist, L.C.,
2345 Grand Blvd., Suite 2500
Kansas City, MO 64108

**James J. Cook, William J. Niehoff,
Joseph H. Raybuck**
Union Electric Company
P.O. Box 149 (M/C 1310)
St. Louis, MO 63166

Daryl R. Hylton,
Office of the Attorney General
221 W. High Street, P.O. Box 899
Jefferson City, MO 65102

Brent Stewart
Stewart & Keevil
1001 Cherry Street, Suite 302
Columbia, MO 65201

Marilyn S. Teitelbaum
Schuchat, Cook & Werner
1221 Locust Street, 2nd Floor
St. Louis, MO 63103-2364

James C. Swearingen/Paul Boudreau
Brydon, Swearingen & England
P.O. Box 456, 312 East Capital Ave.
Jefferson City, MO 65102-0456

Robert C. Johnson
720 Olive Street, 24th Floor
St. Louis, MO 63101

Michael C. Pendergast,
Thomas M. Byrne
Laclede Gas Company
720 Olive Street, Room 1520
St. Louis, MO 63101

Robin E. Fulton
Schnapp, Fulton, Fall, McNamara
& Silvey L.L.C.
135 E. Main Street, Box 151
Fredericktown, MO 63645-0151

William G. Riggins
Kansas City Power & Light Company
1201 Walnut Street
P. O. Box 418679
Kansas City, MO 64141-9679

Sam Overfelt
618 E. Capital Ave.,
P.O. Box 1336
Jefferson City, MO 65102

**ADDITIONAL COUNSEL FOR
CASE NO. EO-96-15
SERVICE LIST**

Paul H. Gardner
Goller, Gardner & Feather
131 W. High Street
Jefferson City, MO 65101

Ronald Molteni/Mark E. Long
Office of the Attorney General
P.O. Box 899
Jefferson City, MO 65102