

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

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

ERRATUM

The Commission hereby corrects the sharing grid which appears on page 2 of its Order Granting Interventions And Approving Joint Recommendation issued in the above captioned docket on March 15, 1991. The correct sharing grid is as follows:

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

BY THE COMMISSION

*Brent Stewart*

Brent Stewart  
Executive Secretary

(S E A L)

Dated at Jefferson City, Missouri,  
on this 19th day of March, 1991.

Exhibit No. 22  
Date 6-1-99 Case No. EO-90-14  
Reporter JK

29.

STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

At a session of the Public Service  
Commission held at its office  
in Jefferson City on the 15th  
day of March, 1991.

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

ORDER GRANTING INTERVENTIONS AND APPROVING JOINT RECOMMENDATION

On June 20, 1989 the Commission issued an order in Cases No. TC-89-14, et al., establishing this docket to receive an incentive plan proposal for Southwestern Bell Telephone Company (SWB). The order established certain criteria for development of the plan. By order issued July 11, 1989, the Commission denied all applications to intervene as premature, indicating that the development of the plan should first be addressed by Commission Staff, SWB and Public Counsel. On October 2, 1989, the Commission suspended the procedural schedule in this case indefinitely.

On March 7, 1991 a Joint Recommendation To Approve Revised Incentive Regulation Experiment For Southwestern Bell Telephone Company and a Joint Motion For Expedited Consideration was filed by Southwestern Bell Telephone Company, Public Counsel, MCI Telecommunications Corporation, Telecom \* USA, Teleconnect Long Distance Services and Systems, Inc., Teleconnect Company, American Communications, Inc., AT&T Communications of the Southwest, Inc., the City of Oak Grove, 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., GTE North Incorporated, United Telephone Company of Missouri, US Sprint Communications Company Limited Partnership, and Commission Staff. The motion requested (1) expedited consideration of the Joint Recommendation filed simultaneously with

the Joint Motion; (2) that Commission consideration of the Joint Recommendation be posted on the agenda for five days; and (3) any order issued have a ten-day effective date. The signatories to the motion also requested the Commission approve specifically paragraph 8 of the Joint Recommendation if it approves the settlement.

The Joint Recommendation, attached to this order as Attachment A and incorporated herein by reference, proposes to resolve litigation concerning Cases No. TC-89-14, et al., and would establish an incentive plan for SWB. The settlement of the litigation would provide for the dismissal of all appeals related to TC-89-14, et al., as well as provide for the distribution of certain moneys paid into the Circuit Court of Cole County during the appeal process.

The proposed incentive plan would be for three years beginning January 1, 1990 and ending December 31, 1992. The incentive plan establishes a sharing grid which requires SWB to share earnings with its customers, including access customers (customers of switched access, special access and billing and collection services), based upon SWB's return on equity (ROE). The sharing grid is:

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

Under the settlement SWB agrees to continue with the modernization of its facilities to (1) replace all of its electromechanical switches and N-carrier interoffice facilities in Missouri by December 31, 1992; and (2) upgrade all customer service from multiparty to one-party service and eliminate its multiparty service offering by December 31, 1997.

As part of the Joint Recommendation SWB would not file a general rate proceeding to increase rates during the three years of the incentive plan unless its ROE falls below 12.61 percent. Staff and Public Counsel have agreed they will not file a complaint concerning SWB rates during this same period. At the end of the three-year period SWB, Staff and Public Counsel will review whether to recommend that the incentive plan be renewed, and if so, under what conditions.

Paragraph 8 of the Joint Recommendations states:

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*.

The Commission has considered the Joint Recommendation and finds that it is reasonable. The Joint Recommendation will end the appeals which originated from the Commission's decision on June 20, 1989, and will reaffirm the Commission's decision to approve an incentive regulation plan for SWB. The sharing grid established in the Joint Recommendation is similar to one approved by the Commission in a prior settlement concerning appeals of TC-89-14, et al. Two differences are the ROE below which SWB may file for a general rate increase and the ROE above which SWB will return all earnings to customers. The approval of this Joint Recommendation will ensure that the benefits from that earlier agreement will continue and that the benefits flow to all SWB customers.

The Commission has considered the condition agreed to by the parties in paragraph 8 of the Joint Recommendation. The Commission understands that this condition is an essential part of the agreement and finds the condition is

reasonable. The Commission has given expeditious treatment to the Joint Recommendation to facilitate the meeting of that condition.

Applications to intervene have been filed by Competitive Telecommunications Association of Missouri, MCI Telecommunications Corporation, Telecom \* USA, Teleconnect Long Distance Services and Systems, Inc., and AT&T Communications of the Southwest, Inc. The Commission will grant intervention to these companies. Other applications to intervene were filed but were subsequently withdrawn.

IT IS THEREFORE ORDERED:

1. That the Joint Recommendation filed on March 7, 1991 be hereby adopted.
2. That the Joint Recommendation adopted in ordered paragraph 1 is subject to the condition as specifically set forth in paragraph 8 of the Joint Recommendation.
3. That Competitive Telecommunications Association of Missouri, MCI Telecommunications Corporation, Telecom \* USA, Teleconnect Long Distance Services and Systems, Inc., and AT&T Communications of the Southwest, Inc., be hereby granted intervention in this case.
4. That this order shall become effective on the 26th day of March, 1991.

BY THE COMMISSION

*Brent Stewart*

Brent Stewart  
Executive Secretary

(S E A L)

Steinmeier, Chm., Mueller, Rauch,  
McClure and Letsch-Roderique, CC.,  
concur.

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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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:

Earnings LevelSharing Percentages

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<sup>1</sup>

50% Customer, 50% company

Above 17.25% ROE cap<sup>1</sup>

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).

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<sup>1</sup> 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 X Credits	<hr/>	Amount to be = Distributed to that Access Customer <sup>2</sup>
	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.

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<sup>2</sup> 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

COMPTTEL 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]

APPENDIX A

## SETTLEMENT AGREEMENT

On June 20, 1989, the Missouri Public Service Commission (Commission) issued its Report and Order in Case Nos. TC-89-14, et al., wherein the Commission ordered Southwestern Bell Telephone Company (Company or Southwestern Bell) to reduce its intrastate revenues in the amount of \$101,323,000, effective July 1, 1989. On June 23, 1989, the Company filed a Motion to Stay the effect of said order which was denied by the Commission on June 30, 1989. On June 30, 1989, in Case No. CV189-740cc, the Cole County Circuit Court issued a Temporary Restraining Order staying the implementation of the Company's tariffs implementing the rate reduction. The Company and the Office of the Public Counsel (OPC) filed their respective Applications for a Writ of Review on July 21, 1989. On September 5, 1989, in Case Nos. CV189-0808cc et al. (the consolidation of the Company's and OPC's appeals), the Cole County Court issued a stay of the Commission's Order pending the outcome of the appeals.

Because of concerns regarding a costly and extensive delay in the implementation of rate reductions to the Company's customers and the potential for an extensive delay in the modernization of the Company's network; and in an effort to provide the Company shareholders with a potential for growth and the ability to share the resulting growth in earnings with customers, the parties have discussed the possible compromise of the litigation of Case Nos. TC-89-14, et al. As a result of these discussions, the parties have also agreed upon an experimental plan to adjust Southwestern Bell earnings in the future, as a part of the settlement of Case Nos. TC-89-14, et al. As a result of these discussions, the signatory parties agree as follows:

- 1) After execution of this Settlement Agreement by the Commission, OPC and Company, Southwestern Bell will reduce its intrastate revenues prospectively on an annual basis by \$82.019 Million, as described in Attachment 1 to this Agreement. Tariffs effecting this rate reduction will be filed by the Company within five working days after signature of this Settlement Agreement by the parties, showing an effective date of October 1, 1989. The Commission hereby agrees to approve these tariffs without suspension and to allow them to become effective on less than 30 days notice, provided those tariffs produce rates consistent with this Settlement Agreement and the rate design outlined in Attachment 1. A notice to customers regarding the rate reduction shall be included with the first bill to customers following execution of this Settlement Agreement.
- 2) Additionally, to satisfy all refund obligations imposed on Southwestern Bell as a result of the Temporary Restraining

Order and Stay of the Commission's Report and Order in Case Nos. TC-89-14 et al., the parties agree that Southwestern Bell will issue a one-time credit to the bills of customers, in a total amount of \$20,749,000, (which includes an annual interest rate of nine (9) percent), during the October billing cycle. This credit will be distributed among customers on local exchange service access lines consistent with existing local exchange rate relationships, and a notice to customers explaining the reason for the credit shall accompany the bill.

- 3) A copy of this Settlement Agreement shall be filed with the case papers in Case Nos. TC-89-14 et al.
- 4) 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.
- 5) The signatory parties agree to adopt a plan to treat future Southwestern Bell earnings during a three year experiment beginning January 1, 1990. The Commission hereby agrees to adopt the incentive regulation experiment in accordance with the specific terms stated herein. The Commission also agrees to adopt the additional terms of implementation and monitoring for the experiment as outlined in Attachment 3. The specific terms of the incentive regulation experiment concurred in by the Commission include:
  - a) The incentive regulation experiment shall be a three (3) year trial beginning January 1, 1990, during which period the Company will share with its customers a percentage of all 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	50% Customer, 50% Company

- b) Allowances and disallowances from the TC-89-14 order will be made to earnings as specified under the terms stated in Attachment 3, including the Company's utilization of 1985 yellow pages level of contribution.
- c) Company 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) Company will comply with the monitoring procedures as agreed to by Company, Staff and OPC in Attachment 3.
- 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 the Company's earnings indicate sharing is required pursuant to the sharing grid shown in paragraph a) above and the monitoring procedures stated in Attachment 3, the rate design for sharing is a one-time credit on local exchange access lines distributed in a manner consistent with existing rate relationships. The credit shall appear on bills issued during the June billing cycle, and a notice to customers explaining the credits shall accompany the bill.
- h) In the final year of the incentive regulation experiment, Company, Staff and OPC 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, the Company, Staff and OPC will file their 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.
- i) During the three (3) year experiment, the Company agrees it will not directly or indirectly propose or seek legislation in the Missouri General Assembly which voids either the conditions or length of the incentive regulation experiment.
- 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 and Touch Tone charges.

- k) Nothing in the three (3) year experiment shall preclude Southwestern Bell from proposing tariffs for new or additional offerings, products or new features for existing service offerings or products.
- 6) Unless Southwestern Bell's earnings fall below 11.61% ROE, Southwestern Bell agrees not to file a general rate case prior to January 1, 1993, but its revenues, expenses and earnings levels reported to the Commission shall be adjusted according to the monitoring and implementation procedures described in Attachment 3. In the event the Company 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 Commission and OPC have entered into this Settlement Agreement in reliance upon the provisions of this paragraph and its provisions constitute an essential part of the consideration bargained for by the Commission and OPC.
- 7) Neither Staff nor OPC 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. The Commission 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 Settlement Agreement in reliance upon the provisions of this paragraph and its provisions constitute an essential part of the consideration bargained for by the Company.
- 8) The parties agree that this Settlement Agreement is a negotiated settlement of the litigation pending in Cole County Circuit Court Case No. CV189-0808cc, et al. and of Case No. TC-89-14, et al. This Settlement Agreement is voluntarily executed and is intended to be binding on the signatory parties, including the Commission, in Case Nos. CV189-0808cc, et al. and in TC-89-14, et al. None of the provisions of this Settlement Agreement, however, shall prejudice, bind or otherwise affect any signatory party should any court overturn, negate or otherwise affect this Settlement Agreement entirely or in any part or in any way condition its approval of same. Further, all signatory parties agree that, in the event of any collateral attack upon the terms of this Settlement Agreement, each will defend all the terms herein, including the binding effect of such terms.

- 9) None of the parties to this Settlement Agreement shall be deemed to have approved or acquiesced in any ratemaking principle, valuation methodology, method of cost-of-service determination, or cost allocation underlying any of the provisions and agreements contained in this Settlement Agreement. This Settlement Agreement shall not prejudice, bind or affect any party thereto, except to the extent necessary to give effect to the terms of this Settlement Agreement.
- 10) Upon execution of this document and approval of the tariffs referenced in paragraph 1) of this document and described in Attachments, Southwestern Bell and OPC agree to dismiss, with prejudice, their respective appeals presently pending in the Cole County Circuit Court and seek dissolution of the Temporary Restraining Order and Stay heretofore entered by the Cole County Circuit Court. Upon such dismissal, all signatory parties waive their respective rights to present oral arguments or written briefs, pursuant to Section 536.080(1), RSMo 1986, and their respective rights to judicial review regarding the disposition of these matters, pursuant to Section 386.500, RSMo 1986, but such waiver extends solely as against the other signatory parties.
- 11) The agreements contained in this Settlement Agreement have resulted from extensive negotiations among signatory parties and are interdependent. In the event that the tariffs and earnings plan described in Attachments 1 and 3 hereto do not become effective in accordance with the provisions contained herein, this Settlement Agreement shall be void and no party shall be bound by any of the agreements or provisions hereof.
- 12) By his or her signature hereto, each signatory warrants that (s)he is authorized to sign this Agreement on behalf of the party represented.

IN WITNESS WHEREOF, the parties have signed this Settlement Agreement as of this 25th day of September, 1989.

SOUTHWESTERN BELL TELEPHONE  
COMPANY

By T. Michael Payne

PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

By Man J. Young

THE OFFICE OF THE PUBLIC COUNSEL

By Maetta Skelton

SOUTHWESTERN BELL TELEPHONE  
ANNUAL REVENUE EFFECT SUMMARY  
(000)

<u>SERVICE</u>	<u>REVENUE</u>
1. Private Line	
- Analog Private Line	\$ 2.574
- Analog Special Access	.273
- Digital Private Line	.317
- Digital Special Access	(.017)
2. Service Connection	(9.648)
3. Mileage Charges	(4.664)
4. Customer Owned Payphones	(.154)
5. Trouble Isolation	(.022)
6. Foreign Exchange (FX)	(2.310)
7. Touch Tone	(7.344)
8. Carrier Common Line Rate Parity	(13.073)
9. Other Switched Access Rates	
- Special Access Surcharges	(1.156)
- Reseller Credits	.989
- Access Transport	(8.609)
- Merge Local Switch Line Term with Intercept	(.073)
10. WATS USAGE	(.874)
11. 800 USAGE	(2.441)
12. WAL IntraLATA	.491
13. WAL Special Access InterLATA	(2.011)
14. Direct Inward Dialing	(2.447)
15. Toll (LDMTS)	(24.305)
16. Local Reduction	(7.515)
17. TOTAL	\$ (82.019)

Missouri D/D Replacement  
Central Office

1990  
First Quarter

San Antonio  
Ste. Genevieve  
Richwoods  
Ware

Second Quarter

Adrian  
Boonville  
Portageville  
Hannibal  
Frankford  
Center  
Bloomsdale  
Marston  
Lilbourn  
New Madrid

Third Quarter

Trenton  
Rogersville  
Marshall  
Fair Grove  
Scott City  
Bell City  
Benton  
Delta  
Chaffee  
Oran  
Herculaneum  
Neosho

Fourth Quarter

Webb City  
Agency  
Ash Grove  
Perryville  
St. Marys  
Old Appleton  
Louisiana  
Bowling Green

1991  
First Quarter

Strafford  
Lockwood  
Republic  
Climax Springs - No.  
Climax Springs - So.  
Macks Creek  
Camdenton - No.  
Tusculumbia  
Bismarck  
Leadwood

Second Quarter

Rushville  
Carl Junction  
Archie  
Marble Hill  
Frohna  
Pocahontas  
Patton  
Oak Ridge

Third Quarter

Marionville  
Slater  
Stanberry  
Charleston  
East Prairie  
Wyatt  
Elsberry  
Clarksville  
Paynesville

Fourth Quarter

Jasper  
Higbee  
Downing  
Dexter  
Bloomfield  
Essex  
Morehouse  
Montgomery City  
Wellsville

1992  
First Quarter

Pierce City  
Edina  
Marceline  
Billings  
Cardwell  
Hornersville  
Senath

Second Quarter

Brookfield  
Walnut Grove  
Mexico  
Campbell  
Gideon  
Holcomb  
Malden  
Risco

Third Quarter

Lamar  
Willard  
Linn  
Argyle  
Freeburg  
Meta  
Westphalia  
Vienna

Fourth Quarter

Clever  
Lancaster  
Carrollton  
Deering  
Caruthersville  
Hayti  
Wardell

Missouri N Carrier Replacement

<u>1990</u>				
<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	
Climax Sprgs.-Camdenton No.	Rushville-DeKalb	St. Jos.-Stanberry-	Union-St.Clair	
Camdenton No.-Camdenton	Perryville-St.Marys	New Hampton Phs. 1	St. Clair-Sullivan	
Kennett-Senath	St.Marys-Ste.Genevieve	Neosho-Stark City	Sullivan-Steelville	
Senath-Hornersville	Ste.Genevieve-Bloomsdale		Steelville-Rolla	
Hornersville-Cardwell	Bloomsdale-Festus		Sikeston-Charleston	
			Charleston-Wyatt	
			Charleston-East Prairie	
<u>1991</u>				
<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	
Stoutland-Lebanon	Moberly-Higbee	St.Jos.-Stanberry-	Revere-Edina Phase I	
Bloomfield-Dexter		New Hampton Phs. II		
Sikeston-Morehouse				
Morehouse-Essex				
Essex-Dexter				
Dexter-Fisk				
<u>1992</u>				
<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	
Lancaster-Queen City-	Breckenridge-Mooresville	Houstonia-Sweet Spgs.		
Greentop		Chula-Chula MRS		
Revere-Edina Phase II				
Jefferson City-Linn				
Linn-Westphalia				
Westphalia-Freeburg				
Freeburg-Argyle				
Argyle-Meta				

SVBT - Missouri  
Partyline Elimination Schedule  
1990 Through 1994

Agency	Edina	Lancaster	Richwoods
Antonia	Elsberry	Leadwood	Risco
Archie	Essex	Lee's Summit	Rushville
Argyle	Eureka	Liberty	S. Independence*
Armstrong	Evergreen	Lilbourn	San Antonio
Ash Grove	Excelsior Springs	Lockwood	Sappington
Bell City	Fayette	Louisiana	Scott City
Belton	Fenton*	Macks Creek	Senath
Benton	Ferguson	Malden	Sikeston
Benton	Festus	Manchester	Slater
Billings	Fisk	Marceline	Smithville
Bismark	Flat River	Marionville	South*
Bloomfield	Florissant	Marshall	Spanish Lake
Bloomsdale	Forest*	Marston*	St. Charles
Blue Springs*	Frankfort	Maxville	St. Genevieve
Boonville	Freeburg	McDaniel	St. Joseph 232
Bridgeton	Frohna	McGee*	St. Joseph 238
Brookfield	Gideon*	Mehlville	St. Mary's
Camdenton N.	Gladstone	Meta	Stanberry
Campbell	Glasgow	Moberly	Strafford
Cape Girardeau	Harvester	Montgomery City	Temple
Cardwell	Hayti	Morehouse	Town & Country*
Carl Junction	Hazelwood*	Nashua*	Trenton
Carrollton	Herculaneum	New Franklin	Tuscumbia
Caruthersville	Higbee	New Madrid	Tuxedo
Center	High Ridge	Oakridge	Valley Park*
Chaffee	Highland	Old Appleton	Vienna
Charleston	Hillsboro	Oran	Wabash*
Chesterfield*	Holcomb	Osage Beach	Walnut Grove
Chestnut*	Hornersville	Parkview	Wardell
Chillicothe	Horseshoe Bend	Parkville	Ware
Clarksville	House Springs*	Patton	Webb City
Clever	Imperial	Paynesville	Webster Groves
Climax Springs S.	Independence	Pocahontas	Wellsville
Creve Coeur*	Jasper	Pond	West Puxico
Deering	Jefferson	Portage Des Sioux	Westphalia
Delta	Kennett	Portageville	Westport
Dexrer	Kirkwood	Puxico	Willow*
Downing	Knob Noster	Quin	Woodsmill*
E. Independence*	Ladue*	Raytown	Wyatt
East Prairie	LaMonte	Republic	

1995 Through 1997

Adrian	Flanders	Marble Hill	Poplar Bluff
Advance	Fredricktown	Melrose	Prospect
Beaufort	Fulton	Mexico	Richmond
Bonne Terre	Gravois Mills	Mission	Riverview
Bowling Green	Gray Summit	Monett	Rogersville
Camdenton S.	Hannibal	Neosho	Sedalia
Carthage	Jackson	Nevada	St. Clair
Cedar Hill	Joplin	Nixa	Sunrise Beach
Climax Springs N.	Kirksville	Overland	Union
Desoto	Lake Ozark	Pacific	Versailles
Eldon	Lamar	Perryville	Washington
Fair Grove	Linn	Pierce City	Willard
Farmington			

\* Partyline elimination to be completed by January 1, 1991.

## 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 = (8)

(8)

INTEREST CALCULATION

-----

1. Intra Rate Base	(8)
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 .....
<b>REVENUES:</b>							
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							
<b>EXPENSES:</b>							
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)

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.

APPENDIX B

APPENDIX B

CompTel Members:

ATC  
8303 Mopac, Suite 150C  
Austin, TX 78759

LDDS Communications  
(formerly Com-Link 21)  
635 Maryville Centre, #220  
St. Louis, MO 63141

CommuniGroup, Inc.  
5503 Foxridge Drive  
Mission, KS 66202

Consolidated Network, Inc.  
11701 Borman Drive, #175  
St. Louis, MO 63146

Contact America, Inc.  
511 Washington Street  
Chillicothe, MO 64601

Econo-Call, Inc.  
204 South Third Street  
Branson, MO 65616

Hedges & Associates, Inc.  
Hedges Communication  
1949 East Sunshine  
Springfield, MO 65804

LDD, Inc.  
#1 North Sunset  
P.O. Box 1608  
Cape Girardeau, MO 63701

LTS, Inc.  
312 Joplin Avenue, #1A  
P.O. Box 2278  
Joplin, MO 64803

Mid-American Communication  
Corp.  
2918 North 72nd  
Omaha, NE 68134

Prime-Link Communication  
Corp.  
209G East Green Meadows Rd.  
Columbia, MO 65203

Valu-Line of St. Joseph,  
Inc.  
202 North Fourth Street  
St. Joseph, MO 64501

Prior CompTel Member/MCI Affiliated Companies<sup>1</sup>

Telecom \* USA  
Teleconnect Long Distance Services and  
Systems Inc.<sup>2</sup>  
Teleconnect Company<sup>2</sup>  
American Communications Inc.<sup>2</sup>

500 2nd Avenue S.E.  
Cedar Rapids, IA 52202

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<sup>1</sup> MCI Telecommunications Corporation's parent corporation acquired CompTel Member Telecom \* USA and its subsidiary companies on August 15, 1990. As of February 1, 1991, Telecom \* USA is no longer a member of CompTel.

<sup>2</sup> A Telecom \* USA subsidiary

APPENDIX C

IN THE CIRCUIT COURT OF COLE COUNTY  
STATE OF MISSOURI

STATE OF MISSOURI ex rel.	)	
SOUTHWESTERN BELL TELEPHONE	)	
COMPANY,	)	
	)	
Relator,	)	
v.	)	Case No. CV189-0808cc
	)	
THE PUBLIC SERVICE COMMISSION	)	
OF THE STATE OF MISSOURI,	)	
	)	
Respondent.	)	
	)	
STATE OF MISSOURI ex rel.	)	
OFFICE OF THE PUBLIC COUNSEL,	)	
	)	
Relator,	)	
v.	)	Case No. CV189-0809cc
	)	
MISSOURI PUBLIC SERVICE	)	
COMMISSION,	)	
	)	
Respondent.	)	

ORDER APPROVING SETTLEMENT AND  
DIRECTING DISTRIBUTION OF STAY FUND

PARTIES

The parties to this matter are Southwestern Bell Telephone Company ("Southwestern Bell"), the Public Counsel ("Public Counsel"), MCI Telecommunications Corporation and affiliated companies ("MCI"), AT&T Communications of the Southwest, Inc. ("AT&T"), AT&T Information Systems Inc. ("AT&T-IS"), the City of Oak Grove ("Oak Grove"), CompTel of Missouri ("CompTel"), GTE North, Incorporated ("GTE"), United

Telephone Company of Missouri ("United"), US Sprint Communications Company Limited Partnership ("Sprint"), and the Public Service Commission of the State of Missouri ("PSC"). The parties have reached a settlement of the remaining issues in this matter and have presented to the Court for its approval Part I of a Settlement Agreement, which is a portion of a larger Settlement Agreement that includes matters not before the Court.

#### PROCEDURAL BACKGROUND

On June 20, 1989, the PSC issued its Report and Order in Case Nos. TC-89-14, et al. That Order denied Southwestern Bell's request to implement a plan known as TeleFuture 2000 and required Southwestern Bell to reduce its rates by \$101,323,000.00, effective July 1, 1989.

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 this 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.

At the request of Southwestern Bell and the Public Counsel, this Court, on September 5, 1989, entered its Order

Staying the enforcement of the June 20, 1989 Report and Order issued by the PSC in Case Nos. TC-89-14, et al.

The Stay was conditioned upon Southwestern Bell's payment into the registry of the Court such sums as it collected on and after July 1, 1989 which it would not have been entitled to collect had the PSC's June 20, 1989 Report and Order been enforced. The initial payment, plus simple interest at nine percent (9%) per annum, was to be made no later than October 1, 1989. Similar payments were to be made monthly until this case was resolved.

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. Part of that agreement provided that, in an attempt to satisfy any obligations remaining on Southwestern Bell under the Court's September 5, 1989 Order, Southwestern Bell would issue a one-time credit to its local exchange service customers, in a total amount of approximately \$20,749,000.00. Another part of that agreement dealt with a proposed incentive regulation plan for Southwestern Bell.

On September 26, 1989, Southwestern Bell and Public Counsel voluntarily dismissed their petitions for review and advised the Court that its Stay could be dissolved. On that same date, the Court entered an Order of Dismissal and Dissolution of Stay.

On or about October 5, 1989, MCI, AT&T and CompTel filed various motions requesting the Court to vacate or modify the Court's September 26, 1989 Order. 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 October 24, 1989 Order, Southwestern Bell unsuccessfully sought a Writ of Prohibition from the Court of Appeals (WD 42611) and the Supreme Court (SC 72354). On October 18, 1990, Southwestern Bell tendered to the Court the sum of \$26,393,642.00 to satisfy the pay-in obligation imposed by the Court's October 24, 1989 Order.

#### PRESENT SETTLEMENT AND PROCEDURAL POSTURE

On March 6<sup>th</sup>, 1991, all parties to this proceeding entered into a comprehensive Settlement Agreement containing four parts. As indicated to the Court, the Agreement proposes not only to resolve all differences between the parties concerning the distribution of the Stay Monies (Part I); but also other matters, including an Incentive Regulation Experiment (Part II) and various other contractual agreements of the parties (Parts III and IV). Part I of the Settlement Agreement requires the approval of the Court and entry of this Order. Part II of the Settlement Agreement

requires the PSC's approval of a Joint Recommendation to Approve Revised Incentive Regulation Experiment for Southwestern Bell Telephone Company. No Court or PSC approval is required for the contractual agreements of the parties as contained in Parts III and IV of the Settlement Agreement.

Accordingly, Part I of the Settlement Agreement has been submitted for the Court's consideration and approval. Having fully considered the terms and conditions of Part I of the proposed Settlement Agreement, and having considered the representations of the parties, the Court makes the following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

THE COURT FINDS AS FOLLOWS:

1. That this matter is properly before the Court.
2. The matter to be resolved in this proceeding concerns the proper disposition of monies collected by Southwestern Bell and paid into the Court's registry pursuant to the Court's October 24, 1989 Order.
3. That Part I(A) of the Settlement Agreement submitted by all parties to this proceeding provides that certain specified sums, which are set forth in sealed Exhibits 1 through 4 to this Order, are to be distributed immediately upon this Order becoming final and non-appealable to AT&T (Exhibit 1), MCI (Exhibit 2), Sprint (Exhibit 3), and

CompTel (Exhibit 4). The amounts set forth in the Exhibits represent the difference between the amounts Southwestern Bell collected and the amounts it would have collected from AT&T, MCI, Sprint and CompTel from July 1, 1989 through and including September 26, 1989, if the PSC's June 20, 1989 Report and Order in Case No. TC-89-14 had become effective and enforced on July 1, 1989. The amounts also include nine percent (9%) simple interest on the principal calculated from the date those amounts were paid to Southwestern Bell through and including October 18, 1990 and 5.875 percent (5.875%) per annum simple interest on said principal amounts thereafter until the date all such sums are paid. No later than seven (7) calendar days after receipt of all such sums, AT&T, MCI, Sprint and CompTel members shall file with this Court satisfactions of judgment, pursuant to Rule 74.11(a) of the Missouri Rules of Civil Procedure.

4.(a) Part I(B) of the Settlement Agreement further provides that any Stay Monies remaining after satisfaction of the payments described in paragraph 3 shall be handled as follows so that Southwestern Bell may make the credits and payments described in paragraphs 4(b), (c), (d), (e) and (f) below:

(i) No further distribution of the Stay Monies will be made to AT&T, MCI, Sprint and CompTel; all other AT&T entities (including AT&T-IS) as well as Oak Grove will be eligible for the credits provided by Part I(B) of the

Settlement Agreement and will be treated as all other customers under that Part I(B);

(ii) As soon as possible, and in no event later than May 31, 1991, Southwestern Bell shall file with the Court a report indicating (1) the amount of payments it made in October 1989 for which it seeks credit in accordance with the terms of this Agreement, (2) the amount of payments it will make to its customers in accordance with the terms of this Agreement for which it has an immediate plan of distribution either by credit or check, and (3) the amount representing payments that would otherwise be made to customers who cannot be found or located at that time;

(iii) Subject to the Court's approval of the report filed in subpart (ii), above, the amounts set out in subparts (ii) 1 and 2 shall be immediately distributed to Southwestern Bell, by wire transfer, and if wire transfer is not possible, then by check. Specific payment instructions are included on Exhibit 5. The Court shall retain the amounts set out in subpart (ii) 3, if any.

(b) That Part I(B) of the Settlement Agreement provides that after receipt of the Stay Monies pursuant to paragraph 4(a), Southwestern Bell shall issue credits to its intrastate Missouri customers who were billed Southwestern Bell rates from July 1, 1989 through and including September 26, 1989, pursuant to the procedures described in paragraphs

4(c), (d) and (e) below. In addition, Southwestern Bell will make the necessary arrangements to issue credits to customers of other local exchange companies ("LECs") who used services that were billed at Southwestern Bell's rates from July 1, 1989 through and including September 26, 1989, pursuant to the procedures described in paragraphs 4(c), (d), and (e) below.

(c) That Part I(B) of the Settlement Agreement further provides that Southwestern Bell will calculate the difference between the amounts paid by each of Southwestern Bell's intrastate Missouri customers from July 1, 1989 through and including September 26, 1989 and the amounts each of those customers would have paid if the PSC's June 20, 1989 Report and Order in Case No. TC-89-14 had become effective and enforced on July 1, 1989. Part I(B) of the Settlement Agreement provides that Southwestern Bell will make the necessary arrangements for the LECs to perform similar calculations for those customers who used services that were billed at Southwestern Bell's rates from July 1, 1989 through and including September 26, 1989.

(d) That Part I(B) of the Settlement Agreement further provides that because Southwestern Bell provided credits to its local service customers in October 1989, an adjustment will be made to the "differences" calculated pursuant to paragraph 4(c). Southwestern Bell will compare the "difference" for each customer to that customer's October

1989 credit. To the extent any individual customer's October 1989 credit did not equal or exceed the aforementioned "difference," Southwestern Bell will issue a new credit to that customer's account equal to the amount of the shortfall. For those customers who no longer subscribe to Southwestern Bell's service, Southwestern Bell will first apply the shortfall to each customer's remaining balance, if any. If a balance in favor of the customer remains, Southwestern Bell will then follow its reasonable and customary business office procedures for locating the customer and forwarding a draft. Southwestern Bell will also make similar arrangements with the LECs for locating and crediting those customers who no longer subscribe to the LECs' services.

(e) That Part I(B) of the Settlement Agreement provides that Southwestern Bell will make all necessary arrangements to calculate and issue the credits required by paragraph 4(b) of this Order. All credits, whether issued by Southwestern Bell or another LEC, shall include nine percent (9%) per annum simple interest on the new credit amount, calculated from September 15, 1989 through and including October 18, 1990 and 5.875 percent (5.875%) per annum simple interest on said amounts thereafter until the billing cycle for the new credits begins. As necessary to accomplish its obligations, Southwestern Bell will: (1) run its own billing tapes, and (2) make arrangements with other LECs, including United and GTE, to run billing tapes and to issue

similar credits with said interest to their customers who were billed Southwestern Bell rates during the relevant period. Where LEC billing tapes are not available, Southwestern Bell will identify other alternatives to enable those LECs to issue credits with interest to their customers. Part I(B) of the Settlement Agreement further provides that Southwestern Bell will reimburse the LECs for all reasonable and documented incremental expenses they incur to run billing tapes and to issue customer credits.

(f) Part I(B) of the Settlement Agreement further provides that Southwestern Bell and any of its interexchange carrier or local exchange carrier customers may resolve such customer's claim to the new credits by negotiating the amount due rather than running the billing tapes for that customer, but any such negotiated amounts shall be credited to that customer's account or otherwise transmitted to the customer no later than the June 1991 billing cycle. In this regard, Southwestern Bell has negotiated payment arrangements with United and GTE to satisfy their claims to credits as Southwestern Bell customers pursuant to paragraph 4(b) above, and in return, United and GTE have agreed to file Satisfactions of Judgment with the Court on or before the date the affected parties file the pleading described in paragraph 5(a) below. The City of Oak Grove and all Oak Grove locations which subscribed to Southwestern Bell's foreign exchange service during the period beginning July 1, 1989 through and

including September 26, 1989, will receive credits pursuant to paragraph 4(b) above. Oak Grove has agreed to file a Satisfaction of Judgment with the Cole County Circuit Court on or before the date the affected parties file the pleading described in paragraph 5(a) below. Southwestern Bell shall notify the PSC and Public Counsel prior to concluding any negotiated arrangements.

(g) Part I(B) of the Settlement Agreement provides that at the time it makes the credits required by this Order, Southwestern Bell shall provide its customers a bill notice, in a form agreeable to Southwestern Bell, Public Counsel and the PSC, indicating that any applicable credits related to the Stay Monies are reflected in that month's bill. Similar arrangements will be made for providing notice to customers of other LECs that were billed Southwestern Bell's rates.

5.(a) Part I(B) of the Settlement Agreement provides that the PSC and Public Counsel shall monitor the process Southwestern Bell uses to make the customer credits required by this Order. Southwestern Bell, Public Counsel, and the PSC shall file a verified pleading with the Court within thirty (30) calendar days after all credits are made, sufficient to establish that Southwestern Bell has fulfilled its duties and obligations as set out in paragraphs 4(b) though (g) of this Order.

(b) Part I(B) of the Settlement Agreement provides that within one hundred eighty (180) calendar days after the pleading is filed pursuant to paragraph 5(a), Southwestern Bell shall file another verified pleading with the Cole County Circuit Court indicating all sums representing credits "due" customers who were not located or for any other reason the credit "due" was not credited to those customers. Where possible, said pleading shall specifically list all customers who were not located or who for some other reason did not receive their credits. Southwestern Bell shall pay said amounts into the Court and request that the Court expeditiously enter a Satisfaction of Judgment in Southwestern Bell's favor. At such time, Southwestern Bell may also file a claim against such sums for reimbursement of the expenses it incurs in administering the crediting process described in paragraphs 4(b) through (g) of this Order. The Court shall receive all such sums in a separate case established for purposes consistent with the spirit and intent of the Court's Stay Order. Southwestern Bell will provide such assistance to the Court as reasonable to further this purpose.

(c) Part I(B) of the Settlement Agreement provides that subject to the Court's approval of said pleading, the Court will enter its Order pursuant to Rule 74.11(c) of the Missouri Rules of Civil Procedure that Southwestern Bell has satisfied its obligations under this Order and that it is

released and discharged from any further liability for the same. Southwestern Bell will retain those portions of the Stay Monies described in paragraph 4(a)(ii)1 as an offset of the monies Southwestern Bell credited to customers in October, 1989. The Court shall further adjudicate Southwestern Bell's claim for expenses at this time. Thereafter, the Court will dismiss Consolidated Case No. CV189-0808 with prejudice.

6. The proposed Settlement Agreement provides for a just, reasonable and lawful method of distributing the Stay Monies held by the Court and therefore should be approved and implemented.

NOW, THEREFORE, IT IS HEREBY ORDERED, ADJUDGED AND DECREED THAT:

7. Part I of the Settlement Agreement submitted by all parties to this proceeding on \_\_\_\_\_, 1991, be and the same is hereby approved.

8. The parties herein are ordered to implement the terms of Part I of the Settlement Agreement without delay.

9. The clerk of the Court is directed to cause the amounts indicated on Exhibits 1 through 4 to be paid immediately upon this Order becoming final and non-appealable to AT&T (Exhibit 1), MCI (Exhibit 2), Sprint (Exhibit 3), and CompTel (Exhibit 4), respectively. The amounts to be paid to

AT&T and Sprint should be made by wire transfer, and if wire transfer is not possible, then by check. The amounts to be paid to MCI and CompTel shall be made by check. Specific payment instructions for AT&T, MCI, Sprint and CompTel are included in Exhibits 1 through 4.

10. As soon as possible, and in no event later than May 31, 1991, Southwestern Bell shall file with the Court the report described in paragraph 4(a) of this Order. Upon approval of that report by the Court, the clerk of the Court shall cause the amounts set out in paragraph 4(a)(ii) 1 and 2 to be wire transferred to Southwestern Bell, and if wire transfer is not possible, then by check. Specific payment instructions for Southwestern Bell are included in Exhibit 5. The Court shall retain the amounts set out in paragraph (4)(a)(ii)3. Southwestern Bell thereupon will take all steps necessary to fulfill its duties and obligations as set out in paragraphs 4(b) through (g) of this Order. Southwestern Bell, Public Counsel, and the PSC shall file the pleading described in paragraph 5(a) above with the Court, within thirty (30) calendar days after said credits have been made, sufficient to establish that Southwestern Bell has fulfilled its duties and obligations as set out in paragraphs 4(b) through (g) of this Order. Within one hundred eighty (180) calendar days after the pleading is filed pursuant to paragraph 5(a), Southwestern Bell shall file the pleading described in paragraph 5(b), pay the sums described in

paragraph 5(b) into Court, and request entry of a Satisfaction of Judgment in Southwestern Bell's favor. Southwestern Bell may also file a claim against such sums for reimbursement of the expenses it incurs in administering the crediting process described in paragraphs 4(b) through (g) of this Order. The Court will receive all such sums in a separate case established for purposes consistent with the spirit and intent of the Court's Stay Order. Southwestern Bell will provide such assistance to the Court as reasonable to further this purpose. Subject to the Court's approval of the pleading described in paragraph 5(b), the Court will enter its further Order at that time, pursuant to Rule 74.11(c), acknowledging Southwestern Bell's satisfaction of the Order and releasing and discharging it from any further liability. The Court will further adjudicate Southwestern Bell's claim for expenses at that time. Thereafter, the Court will dismiss this case with prejudice.

11. This Order fully and finally resolves all remaining issues in Consolidated Case No. CV-189-0808. Any issue not specifically dealt with herein is dismissed with prejudice.

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Judge

SOUTHWESTERN BELL TELEPHONE  
ANNUAL REVENUE EFFECT SUMMARY  
(000)

<u>SERVICE</u>	<u>REVENUE</u>
1. Private Line	
- Analog Private Line	\$ 2.574
- Analog Special Access	.273
- Digital Private Line	.317
- Digital Special Access	(.017)
2. Service Connection	(9.648)
3. Mileage Charges	(4.664)
4. Customer Owned Payphones	(.154)
5. Trouble Isolation	(.022)
6. Foreign Exchange (FX)	(2.310)
7. Touch Tone	(7.344)
8. Carrier Common Line Rate Parity	(13.073)
9. Other Switched Access Rates	
- Special Access Surcharges	(1.156)
- Reseller Credits	.989
- Access Transport	(8.609)
- Merge Local Switch Line Term with Intercept	(.073)
10. WATS USAGE	(.874)
11. 800 USAGE	(2.441)
12. WAL IntraLATA	.491
13. WAL Special Access InterLATA	(2.011)
14. Direct Inward Dialing	(2.447)
15. Toll (LDMTS)	(24.305)
16. Local Reduction	(7.515)
17. TOTAL	\$ (82.019)

Missouri D/D Replacement  
 Central Office

1990

First Quarter

San Antonio  
 Sta. Genevieve  
 Richwoods  
 Ware

Second Quarter

Adrian  
 Boonville  
 Portageville  
 Hannibal  
 Frankford  
 Center  
 Bloomsdale  
 Marston  
 Lilbourn  
 New Madrid  
 Archie

Third Quarter

Trenton  
 Rogersville  
 Marshall  
 Fair Grove  
 Scott City  
 Bell City  
 Benton  
 Delta  
 Chaffee  
 Oran  
 Herculanum  
 Neosho

Fourth Quarter

Webb City  
 Agency  
 Ash Grove  
 Perryville  
 St. Marys  
 Old Appleton  
 Louisiana  
 Bowling Green

1991

First Quarter

Strafford  
 Lockwood  
 Republic  
 Climax Springs - No.  
 Climax Springs - So.  
 Macks Creek  
 Candenton - No.  
 Tuscumbia  
 Bismarck  
 Leadwood  
 Lamar

Second Quarter

Rushville  
 Carl Junction  
 Marble Hill  
 Frohna  
 Pocahontas  
 Patton  
 Oak Ridge  
 Marceline\*

Third Quarter

Marionville  
 Slater  
 Stanberry  
 Charleston  
 East Prairie  
 Wyatt  
 Elsberry  
 Clarksville  
 Paynesville

Fourth Quarter

Jasper  
 Higbee  
 Downing  
 Dexter  
 Bloomfield  
 Essex  
 Morehouse  
 Montgomery City  
 Wellsville  
 Mexico

1992

First Quarter

Pierce City  
 Edina  
 Billings  
 Cardwell  
 Hornersville  
 Senath  
 Holcomb\*\*

Second Quarter

Brookfield  
 Walnut Grove  
 Campbell  
 Gideon  
 Malden  
 Risco  
 Linn  
 Westphalia

Third Quarter

Willard  
 Argyle  
 Freeburg  
 Meta  
 Vienna

Fourth Quarter

Clever  
 Lancaster  
 Carrollton  
 Deering  
 Caruthersville  
 Hayti  
 Wardell

\* Change - Was 1092  
 \*\* Change - Was 2092

07/01/90

Missouri W Carrier Replacement

1990

First Quarter

Climax Sprgs.-Candenton  
No.  
Candenton No.-Candenton  
Kernett-Senath  
Senath-Hornersville  
Hornersville-Cardwell

Second Quarter

Rushville-DeKalb  
Perryville-St.Marys  
St.Marys-Ste.Genevieve  
Ste.Genevieve-Bloomsdale  
Bloomsdale-Festus  
Sikeston-Morehouse  
Pocahontas-Frohna

Third Quarter

St. Jos.-Stanberry-  
New Hampton Phs. I  
Weosho-Stark City  
Hayti-Wardell  
Pocahontas-Oak Ridge  
Poplar Bluff-Neelyville

Fourth Quarter

Union-St.Clair  
St. Clair-Sullivan  
Sullivan-Steelville  
Steelville-Rolla  
Sikeston-Charleston  
Charleston-Wyatt  
Charleston-East Prairie

1991

First Quarter

Stoutland-Lebanon  
Bloomfield-Dexter  
Morehouse-Essex  
Essex-Dexter  
Dexter-Fisk

Second Quarter

Moberly-Higbee

Third Quarter

St.Jos.-Stanberry-  
New Hampton Phs. II

Fourth Quarter

Revere-Edina Phase I

1992

First Quarter

Lancaster-Queen City-  
Greentop  
Revere-Edina Phase II  
Jefferson City-Linn  
Linn-Westphalia  
Westphalia-Freiburg  
Freiburg-Argyle  
Argyle-Meta

Second Quarter

Breckenridge-Mooresville

Third Quarter

Houstonia-Sweet Spgs.  
Chula-Chula MRS

Fourth Quarter

Poplar Bluff-Van Buren  
Montgomery City-Bellflower

07/01/90

MOBILE - MISSOURI  
Partyline Elimination Schedule  
1990 Through 1994

Agency	Edina	Lancaster	Richwoods
Antonia	Elsberry	Leadwood	Risco
Archie	Essex	Lee's Summit	Rushville
Argyle	Eureka	Liberty	S. Independence*
Armstrong	Evergreen	Lilbourn	San Antonio
Ash Grove	Excelsior Springs	Lockwood	Sappington
Bell City	Fayette	Louisiana	Scott City
Belton	Fenton*	Macks Creek	Senath
Benton	Ferguson	Malden	Sikeston
Benton	Festus	Manchester	Slater
Billings	Fisk	Marceline	Smithville
Bismark	Flat River	Marionville	South*
Bloomfield	Florissant	Marshall	Spanish Lake
Bloomsdale	Forest*	Marston*	St. Charles
Blue Springs*	Frankfort	Maxville	St. Genevieve
Boonville	Freeburg	McDaniel	St. Joseph 232
Bridgeton	Frohna	McGee*	St. Joseph 238
Brookfield	Gideon*	Mehlville	St. Mary's
Camdenton N.	Gladstone	Meta	Stanberry
Campbell	Glasgow	Moberly	Strafford
Cape Girardeau	Harvester	Montgomery City	Temple
Cardwell	Hayti	Morehouse	Town & Country*
Carl Junction	Hazelwood*	Nashua*	Trenton
Carrollton	Herculaneum	New Franklin	Tuscumbia
Caruthersville	Higbee	New Madrid	Tuxedo
Center	High Ridge	Oakridge	Valley Park*
Chaffee	Highland	Old Appleton	Vienna
Charleston	Hillsboro	Oran	Wabash*
Chesterfield*	Holcomb	Osage Beach	Walnut Grove
Chestnut*	Hornersville	Parkview	Wardell
Chillicothe	Horseshoe Bend	Parkville	Ware
Clarksville	House Springs*	Patton	Webb City
Clever	Imperial	Paynesville	Webster Groves
Climax Springs S.	Independence	Pocahontas	Wellsville
Creve Coeur*	Jasper	Pond	West Puxico
Deering	Jefferson	Portage Des Sioux	Westphalia
Delta	Kennett	Portageville	Westport
Dexter	Kirkwood	Puxico	Willow*
Downing	Knob Noster	Qulin	Woodsmill*
E. Independence*	Ladue*	Raytown	Wyatt
East Prairie	LaMonte	Republic	

1995 Through 1997

Adrian	Flanders	Marble Hill	Poplar Bluff
Advance	Fredricktown	Melrose	Prospect
Beaufort	Fulton	Mexico	Richmond
Bonne Terre	Gravois Mills	Mission	Riverview
Bowling Green	Gray Summit	Monett	Rogersville
Camdenton S.	Hannibal	Neosho	Sedalia
Carthage	Jackson	Nevada	St. Clair
Cedar Hill	Joplin	Nixa	Sunrise Beach
Climax Springs N.	Kirksville	Overland	Union
Desoto	Lake Ozark	Pacific	Versailles
Eldon	Lamar	Perryville	Washington
Fair Grove	Linn	Pierce City	Willard
Farmington			

\* Partyline elimination to be completed by January 1, 1991.

Missouri D/D Replacement  
Central Office

1990

First Quarter

San Antonio  
Ste. Genevieve  
Richwoods  
Ware

Second Quarter

Adrian  
Boonville  
Portageville  
Hannibal  
Frankford  
Center  
Bloomsdale  
Marston  
Lilbourn  
New Madrid

Third Quarter

Trenton  
Rogersville  
Marshall  
Fair Grove  
Scott City  
Bell City  
Benton  
Delta  
Chaffee  
Oran  
Herculaneum  
Neosho

Fourth Quarter

Webb City  
Agency  
Ash Grove  
Perryville  
St. Marys  
Old Appleton  
Louisiana  
Bowling Green

1991

First Quarter

Strafford  
Lockwood  
Republic  
Climax Springs - No.  
Climax Springs - So.  
Macks Creek  
Camdenton - No.  
Tuscumbia  
Bismarck  
Leadwood

Second Quarter

Rushville  
Carl Junction  
Archie  
Marble Hill  
Frohna  
Pocahontas  
Patton  
Oak Ridge

Third Quarter

Marionville  
Slater  
Stanberry  
Charleston  
East Prairie  
Wyatt  
Elsberry  
Clarksville  
Paynesville

Fourth Quarter

Jasper  
Higbee  
Downing  
Dexter  
Bloomfield  
Essex  
Morehouse  
Montgomery City  
Wellsville

1992

First Quarter

Pierce City  
Edina  
Marceline  
Billings  
Cardwell  
Hornersville  
Senath

Second Quarter

Brookfield  
Walnut Grove  
Mexico  
Campbell  
Gideon  
Holcomb  
Malden  
Risco

Third Quarter

Lamar  
Willard  
Linn  
Argyle  
Freeburg  
Meta  
Westphalia  
Vienna

Fourth Quarter

Clever  
Lancaster  
Carrollton  
Deering  
Caruthersville  
Hayti  
Wardell

Missouri N Carrier Replacement

1990

First Quarter

Climax Sprgs.-Camdenton  
Camdenton No.-Camdenton  
Kennett-Senath  
Senath-Hornersville  
Hornersville-Cardwell

Second Quarter

Rushville-DeKalb  
Perryville-St.Marys  
St.Marys-Ste.Genevieve  
Ste.Genevieve-Bloomsdale  
Bloomsdale-Festus

Third Quarter

St. Jos.-Stanberry-  
New Hampton Phs. 1  
Neosho-Stark City

Fourth Quarter

Union-St.Clair  
St. Clair-Sullivan  
Sullivan-Steelville  
Steelville-Rolla  
Sikeston-Charleston  
Charleston-Wyatt  
Charleston-East Prairie

1991

First Quarter

Outland-Lebanon  
Gloomfield-Dexter  
Sikeston-Morehouse  
Morehouse-Essex  
Essex-Dexter  
Dexter-Fisk

Second Quarter

Moberly-Higbee

Third Quarter

St. Jos.-Stanberry-  
New Hampton Phs. II

Fourth Quarter

Revere-Edina Phase I

1992

First Quarter

Lancaster-Queen City-  
Greentop  
Revere-Edina Phase II  
Jefferson City-Linn  
Linn-Westphalia  
Westphalia-Freeburg  
Freeburg-Argyle  
Argyle-Meta

Second Quarter

Breckenridge-Hooresville

Third Quarter

Houstonia-Sweet Spgs.  
Chula-Chula MRS

Fourth Quarter

## 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 -----
<b>ADD:</b>							
Telecommunications Plant in Service							
M & S							
Cash Working Capital Prepayments							
<b>LESS:</b>							
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	X
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 .....
<b>REVENUES:</b>							
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							
<b>EXPENSES:</b>							
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 ADJUSTMENTS -----	INTRA FR -----	COMMISSION MONITORING ADJUSTMENTS -----	ADJUSTED INTRASTATE MONITORING -----
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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 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.