Exhibit No.:	
Issues:	*Jurisdictional Separations, Corporate Allocations, Cost of Removal and Salvage, Current Income Tax, Deferred Income Tax*
Witness:	*David G. Winter*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*IR-2004-0272*
Date Testimony Prepared:	*March 11, 2004*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

DAVID G. WINTER

FIDELITY TELEPHONE COMPANY

CASE NO. IR-2004-0272

Jefferson City, Missouri
March 2004

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Fidelity Telephone Company for Authority to File, Establish, and Put into Effect New, Increased, or Revised Rates and Charges for Telephone Service.	)))))	Case No. IR-2004-0272

AFFIDAVIT OF DAVID G. WINTER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David G. Winter, being of lawful age, on his oath states: that he has participated in the preparation of the following direct testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the following direct testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

David G. Winter

Subscribed and sworn to before me this 18th day of March 2004.

TONI M. CHARLTON NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

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DIRECT TESTIMONY OF

DAVID G. WINTER

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DIRECT TESTIMONY OF

DAVID G. WINTER

FIDELITY TELEPHONE COMPANY

CASE NO. IR-2004-0272

Q. Please state your name and business address.

A. David G. Winter, P.O. Box 360, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor for the Missouri Public Service Commission (Commission or MoPSC).

Q. Please describe your educational background.

A. I graduated from Southwest Missouri State University in 1973 with a Bachelor of Science degree in Accounting. After receiving an Honorable Discharge from the United States Army in 1977, I began my employment with the firm of Williams-Keepers Certified Public Accountants, as a Staff Accountant. I began my employment with the Commission in 1979. I am a licensed Certified Public Accountant (CPA) in Missouri and a Certified Internal Auditor (CIA).

Q. What has been the nature of your duties while in the employ of this Commission?

A. I have conducted and assisted with the audits and examinations of the books and records of utility companies operating within the state of Missouri.

Q. Have you previously filed testimony before the Commission?

A. Yes. I have listed cases in which I previous filed testimony on Schedule 1 attached to this direct testimony.

Q With reference to Case No. IR-2004-0272, have you made an investigation with respect to Fidelity Telephone Company's (Fidelity Telephone or Company) proposed rate changes?

A. Yes, in conjunction with other members of the Commission's Staff (Staff). My investigation included the review and examination of the Company's filing, its supporting workpapers and underlying financial reports and records, including such items as tax returns, Board of Directors Meeting Minutes and other information contained on the Company's Website.

Q. What is your primary responsibility in this case?

A. My primary areas of responsibility in this case are the Company's separation factors, corporate allocations and income taxes.

Q. What knowledge, skill, experience training or education do you have in these matters?

A. I have acquired general knowledge of these topics through my experience and analyses in prior rate and merger cases before this Commission, some of which concerned Fidelity Telephone. I have also acquired knowledge of these topics through review of Staff's testimony, workpapers from prior cases and responses to Staff's data requests addressing these topics in this case. I have successfully passed the Uniform Certified Public Accountant Examination, which included sections on accounting practice and theory, as well as, auditing. I currently hold a license to practice in the state of Missouri. Further, I have passed the Certified Internal Auditor Examination.

Q. What is the purpose of your direct testimony?

A. I am sponsoring and will explain Accounting Schedule 11, Tax Calculation. I am also sponsoring and will explain the following Staff adjustments contained in Accounting Schedule 10, Adjustments To Income Statement:

Cost of Removal/Salvage	S-25.1
Current Income Tax	S-33.1
Amortization of ITC	S-34.1
Deferred Tax Depreciation	S-34.2

Additionally, I will address the Deferred Income Taxes and Unamortized Investment Tax Credits (ITC) reflected on Accounting Schedule 2, Rate Base.

JURISDICTIONAL SEPARATIONS

Q. Please define the term "jurisdictional separations."

A. The Federal Communications Commission (FCC) has defined jurisdictional separations as the:

> …process of apportioning regulated cost between the interstate and intrastate jurisdictions. The primary purpose of separations is to determine whether a local exchange carrier (ILEC)'s cost of providing regulated service are to be recovered through its rates for intrastate services or through its rates for interstate services.

This Commission has regulatory authority over an ILEC's *intrastate* operations and rates.

Q. For this proceeding, what jurisdictional separations factors did the Staff use?

A. The Staff applied the jurisdictional separations factors (without adjustment) from the Company's 2002 Separations Study. This study represents the most current analysis of separation factors.

CORPORATE ALLOCATIONS

Q. Please describe the operations of Fidelity Communications Company.

A. Fidelity Communications Company (Fidelity Communications) is a holding company for thirteen (13) subsidiary companies[1] and is privately held by the John T. Davis family. Fidelity Telephone is a subsidiary of Fidelity Communications. Fidelity Communications is based in Sullivan, Missouri.

Q. Has the allocation of costs between Fidelity Communications and its subsidiaries been an issue in prior MoPSC proceedings?

A. Yes. As part of a Stipulation and Agreement in Case No. TM-89-113 [2] (attached as Schedule 2) Fidelity Communications agreed to implement detailed time procedures and comprehensive procedures for allocating costs other than labor.

Q. Were the provisions of the Stipulation and Agreement fulfilled by the Company?

A. Yes. The Staff conducted audit testing to verify that the books and records of Fidelity Telephone reflect only the regulated telephone revenues and expenses. Labor cost, fringe benefits, vehicles and capital expenditures are directly assigned to the appropriate subsidiary based on its computerized time and work order reporting systems. If feasible, all other costs are also directly assigned to the proper subsidiary. Other costs such as building rents, corporate insurance, billing and collection services and other types of transactions that cannot be directly assigned are allocated based upon tariff, contractual agreement or other allocation methodology.

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[1] Fidelity Telephone Co., Fidelity Long Distance, Fidelity Networks, Fidelity Cablevision, Fidelity Systems Plus, Fidelity Broadcasting, Fidelity Natural Gas, Fidelity Energy Resources, Fidelity Communications International, Cellutel, and Fidelity Communication Services I, II and III.

[2] In the matter of the application of Fidelity Communications Company for authority to purchase or acquire, take or hold more than ten percent of the total capital stock issed by Fidelity Telephone Company and Bourbeuse Telephone Company.

Based on results of the Staff's audit work, the Staff has concluded that the books and records of Fidelity Telephone appear to have been properly allocated for the purposes of this proceeding.

COST OF REMOVAL AND SALVAGE

Q. Please explain Income Statement adjustment S-25.1.

A. Adjustment S-25.1 includes a four-year average of the cost of removal and salvage in operating expense.

Q. What is cost of removal and salvage?

A. Cost of removal is incurred when utility property is retired from service. Retiring property from service can cause the utility to incur costs to abandon, physically dismantle, tear down or otherwise remove the property from its site. Salvage is the residual value received from the reusable material recovered from the retired plant during the dismantling and/or removal process. Typically, the cost of removal exceeds the salvage recovered resulting in a positive net expense to the utility. Utilities track the amounts of cost of removal and salvage received on an ongoing basis.

Q. Why is this adjustment necessary?

A. This adjustment is necessary to include the annual normal ongoing level of cost of removal and salvage received in the cost of service. Cost of removal and salvage, like other expenses (maintenance, payroll, postage, etc.), is an ongoing cost incurred by the utility. Therefore, like maintenance expense, the Staff has determined an annual, normal ongoing level for cost of removal and salvage.

Q. Why is a four-year average of the cost of removal and salvage a reasonable level of expense to include in the cost of service?

A. The Staff examined the historical amounts of cost of removal and salvage actually experienced by the Company during the period 1998 through 2003. The amounts of cost of removal and salvage have fluctuated from year to year during the period examined. Averaging costs to mitigate the impact of fluctuating expense levels is a common ratemaking technique and has been used to determine other costs in this case. The Staff believes that an average of the last four years is the most representative of the annual normal ongoing level of expense for this case.

Q. Why is the Staff's recommended amount of cost removal and salvage negative?

A. In the response to Staff Data Information Request No. 44, Fidelity Telephone stated that it "has booked no actual cost of removal for 1998 through 2003." Thus, the four-year average consists only of the amounts associated with salvage.

Q. Has the Staff proposed the inclusion of cost of removal and salvage in expense in other recent rate cases?

A. Yes. A list of recent cases in which the Staff has proposed the inclusion of cost of removal and salvage in expense is shown below.

Union Electric Company	GR-2000-512
Union Electric Company	EC-2002-1
Laclede Gas Company	GR-2001-621
Laclede Gas Company	GR-2002-356
St. Louis County Water	WR-2000-844
Empire District Electric Company	ER-2001-299
Empire District Electric Company	ER-2002-424
UtiliCorp United, Inc.	ER-2001-672
Missouri Gas Energy Company	GR-2001-292
Citizens Electric Company	ER-2002-217
Missouri-American Water Company	WR-2003-0500
Missouri –American Water Company	WC-2004-0168
Aquila, Inc.	ER-2004-0034
Aquila, Inc.	GR-2004-0072

CURRENT INCOME TAX

Q. Please discuss the adjustment you are sponsoring to current income tax expense.

A. The adjustment to current income tax expense is identified as adjustment S-33.1 on Accounting Schedule 10. Adjustment S-33.1 adjusts current income tax to reflect the difference between the test year adjusted income tax computed on Accounting Schedule 11, Income Tax, and the current income tax expense recorded during the test year.

Q. Please explain how current income tax is calculated on Accounting Schedule 11, Income Tax.

A. Net operating income (NOI), as calculated on Accounting Schedule 9, Income Statement, is the starting point of the test year income tax calculation (column B) on Accounting Schedule 11. The NOI for Staff's recommended rate of return (Line 1, column C) was calculated on Accounting Schedule 1, Revenue Requirement. The adjusted current and deferred income taxes are added back to NOI to determine the NOI before income taxes (NOIBT). NOIBT is then adjusted for various tax-timing differences to determine the amount of taxable income. The Federal and State income taxes are calculated based on current statutory rates applied to the taxable income after allowances for applicable income tax deductions and credits. State income taxes are deductible in the determination of Federal taxable income and one-half of Federal income taxes are deductible for State taxable income.

Q. What is the justification for the additions and subtractions that were used to adjust NOIBT?

A. The Internal Revenue Code (Code) dictates what is appropriately included, or deducted, in determination of taxable income. The adjustments made to NOIBT are necessary to reconcile the income reported on the income statement with the taxable income determined in compliance with the Code. These adjustments are commonly referred to as tax-timing differences or Schedule M items. The justification for any adjustment/difference between NOIBT (as reported on the books and adjusted by the Staff) and taxable income is dictated by the Code. Schedule M is the Federal tax form in which the Company annually reconciles the difference between book income and taxable income. The Staff has added or subtracted the Schedule M items from NOIBT necessary for ratemaking purposes.

Q. Please discuss the adjustments to NOIBT.

A. The adjustments to NOIBT related to depreciation are reflected in three separate line items on Accounting Schedule 11; line 7 is an addition to taxable income for the annualized depreciation included in book income, line numbers 12 and 13, excess tax depreciation and tax straight line depreciation, respectively, reduces taxable income to reflect the depreciation that is deductible for tax purposes.

Q. Why have three separate adjustments been used to adjust taxable income for depreciation?

A. Depreciation could have been presented as a single net adjustment to taxable income. However, presenting the adjustment for depreciation using three components provides a clearer illustration of how tax income is developed and the impact these components have on tax expense.

As previously indicated, the Code is the basis for determining what is deductible for tax purposes. Therefore, to properly state taxable income, book depreciation (line 7) is added back and tax depreciation (sum of Lines 12 and 13) is deducted from NOIBT. Tax depreciation is presented as two separate components because each of these components has a distinct impact on income tax expense. Straight-line tax depreciation is the equivalent of book depreciation, restated to reflect the tax basis of plant-in-service, and provided "flow-through" treatment. The difference between total tax depreciation and tax straight-line depreciation, identified as excess tax depreciation, is required by the Code to be "normalized."

Q. Why is there a difference between book depreciation and tax depreciation?

A. A difference exists between the depreciable book and tax basis because the Code has allowed expenditures to be expensed in the year incurred for tax purposes that have historically capitalized for book purposes. As a result, the tax basis is typically lower than the basis used to calculate book depreciation.

Q. What is the basis for the difference between total tax depreciation and tax straight-line depreciation that you have identified as excess tax depreciation?

A. The Code provides for a quicker recovery of the tax basis plant investment through the use of accelerated depreciation methods. This will normally generate a larger depreciation deduction for tax purposes than depreciation calculated on a straight-line basis. As state previously, there is a requirement that the tax depreciation in excess of tax straight-line be normalized.

Q. What is meant by the terms "flow-through" and "normalized?"

A. The term flow-though refers to the tax treatment that equates the amount provided by the ratepayer for income tax expense with the amount paid to the taxing authority. Under normalization, the impact of a tax-timing difference on current income tax expense is offset by deferred income tax expense. The ratepayer provides the funds to the Company as if the tax-timing difference did not exist.

Q. How were the two components of tax depreciation determined?

A. In response to a Staff data request, Fidelity Telephone provided the tax basis of its plant in service. A calculation was then made to develop the ratio of the tax basis to the per book basis of plant in service at December 31, 2003. That ratio was applied to the Staff's annualized book depreciation in order to get the equivalent straight-line depreciation for tax purposes. The tax straight-line depreciation was then subtracted from the total tax depreciation provided by the Company.

Q. How were these two depreciation components reflected in the determination of income tax expense?

A. The difference between book depreciation and tax straight-line is flowed-through and the difference between total tax depreciation and tax straight-line is deferred.

Q. Please describe the other adjustments to NOIBT to compute taxable income on Accounting Schedule 11.

A. The adjustment to NOIBT that reduces current taxable income is interest expense. The interest expense deduction was calculated by multiplying rate base by the Staff's calculated weighted cost of debt, sponsored by Staff witness David Murray. This method of determining interest expense is known as interest synchronization because the interest used in the calculation of income tax expense is matched with the interest expense the ratepayers are required to provide to the Company in rates. Interest synchronization has been consistently used by the Staff and adopted by the Commission in past orders.

DEFERRED INCOME TAX

Q. Please discuss your adjustment deferred income tax expense.

A. Adjustment S-34.1 reflects the amortization of Fidelity Telephone's net operating ITC.

Adjustment S-34.2 adjusts deferred income tax expense to reflect the impact on total tax expense for the tax timing differences that are being normalized, as previously discussed with regards to the development of current taxable income. This adjustment reflects the normalization of tax timing differences that decrease current taxable income. The accumulated deferred tax balances related to the past tax timing differences have been normalized and have been included in the determination of the rate base.

Q. Why has the Staff used unamortized operating ITC to reduce rate base?

A. Unamortized operating ITC is being provided the same treatment by the Staff as other deferred income taxes that have been funded by the ratepayer.

Q. Does this conclude your direct testimony?

A. Yes it does.

CASE PARTICIPATION
DAVID G. WINTER

Date Filed	Issue	Case Number	Exhibit	Case Name
1982	Depreciation	TR82199	Direct, Rebuttal	Southwestern Bell Telephone
9/10/1984	Accounting Issues	ER84168 & EO85177	Direct	Union Electric Company
3/22/1985	Accounting Issues	ER85128 & EO85185	Direct	Kansas City Power & Light Company
4/1/1985	Accounting Issues	ER85128 & EO85185	Rebuttal	Kansas City Power & Light Company
4/1/1985	Accounting Issues	ER85128 & EO85185	Surrebuttal	Kansas City Power & Light Company
5/20/1994	Cash Working Capital, Pensions	ER94174	Direct	The Empire District Electric Company
1994	System Wide Margin Rate	GA94127	Rebuttal	Tartan Energy Company, LLC
6/13/1994	Cash Working Capital, Pensions	ER94174	Supplemental Direct	The Empire District Electric Company
9/8/1994	Payroll, Pensions, Amortizations	WR94297	Direct	Capital City Water Company
10/13/1994	Payroll, Pensions, Amortizations	WR94297	Rebuttal	Capital City Water Company
10/27/1994	Payroll, Pensions, Amortizations	WR94297	Surrebuttal	Capital City Water Company
5/19/1995	System Wide Margin Rate	GA95216	Rebuttal	Missouri Public Service
5/19/1995	System Wide Margin Rate	GA95231	Rebuttal	Missouri Gas Company
1996	Effects of Merger	GM9661	Rebuttal	Tartan Energy/Southern Missouri Gas
1/18/1996	Revenues, Policy	TR96123	Direct	Steelville Telephone Company
1997	Accounting Issues	ER9743	Direct	The Empire District Electric Company
11/1/1996	Revenue Requirement	ER9782	Direct	The Empire District Electric Company
2/13/1997	True-up Revenue, Test Year, Municipal Franchise Taxes, Bad Debts	ER9781	Direct	The Empire District Electric Company
5/22/1997	Revenue Requirement, Adjustments to Staff's True-up Audit	ER9781	Supplemental True-up	The Empire District Electric Company
1997	Cost Recovery Mechanism	TO97217	Stipulation	Primary Toll Carrier Plan
2/17/1998	All Accounting Issues, Revenue Requirements	TO98216	Direct	Northeast Missouri Rural Telephone Company
7/20/1998	Revenue Requirements	TR98343	Direct	Mid-Missouri Telephone Company
1998	Accounting Issues, Revenue Requirements	TR98344	Stipulation	Fidelity & Bourbeuse Telephone Company

Date Filed	Issue	Case Number	Exhibit	Case Name
8/10/1998	All Accounting Issues, Revenue Requirements	TR98345	Direct	Lathrop Telephone Company
1998	All Accounting Issues, Revenue Requirements	TR98346	Direct	Citizen’s Telephone Company
1998	All Accounting Issues, Revenue Requirements	TR98347	Direct	McDonald County Telephone Company
1998	All Accounting Issues, Revenue Requirements	TR98348	Direct	Oregon Farmers Mutual
1998	All Accounting Issues, Revenue Requirements	TR98349	Direct	Rock Port Telephone Company
8/6/1998	Special Amortization, Revenue Requirements	TC98350	Direct	Miller Telephone Company
1998	All Accounting Issues, Revenue Requirements	TR98372	Direct	Le-Ru Telephone Company
8/10/1998	Revenue Requirement	TR98373	Direct	Seneca Telephone Company
8/10/1998	Revenue Requirements	TR98347	Direct	McDonald County Telephone Company
8/10/1998	Revenue Requirements	TR98345	Direct	Lathrop Telephone Company
8/10/1998	Revenue Requirement	TR98373	Direct	Goodman Telephone Company
1/25/1999	Section 272	TO99227	Rebuttal	Southwestern Bell Telephone Company
5/13/1999	IntraLATA Dialing Parity Plans Costs	TO99254	Surrebuttal	Primary Toll Carrier Plan and IntraLATA Dialing Parity
6/25/1999	Depreciation Expense, Water Treatment Plant Costs, Property and Income Taxes, Depreciation Reserve, Rate Base,	WR99326	Direct	United Water Missouri, Inc.
12/22/1999	Rates Based on Spectra's Cost of Service, Price Cap Regulation, Transactions Costs, Taxes, Accumulated Deferred Income, Acquisition Adjustment	TM2000182	Rebuttal	GTE Midwest Incorporated and Spectra Communications Group LLC
8/15/2002	Membership Fees, Earnings Review, Universal Service Fund, Tax Implications, Accumulated Deferred Income Taxes, Acquisition Premium and Increment Acquisition Costs, Merger Background, Detriment Standard, Summary	TM2002465	Rebuttal	Northeast Missouri Rural Telephone Company & Modern Telecommunications Company
2002	Taxes, USF, Earnings Investments	TM2002232	Stipulation	CenturyTel/Verizon

COPY

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of the application of Fidelity Communications Company for authority to purchase or acquire, take or hold more than ten percent of the total capital stock issued by Fidelity Telephone Company and Bourbeuse Telephone Company.	)))))))	Case No. TM-89-113

STIPULATION AND AGREEMENT

On December 14, 1988 Fidelity Communications Company ("Applicant") filed its Application with the Missouri Public Service Commission ("Commission") for authority, pursuant to Section 392.300 RSMo. Supp. 1988, to purchase or acquire, take and hold more than ten percent of the total capital stock issued by Fidelity Telephone Company (Fidelity) and Bourbeuse Telephone Company (Bourbeuse). Pursuant to the Stock Subscription and Restructuring Agreement attached to the Application, the owners of Fidelity and Bourbeuse Telephone Companies seek to create a holding company by exchanging their stock in Fidelity and Bourbeuse for stock in the Applicant. In addition, Systems Plus and Cellutel Inc., which are non-regulated corporations owned by Fidelity and Bourbeuse, will become separate subsidiaries of the Applicant.

As a result of discussions with representatives of the Commission Staff and the Office of the Public Counsel

(Public Counsel) in January of 1989, it was agreed that Commission action on the application would be held in abeyance in order to give Staff additional time to review the Application particularly in light of Staff's pending earnings investigation of Fidelity and Bourbeuse Telephone Companies.

On September 29, 1989, pursuant to an order setting prehearing conference and hearing, representatives of Applicant, the Commission Staff and the Office of the Public Counsel, participated in a prehearing conference in the instant case. As a result of said prehearing conference, the undersigned parties hereby stipulate and agree as follows:

1. Fidelity Telephone Company, Bourbeuse Telephone Company, Fidelity Communications Company, Systems Plus, Inc., and Cellutel, Inc. (hereinafter the "Fidelity Group"), agree to implement improved accounting procedures to better allocate labor costs between the individual companies which compose the Fidelity group and to more accurately reflect the costs applicable to each company. Such allocations will be based on the following general principles:

a. Officer level employees will directly report time spent on daily basis for telephone company and each individual other company business.

b. Additional management employees whose activities vary widely on a regular basis will report time on a daily basis.

c. Union employees involved in day to day craft activities will continue to report time on a daily basis with appropriate identification of account codes and work by specific company.

d. Time of other employees whose activities are fairly constant in nature will be studied on a regular basis, or allocated based on the nature of their activities as appropriate.

e. Specific procedures to be implemented by the Fidelity Group in regard to time reporting are outlined in Attachment A and will be implemented by December 1, 1989. Consistent with the principles outlined in "a" through "d" above, these procedures may be modified from time to time as circumstances within the companies change. The reasons for any such modification shall be documented.

2. The companies also agree to improve procedures for allocating other costs so that there is a more accurate attribution of costs to each company. Implementation of these procedures will be balanced between the need for detailed accurate information and the cost of achieving such information. In accomplishing this objective, the following general principles will be followed:

a. Fringe benefit costs directly related to labor costs (health insurance, FICA, unemployment tax, and retirement plan costs) will be allocated based on the direct labor allocation for employees in the associated labor group.

b. Expenses which can easily be directly charged to individual companies (such as professional fees and travel expenditures) will be.

c. Other expenses which cannot easily be directly charged by company will be allocated among the companies based on a relationship of these other expenses to the labor dollars allocated to each company. Such allocation will be based on the relationship developed in an annual study of the other expenses and labor dollars.

d. Specific procedures to be implemented by the Fidelity Group (Target date January 1, 1990) in regard to other expenses are outlined in Attachment B. Consistent with the principles outlined in "a" through "c" above, these procedures may be modified from time to time as circumstances within the companies change. The reasons for any such modification shall be documented.

3. The Fidelity Group will institute improved procedures for approval of invoices and time sheets. Specifically, the companies will assure that each time sheet and invoice has written approval of an appropriate management person before being paid. Furthermore, the Fidelity group will instruct personnel to see that adequate documentation is included with the payment approval to identify the item for which payment is being made.

4. The Fidelity Group will prepare and execute simple contracts between the companies outlining the services and goods that will be purchased between companies and the basis

for charging for those items. Such contracts will be targeted for completion and execution by December 31, 1989.

5. Fidelity Communications Company, the holding company, will provide access to its books and records to the Missouri Public Service Commission or the Missouri Office of the Public Counsel when the telephone companies are under a regulatory review or audit by either of those agencies under the normal time frames and procedures for such proceedings.

6. The staff of the Missouri Public Service Commission and the Office of the Public Counsel agree not to oppose the application of Fidelity Communications Company to acquire the stock of Fidelity Telephone Company and Bourbeuse Telephone Company.

7. That this Stipulation and Agreement is a negotiated settlement submitted to the Commission for the purpose of resolving all issues among the Signatory Parties. In the event the Commission does not adopt this Stipulation and Agreement in its entirety, none of the Parties shall be prejudiced or bound by the terms of this Stipulation and Agreement in any future proceeding, or in this proceeding.

8. That in the event the Commission accepts the specific terms of this Stipulation and Agreement, the Parties waive their rights to present oral argument and written briefs pursuant to Section 536.080, RSMo 1986; their rights pertaining to the reading of the transcript by the

Commission pursuant to Section 536.080, RSMo 1986; and their rights to judicial review pursuant to Section 386.510, RSMo 1986.

Respectfully submitted,

W. R. England, III #23975
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Dated this 29th day of September, 1989.

Detail Time Procedures to be Implemented
by Fidelity Telephone Company

A. Time reporting procedures for company employees will be implemented as outlined below:

(1) Company officers

a. Daily reporting of time between companies based on all hours spent for that day. Each employee will support his time reporting with additional documents as appropriate. Such documents will be retained for at least three years. Reporting would be to Combined Telephone Companies, Systems Plus, Cellutel, Inc., and Fidelity Communications Company. In addition, time would be reported for activities applicable to all companies to a separate "all company" category. The combined telephone company time would be allocated between Fidelity and Bourbeuse based on net operating revenues for the previous year. Time in the "all company" category will be allocated to individual companies based on the allocation of direct reported time. All time will be recorded as Executive Expenses.

(2) Customer Service Manager, Network Design Manager,

a. Daily reporting of time by Company and function. Time would be reported on hours spent for the day. Company definitions would be as outlined in (1) a. Specific functions will need to be identified.

(3) Other General Office administrative personnel

a. Daily reporting of time by Company and function for a one-month period. Time would be reported on hours spent for the day. Company definitions would be as outlined in (1) a. Specific functions will need to be identified. Results of the study will be used for that employee until a new study is taken. Studies will be taken on an annual basis and when there is a significant change in an employee's responsibilities.

(4) Commercial employees

a. The customer contact representatives and their first line supervisor would be included in this group. The time of this group would be allocated based on revenues billed by the telephone companies for each telephone company and Systems Plus. If in the future, the telephone company bills on behalf of Cellutel, those revenues billed would be included as well.

(5) Janitorial employees

a. Time for these employees would be directly charged to building maintenance accounts without any time sheet reporting. An allocation of time between companies would be made based on an annual study of the use of the floor space in the general office building.

(6) Construction, COE, and I&R Labor Groups

a. Most craft individuals would continue to report time on a daily basis, reporting time to the nearest fifteen minute increment. This reporting is already by company and function.

b. Craft employees in the service/dispatch center would conduct a study of the number of activities for a two-week period of time. Company and account distribution for these employees for the year would be based on appropriate allocation of the activities they participate in.

c. The craft employee in the warehouse would be allocated based on allocation of craft employees in the I&R group.

d. Supervisory time would be allocated based on the allocation of employees in the labor group. Time spent by supervisors on specific direct work functions would be allocated to the appropriate company and account code using an exception time reporting procedure.

Fidelity Telephone Company
Detail Procedure for Allocating
Costs Other than Labor

1. Fringe benefit costs directly related to labor costs (health insurance, FICA, unemployment tax, and retirement plan costs) will be allocated based on the direct labor allocation for employees in the associated labor group.

2. Vehicle operating costs for construction, COE, and I&R vehicles will be allocated to companies based on the allocation of labor hour in the respective labor groups.

3. Insurance expense for corporate insurance policies will be individually analyzed and allocated between the companies based on the nature of the specific insurance policy.

4. Individual contracts between the companies will contain specific contractual charges for use of buildings by companies other than the owner of the building.

5. Expenses which can easily be identified to a specific company will be directly charged to that company. Expenses to the following expense codes will be directly identified and charged by company:

41 - Rent-Outside Plant
53 - Overnight Delivery
56 - Outside Plant - Cable & Wire
57 - Contract Labor
66 - Travel
67 - Business Meals
68 - Entertainment
69 - Seminar & Convention Fees
70 - Meal Allowances
82 - Industry Dues
84 - Damages & Claims
85 - Professional Fees
91 - Advertising
93 - Bad Debts
96 - PSC Expense
97 - Taxes

6. An allocation of other expenses that are not directly charged by company will be made based on an allocation factor developed by an annual study. The study will normally be made at the end of the calendar year and will be used for allocating the next calendar year's other expenses. Development of the allocation factor will take place as follows:

a. Other expenses for the following expense codes will be accumulated for the account codes listed in below:

38 - Rent - DP Equipment
39 - Rent - Office Equipment
40 - Rent - Buildings
44 - Telephone
45 - Electric
46 - Gas
47 - Water, Garbage, Sewer
48 - Security Service
50 - Materials
51 - Tools
52 - Shipping
55 - Equipment
59 - Fuel for off-road use
60 - Gas & Oil
61 - Repairs
62 - Tires
63 - Other vehicle Expense
65 - Vehicle Allowance
81 - Office Supplies
83 - Postage
94 - Collection Expense
95 - Credit Card Fees
99 - Other

b. Expenses from the following account codes will be included in the study for the expense codes listed in "a" above.

6112-01 - Motor Vehicle Expense - Management
6123-00 - Office Equipment Maintenance
6124-00 - Computer Maintenance
6534-00 - Plant Operations Administration
6612-00 - Sales Expense
6623-01 - Cust Service - Business Office
6623-02 - Cust Service - Collection Expense
6623-06 - Other Billing
6710-00 - Executive Expense
6721-00 - Accounting & Finance Expense
6724-00 - Info Management Expense
6728-00 - Other General Administration Expense

c. Labor dollars included in the annual study will include all labor dollars cleared to final company accounts of all companies from the General Office and Commercial labor groups.

d. A ratio of the other expense dollars identified from the expense codes (a) of account codes (b) to the labor dollars identified in (c) will be calculated. This ratio will then be used in the subsequent year to multiply times the labor dollars from the General Office and Commercial labor groups to other companies to identify the "other expenses" that should be allocated to those companies.