

Exhibit No.:  
Issues: *SBC Parent Costs*  
Witness: *Robert E. Schallenberg*  
Sponsoring Party: *MoPSC Staff*  
Type of Exhibit: *Supplemental Surrebuttal  
Testimony*  
Case Nos.: *TC-93-224 & TO-93-192*

**MISSOURI PUBLIC SERVICE COMMISSION  
UTILITY SERVICES DIVISION**

**SOUTHWESTERN BELL TELEPHONE COMPANY  
CASE NOS. TC-93-224 & TO-93-192**

**SUPPLEMENTAL SURREBUTTAL TESTIMONY  
OF  
ROBERT E. SCHALLENBERG**

*Jefferson City, Missouri  
June, 1993*

**REVISED  
NP**

**\*\*Denotes Highly Confidential Information\*\***

Exhibit No. *518*  
Date *8-3-93* Case No. *TC-93-224  
TO-93-192*  
Reporter *Shelley Harmon*



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1           A.     One of the difficulties with Mr. Flaherty's testimony and the attached  
2 reports is his failure to focus on the Commission ordered 1991 test year in this case.  
3 For example, if one reviews Schedule 2, page V-46 of his rebuttal testimony, he  
4 provides a chart related to 1992 SBC costs. Since the Company in its rebuttal  
5 testimony does not seek to include in its case calendar year 1992 SBC costs (SWBT  
6 proposes the test year ending September 30, 1992 level of SBC costs), portions of Mr.  
7 Flaherty's testimony does not correspond to any cost of service proposal related to  
8 SBC costs.

9           All the documentation that supports Mr. Flaherty's testimony has yet to be  
10 provided to the Staff, which creates another difficulty in addressing Mr. Flaherty's  
11 rebuttal testimony. This testimony will be written to assume that if Mr. Flaherty has  
12 not provided any documentation to support a portion of his testimony, then his  
13 statements are not supported by any underlying documentation.

14           I do agree with Mr. Flaherty that the Federal Communication Commission  
15 (FCC) cost allocation rules apply to this issue. In that regard, I will address his  
16 corporate value study, for which the results are not actually relevant to this issue since  
17 there is no provision within the FCC rules for waiver of their application in lieu of a  
18 corporate value study.

19           Q.     What are the FCC rules that apply to this issue?

20           A.     Mr. Flaherty provides his description of the applicable rules on his  
21 Schedule 2, pages IV-6 through IV-8:

***Federal Communications Commission***

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***As part of its overall regulatory oversight of the telecommunications industry, the Federal Communications Commission (FCC) has developed and implemented rules regarding cost accumulation and separation. In FCC Report and Order, CC Docket No. 86-111 released February 6, 1987, rules were established regarding the assignment and apportionment of costs related to both regulated and unregulated subsidiaries. These rules are predicated on the fact that the FCC wants to assure that adequate structure is provided to regulated entities in order to eliminate the potential for any cross-subsidization.***

***FCC Docket No. 86-111 provides both general and specific rules regarding cost apportionment. These rules and underlying principles are intended to reflect fully distributed cost principles as contained in Section 64.901 of the FCC's rules. In developing the cost allocation standards and guidelines contained in FCC Docket No. 86-111, the FCC explained its rationale on several occasions. The following paragraphs from the Report and Order provide insight into the FCC's rationale:***

148. . .all costs with either a direct or an indirect causal link to either regulated or non-regulated activities will be directly assigned to the appropriate activity. The remaining costs will then be apportioned between the regulated and non-regulated activities. ***Cost causational attribution factors will be used whenever possible, and the remaining costs will be apportioned on the basis of a general allocator.***

152. . . In our NPRM we proposed a hierarchy of principles which should be used in the allocation of costs: that dedicated costs should be directly assigned; that common costs should be allocated based upon a direct measure of relative use if possible, otherwise on an indirect



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1                    *measure of use; and that if no adequate direct*  
2                    *or indirect measure could be devised, then a*  
3                    *general allocator should be used. After*  
4                    *considering the comments of the parties we now*  
5                    *conclude that the general principles espoused in*  
6                    *the NPRM are reasonable. . .*

7  
8                    156. c. General allocator - We have decided to  
9                    depart from the general allocator proposed in the  
10                    NPRM, and to adopt a single-factor allocator  
11                    based on total company expense. *The allocator*  
12                    *is to be computed by using the ratio of all*  
13                    *expenses directly assigned or attributed to*  
14                    *regulated and non-regulated activities, and*  
15                    *applying that ratio to residual costs.* We believe  
16                    that this general allocator is responsive to a  
17                    majority of the comments we have received on  
18                    this issue, and *will provide a reasonable method*  
19                    *for allocating residual costs.*

20  
21                    In these comments, the *FCC has recognized that direct*  
22                    *assignment followed by cost causation-related*  
23                    *allocations are the preferred methods for cost*  
24                    *apportionment.* However, the *FCC also recognized that*  
25                    *for many cost categories, no cost-causative allocation*  
26                    *factor would be available. In those cases, it was*  
27                    *determined that an overall allocation factor must be*  
28                    *defaulted to and used even though no specific*  
29                    *relationship would be demonstrated.*

30  
31                    The general comments above are reflected in the cost  
32                    allocation standards and guidelines contained within FCC  
33                    Docket No. 86-111 for cost apportionment. These  
34                    include:

35  
36                    (b) In assigning or allocating costs to regulated  
37                    and non-regulated activities, carriers shall follow  
38                    the principles described herein.

39  
40                    (1) Tariffed services provided to a non-  
41                    regulated activity will be charged to the  
42                    non-regulated activity at the tariffed rates

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1 and credited to the regulated revenue  
2 account for that service.

3  
4 (2) Costs shall be directly assigned to  
5 either regulated or non-regulated activities  
6 whenever possible.

7  
8 (3) *Costs which cannot be directly*  
9 *assigned to either regulated or non-*  
10 *regulated activities will be described as*  
11 *common costs. Common costs shall be*  
12 *grouped into homogeneous cost*  
13 *categories designed to facilitate the*  
14 *proper allocation of costs between a*  
15 *carrier's regulated and non-regulated*  
16 *activities. Each cost category shall be*  
17 *allocated between regulated and non-*  
18 *regulated activities in accordance with the*  
19 *following hierarchy:*

20  
21 (i) *Whenever possible, common*  
22 *cost categories are to be allocated*  
23 *based upon direct analysis of the*  
24 *origin of the costs themselves.*

25  
26 (ii) When direct analysis is not  
27 possible, common cost categories  
28 shall be allocated based upon an  
29 indirect, cost-causative linkage to  
30 another cost category ( or group  
31 of cost categories) for which a  
32 direct assignment or allocation is  
33 available.

34  
35 (iii) *When neither direct nor*  
36 *indirect measures of cost*  
37 *causation can be found, the cost*  
38 *category shall be allocated based*  
39 *upon a general allocator*  
40 *computed by using the ratio of*  
41 *all expenses directly assigned or*  
42 *attributed to regulated and non-*  
43 *regulated activities.*

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1           These principles provide a framework for assessing the  
2           reasonableness of an allocation approach. These  
3           principles represent the results of extended and detailed  
4           debate and discussion by interexchange carriers, local  
5           exchange carriers, customers, regulators and vendors, and  
6           provide an indication of the parameters considered  
7           relevant and implementable. The guidelines described  
8           above clearly recognize that situations will arise where  
9           costs are not identifiable with any causative factor and  
10          must be apportioned on a basis that represents a  
11          proportionalization of expenses assigned or allocated  
12          prior to that point. Thus, it encompasses the concept  
13          that benefits may be attributable to an entity for residual  
14          costs or general activities based on the level of benefit  
15          already derived through assignment or direct allocation.  
16          Consequently, benefits are assumed to flow to entities  
17          based on nondiscrete factors that are indirectly indicative  
18          of use or proportion. Furthermore, the *implications of*  
19          *FCC Docket No. 86-111 are directly relevant to SBC,*  
20          *because as an affiliate of SWBT, SBC is required to*  
21          *comply with FCC Docket No. 86-111 if it intends*  
22          *SWBT to record the full amount of SBC allocated*  
23          *costs.* (Emphasis added; FCC Docket No. 86-111).

24           Q.     What is the relevance of the FCC cost allocation rules to this issue?

25           A.     These rules are the core to this issue. I agree with the following  
26          statement by Mr. Flaherty on page 9 of his rebuttal testimony:

27                   SBC is considered an affiliate of SWBT because it  
28                   performs activities on behalf of SWBT. As an affiliate  
29                   company, if it wishes to charge SWBT for various  
30                   services, *it must meet all the conditions and*  
31                   *requirements for distributing costs as promulgated by*  
32                   *FCC Docket No. 86-111.* (Emphasis added)

33           Mr. Flaherty goes on to state that "SBC does, in fact, meet all these  
34          conditions". I agree that SBC must meet the requirements of the FCC Docket No.  
35          86-111 (86-111). I do not agree with Mr. Flaherty that SBC is meeting the 86-111

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1 conditions and requirements for cost distribution. In fact, my examination of SBC  
2 reveals instances of cost allocations to SWBT that were contrary to each of the 86-111  
3 requirements already discussed, as well as those discussed on page 9 and 10 of Mr.  
4 Flaherty's rebuttal testimony. The Staff's cost of service adjustments that Mr. Flaherty  
5 opposes in his rebuttal testimony are intended to address a portion of the 86-111 rule  
6 variances. It should be noted that data provided by SBC since the filing of Staff's  
7 complaint case and in Mr. Flaherty's workpapers provided in support of his rebuttal  
8 testimony have shown that I underestimated the extent of 86-111 variances that have  
9 occurred at SBC. This will be addressed later.

10 Q. How will your testimony be structured?

11 A. Ms. Wepfer, on page 6G of her rebuttal testimony, categorized the four  
12 major components of this issue as follows: (1) Inclusion of SBC in General Factor,  
13 (2) SBC Business Unit Adjustment; (3) SBC General Factor Adjustment; and (4)  
14 SBC Expense Disallowance.

15 The requirements of the 86-111 would satisfy the Staff's criteria discussed by  
16 Mr. Flaherty on page 16 of his rebuttal testimony, and are the basis for the Staff's  
17 position on each of the four issues listed above. Unnecessary and duplicative costs  
18 should not be directly assigned or charged to accounts that are allocated to SWBT.  
19 SBC functions that SWBT would not perform without SBC likewise should not be  
20 directly assigned or charged to accounts that are allocated to SWBT. The 86-111  
21 allocation requirements and hierarchy would result in a reasonable and equitable  
22 allocation process.

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1 I will address Mr. Flaherty's testimony in the same format and order as  
2 suggested above by Ms. Wepfer for the four categories of issues with SBC costs. I  
3 will then address other points of disagreement between Mr. Flaherty and the Staff on  
4 the SBC issues.

5  
6 ***INCLUSION OF SBC IN GENERAL FACTOR***

7 Q. Can you describe the portion of 86-111 and Mr. Flaherty's testimony  
8 that addresses this component of the SBC issue?

9 A. Yes. Staff witness Kelly J. Riley's supplemental surrebuttal testimony  
10 will also address this issue. The inclusion of SBC retained costs in the general  
11 allocation factor is an issue related to the following paragraph of 86-111, as previously  
12 discussed:

13 When neither direct nor indirect measures of cost  
14 causation can be found, the cost category shall be  
15 allocated based upon a general allocator computed by  
16 *using the ratio of all expenses directly assigned or*  
17 *attributed to regulated and non-regulated activities.*  
18 (Emphasis added.)

19 The issue is whether SBC can remove the expenses it directly charges itself  
20 ("retains") before it determines the above general factor ratio. The amount of expenses  
21 allocated to SWBT is higher if the SBC retained expenses are removed from the  
22 determination of the general factor ratio. Under the FCC guidelines, I do not agree  
23 that SBC can remove its direct expenses from the determination of the general factor  
24 ratio.

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1           The rebuttal testimony of Mr. Flaherty on page 36 discusses three general  
2 points to support SWBT's position on exclusion of SBC costs from the determination  
3 of the general factor. These points are:

- 4                   1)     SBC only exists as a direct result of its operating subsidiaries;
- 5                   2)     accounting theory and standards prohibit allocation of SBC costs  
6 to SBC; and
- 7                   3)     SEC Staff Accounting Bulletin No. 55 states that parent  
8 company expenses should be reflected in the financial statements of operating  
9 subsidiaries.

10           These three points do not justify the Company's exclusion of SBC costs from  
11 its general allocator. Exclusion of SBC costs from the general allocator is contrary to  
12 the 86-111 allocation rules and results in an over-allocation of costs to SWBT and its  
13 ratepayers.

14           Mr. Flaherty's first point is based on his incorrect characterization of the role  
15 of SBC in regard to its subsidiaries. He makes this error on page 6 of his rebuttal  
16 testimony. Once the role of SBC is correctly described, Mr. Flaherty's second and  
17 third points are then supportive of the inclusion of SBC costs in the general allocator.

18           Q.     Are there other portions of Mr. Flaherty's rebuttal testimony where he  
19 fails to correctly describe the role of SBC?

20           A.     Yes. On page 3 of his rebuttal testimony, Mr. Flaherty states:

21                   SBC is a parent company organization that was created  
22 at divestiture to accept the ownership of the assets being  
23 transferred from AT&T and to provide for the strategies,



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1 corporate and financial management of its existing  
2 operating subsidiaries including SWBT.

3 The above quote was edited from the following description contained in Mr.

4 Flaherty's workpapers:

5 The SBC parent company organization was created at  
6 divestiture in 1984 to provide for the strategic and  
7 financial management of the activities *of its existing and*  
8 *future group of operating subsidiaries*. Since its  
9 inception, the structure and scope of SBC has evolved to  
10 reflect the overall needs of the business and the specific  
11 needs of its subsidiaries. As this structure has evolved,  
12 the methods used to develop, approve, assign, allocate,  
13 and monitor SBC costs have also changed. These  
14 changes in methods, specifically for cost assignment and  
15 allocation, reflect the continuing enhancement of  
16 management processes within SBC and external  
17 requirements for regulatory compliance within the states  
18 and the Federal Communications Commission (FCC).

19  
20 (Emphasis added). (Southwestern Bell Corporation, Cost  
21 Allocation System, Technical Manual, Overview,  
22 page 1).

23 It is interesting to note that the above SBC description appears in the 1989  
24 Deloitte & Touche review of SBC costs and allocations (Staff Data Request No. 1001),  
25 as well as on page I-1 of Mr. Flaherty's Schedule 2.

26 Mr. Flaherty's workpapers provide the following description of SBC in the job  
27 description of SBC's Managing Director - Strategic Planning:

28 Southwestern Bell Corporation is a holding company  
29 formed for economic and legal reasons as a result of  
30 divestiture from AT&T. As an independent business  
31 entity, SBC is solely responsible for the development  
32 and implementation of its strategic plan which is the  
33 basis for corporate return and growth *involving not only*  
34 *existing subsidiaries but also the acquisition and*

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1                    ***development of new lines of business that capitalize on***  
2                    ***the strength of the overall corporation*** (Emphasis  
3                    added.)

4                    SBC describes its basic strategy as understanding a very complex portfolio of  
5                    companies, finding growth and diversification opportunities and managing the business  
6                    with a commitment to making the choices necessary for success. The four SBC  
7                    "strategy statements" are:

- 8                    •                    Offer, through our subsidiaries, a broad range of  
9                    telecommunications products and services built  
10                    on our diverse networks.
- 11                    •                    ***Expand our wireless access businesses into new***  
12                    ***national and international territories***, and adapt  
13                    emerging technologies to create and maintain  
14                    robust, cost efficient networks.
- 15                    •                    ***Pursue international telephone company***  
16                    ***privatizations*** which have growth potential.
- 17                    •                    ***Continuously assess our businesses and rescope,***  
18                    ***divest or shut down those that have weak***  
19                    ***competitive positions or are in unattractive***  
20                    ***industries, unless they provide substantial,***  
21                    ***measurable benefits*** to other businesses in the  
22                    Corporation. (Emphasis added; Data Request  
23                    No. 71.)  
24                     
25                     
26

27                    In his testimony, Mr. Flaherty has expanded SBC's reason for existence by  
28                    adding the ownership aspect, but more importantly, he has also omitted any  
29                    acknowledgement that some of SBC's activities are not related to its existing  
30                    subsidiaries. Mr. Flaherty's rebuttal testimony omitted the fact that SBC is involved  
31                    in the acquisition of companies and/or interests in companies as well as selling its  
32                    subsidiary operations and/or portions of its subsidiaries.

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1           Mr. Flaherty fails to consider, in regard to the issue of "Inclusion of SBC in  
2           General Factor", that SBC engages in activities that are not related to its existing  
3           subsidiaries. This point is evidenced by the fact that SBC retains certain expenses.  
4           The criteria for SBC to retain costs is that these costs are of no benefit to the SBC  
5           subsidiaries. Since SBC retains costs (e.g., \*\*\_\_\_\_\_\*\* in 1991), as shown in  
6           Mr. Flaherty's workpapers, then SBC does engage in activities that are not related to  
7           any of SBC's subsidiaries.

8           Q.     Please discuss Mr. Flaherty's second and third points concerning this  
9           issue.

10          A.     Mr. Flaherty's second point asserts "that costs should be allocated based  
11          on cost-causally related allocation factors and/or allocated based on the relative level  
12          of benefits received". Inclusion of SBC costs in the general allocator will allocate  
13          common residual costs to SBC activities which are related to its subsidiaries, as well  
14          as allocate SBC residual costs to SBC activities not related to its subsidiaries.

15          Finally, Mr. Flaherty's concern regarding SEC Staff Accounting Bulletin No.  
16          55 is unfounded. Mr. Flaherty already acknowledges (Schedule 2, page V-51) the fact  
17          that some SBC costs are retained at SBC and some SBC costs will be charged to the  
18          subsidiaries. The issue of including SBC in the general allocator only impacts the  
19          amount of costs retained. This is not a real concern at SBC, as will be addressed later.  
20          Mr. Flaherty has already accepted the concept that some of SBC costs will not be  
21          reflected on the subsidiaries' financial statements. Therefore, his concern related to  
22          this particular issue is inconsistent.

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1 Q. On page 24 of his rebuttal testimony, Mr. Flaherty states:

2 Staff's inclusion of SBC retained expenses in the general  
3 factor calculation is in appropriate. Staff asserts that  
4 SBC should share in the common costs of the  
5 corporation by claiming that it receives a benefit from  
6 the services that are provided. However, SBC's purpose  
7 is to provide direction and oversight for all SBC  
8 subsidiaries. The subsidiaries are the beneficiaries of  
9 these functions, not SBC. If there were no subsidiaries,  
10 there would be no parent company costs. Thus,  
11 allocating SBC parent company costs to itself is not  
12 logical and would distort the allocation process.

13 Do you agree?

14 A. No. SBC engages in merger, acquisition, and divestiture activity. This  
15 activity is not a benefit to existing SBC subsidiaries. Mr. Flaherty's discussion of  
16 SBC's purpose and role in regard to its subsidiaries has already been discussed and  
17 will not be repeated here.

18  
19 ***SBC BUSINESS UNIT ADJUSTMENT***

20 Q. Can you describe the portion of 86-111 and Mr. Flaherty's testimony  
21 that addresses this component of the SBC issue?

22 A. Yes. The SBC business unit adjustment is an issue related to the  
23 following 86-111 paragraphs that have previously been discussed:

24 Whenever possible, common cost categories are to be  
25 allocated based upon direct analysis of the origin of the  
26 costs themselves.

27  
28 When direct analysis is not possible, common cost  
29 categories shall be allocated based upon an indirect,  
30 cost-causative linkage to another cost category (or group

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1                   of cost categories) for which a direct assignment or  
2                   allocation is available.  
3

4                   The issue here is whether the SBC investment and employee allocation factors  
5                   represent a direct analysis of the origin of the related costs. I do not believe that they  
6                   do. I developed the Staff's business unit allocator as the best attempt to meet the  
7                   requirements of the above portion of 86-111. However, I am not opposed to treating  
8                   those expenses listed on Mr. Flaherty's Schedule 2, pages V-59 and V-60 as being  
9                   currently allocated by employees or investment as general in nature, and allocating  
10                  them by the general allocator.

11                  Mr. Flaherty's rebuttal testimony addresses this issue in several different places.  
12                  I will address those portions of Mr. Flaherty's rebuttal testimony in the following  
13                  questions and answers.

14                  Q.     On page 56 of his rebuttal testimony, Mr. Flaherty states that Staff's  
15                  business unit method is not based on cost causation principles or any other accepted  
16                  method of allocation. Is this accurate?

17                  A.     No. Bellcore uses a business unit method for its core and/or  
18                  infrastructure expenses. These expenses are assigned/allocated to each Regional Bell  
19                  Operation Company (RBOCs) in equal one-seventh shares. There are seven RBOCs.  
20                  Transactions with Bellcore are affiliated transactions from the perspective of SWBT  
21                  and must meet the 86-111 requirements.

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1           Q.     On page 6 of his rebuttal testimony, Mr. Flaherty states the expenses for  
2 employee information and pension plan administration is directly related to the  
3 operating subsidiaries' average number of employees. Do you agree?

4           A.     No. I would agree with the example in Mr. Flaherty's workpapers that  
5 describes the expense of sending a bulletin to each employee as directly related to the  
6 number of employees. However, the writing of the employee bulletin is a fixed/semi-  
7 fixed cost as shown in his workpapers and not directly related to the number of  
8 employees. Further, Mr. Flaherty's example also shows that the designing of an  
9 employee benefits package is a fixed/semi-fixed cost, and not directly related to the  
10 number of employees. I will address pension plan administration in a later section of  
11 this testimony.

12          Q.     On page 6 of his rebuttal testimony, Mr. Flaherty states that "using the  
13 investment factor . . . reflects the amount of equity investment in the operating  
14 subsidiary and its relative need for capital." Is this true?

15          A.     No. The investment factor represents the amount of equity recorded on  
16 the subsidiary's books. It does not represent their relative need for capital. It does not  
17 represent the amount of equity capital raised by the sale of SBC stock. SBC has not  
18 issued stock for the purpose of raising capital at any time. SBC has generated its  
19 equity capital internally.

20                The book equity accounts do not reflect the representative subsidiaries' need  
21 for capital. In fact, the representative subsidiaries' need for capital is much different  
22 than the amount of equity reflected on the subsidiaries' books. For example, in



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1       \*\*  
2       \_\_\_\_\_

3       \_\_\_\_\_\*\* This information for each SBC subsidiary for 1990 - 1993 is given in  
4       Schedule 1 attached to this testimony.

5               The information on Schedule 1 shows that SWBT is not the main user of SBC  
6       equity contributions. SWBT has not received an equity contribution from SBC since  
7       1988. Therefore, SBC's investment factor does not represent (1) the SBC subsidiaries'  
8       relative need for capital, (2) SBC's capital flow, and (3) the use of capital among  
9       subsidiaries.

10              Q.     On pages 19 and 20 of his rebuttal testimony, Mr. Flaherty disagrees  
11       with your conclusions that SBC's use of the investment allocation factor is inequitable  
12       and unreasonably. Further, Mr. Flaherty also states on page 21 of his rebuttal  
13       testimony that "as noted previously, the SWBT investment causes most of those costs."

14       Are his statements accurate and supported?

15              A.     No. Mr. Riley's supplemental surrebuttal testimony also addresses Mr.  
16       Flaherty's testimony regarding this point. Mr. Flaherty shows the SBC cost centers  
17       that are allocated by the investment factor on his Schedule 2, pages V-5 and V-6. Mr.  
18       Flaherty's workpapers show that some of the work performed in these cost centers is  
19       related to debt and not equity activity. For example, the Investor Relations program  
20       is designed to anticipate and address the informational needs of four principal target  
21       audiences. One of these audiences is the debt rating agencies (i.e., Moody's Investor  
22       Service, Standard & Poors, and Duff & Phelps, Inc.). The presentation material is not

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1 related to the size of equity investment and is basically a fixed cost (Staff Data  
2 Request Nos. 68 and 974). In fact, the current presentations would show more  
3 information related to the subsidiaries with equity investments smaller than SWBT.

4 Q. On page 20 of his rebuttal testimony, Mr. Flaherty asserts that a better  
5 analogy of SBC's allocation methodology is that of a "building" versus the "book"  
6 analogy used in your direct testimony. Is he correct?

7 A. No. The "book" analogy in my direct testimony is much more  
8 appropriate as an example of SBC activities. First, it should be noted that prior to the  
9 SBC moving to San Antonio, Texas, SWBT owned the building housing SBC officials  
10 and billed SBC for its usage of the building. However, I have examined the SBC  
11 Financial Planning Assumptions issued to the subsidiaries (Staff Data Request No. 6)  
12 and the SWBT and non-telco Business Plans submitted to SBC (Staff Data Request  
13 No. 704). The portion related to SWBT of the total volume of these materials is less  
14 than 25% of the total. Therefore, the Staff's proposed method of allocation of SBC's  
15 costs to SWBT and the related analogy is more accurate than the size and/or size  
16 impacted allocators used by SBC and supported by Mr. Flaherty.

17 Q. On pages 21 and 22 of his rebuttal testimony, Mr. Flaherty states it is  
18 unreasonable to assign an equal share of investment related costs to SBC subsidiaries  
19 like Southwestern Bell Mobile Systems (Mobile). Do you agree?

20 A. No. Mr. Flaherty uses McCaw Cellular (McCaw) for the basis of his  
21 assertions. McCaw is not a good example. In early 1992, insiders owned 63% of  
22 McCaw's combined Class A and B shares. The Chairman and Chief Executive Officer

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1 of McCaw controlled about 71% of the voting rights. McCaw had a huge debt  
2 position (65% of total capital). Its common stock represented only 22% of its capital.  
3 In November 1992, McCaw proposed a strategic alliance with AT&T. AT&T would  
4 invest \$2 billion into McCaw which would be used to reduce McCaw's debt. Along  
5 with AT&T's purchase of British Telecom's stock of McCaw, AT&T would own  
6 approximately 33% of McCaw. AT&T has substantially more than 9,000 shareholders.  
7 Therefore, McCaw is not a valid example to estimate the number of shareholders  
8 Mobile would have if it were a publicly traded company.

9 Q. On pages 19 and 20, Mr. Flaherty states that the SBC investment  
10 allocator is reasonable and equitable. Do you agree?

11 A. No. Mr. Flaherty's statement that "SBC investment-related costs are  
12 caused by the size of investment in particular subsidiaries" is not supported by any  
13 study that measures the impact of these items on each other. Mr. Riley addresses this  
14 in his surrebuttal testimony. Mr. Flaherty refers to a "telecommunications company"  
15 that will spend approximately \$1.3 million in shareowner services in 1993. Centel  
16 Corporation (Centel) is the company that Mr. Flaherty refers to in his testimony, but  
17 fails to identify. Mr. Flaherty's workpapers only include one sheet of a Centel  
18 corporate value study. While I have requested the study, I have yet to receive this  
19 material. The one sheet in regard to Centel identifies an amount of \$1,289,448 under  
20 the description of "Secretary." There is no support for what activities comprise the  
21 "secretary" category.

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1           However, I know Centel will not incur \$1.3 million for shareholder services in  
2 1993. Centel merged with Sprint Corporation effective March 9, 1993. Therefore,  
3 Centel no longer exists as a separate entity.

4           Mr. Flaherty's workpapers showed that Centel had 45,076 shareholders versus  
5 973,569 shareholders for SBC. Therefore, the average shareholder of Centel held  
6 approximately 1,900 shares ( $85 \text{ million} \div 45,000$ ) compared to 300 shares for SBC  
7 ( $300 \text{ million} \div 1 \text{ million}$ ). The fewer the number of shareholders, the lower the  
8 shareholder costs.

9           Mr. Flaherty states:

10                   In addition, Staff's implication that SWBT is not the  
11 primary cause or is only one of many equally related  
12 causes of SBC's investment related expenses is a  
13 significant distortion of the facts. SWBT represents  
14 approximately \$7 billion of SBC's total \$9 billion in  
15 investment, *and the number of SBC shareowners today*  
16 *is very similar to the number of shareowners that SBC*  
17 *had when it had fewer unregulated businesses and*  
18 *when its shareowners were primarily investors in*  
19 *SWBT*. Thus, it is clear that SWBT is and always has  
20 been the direct cause of the vast majority of SBC's  
21 investment-related costs. (Emphasis added.)

22           Mr. Flaherty's workpapers show that SBC had 1,298,074 shareholders at  
23 divestiture in 1984 compared to 973,569 at the end of 1992. SBC has reduced the  
24 number of shareholders by 324,505 or 25% since divestiture. Therefore, the number  
25 of shareholders today is not "very similar" to the number at divestiture.

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1 Q. On pages 22 and 23, Mr. Flaherty disagrees with your conclusions that  
2 SBC 's use of the employee allocation factor is inequitable and unreasonable. Does  
3 his testimony show your conclusions were wrong?

4 A. No. The following chart shows the cost centers SBC allocates based on  
5 its employee factor and some of their 1992 costs.

<i>Center Number</i>	<i>Cost Center Name</i>	<i>Total Direct</i>	<i>SWBT Direct</i>
026	Pension Plan Administration	** _____ **	** _____ **
027	Savings Plan Administration	** _____ **	** _____ **
028	Employee Training & Development	** _____ **	** _____ **
029	Compensation Planning & Administration	** _____ **	** _____ **
030	Benefit Planning & Development	** _____ **	** _____ **
031	Human Resources Planning & Staffing	** _____ **	** _____ **
032	Employee Information	** _____ **	** _____ **
071	Corporate Services - Food Services	** _____ **	** _____ **
072	Corporate Services - Automotive	** _____ **	** _____ **
077	Senior Management Benefit Expenses	** _____ **	** _____ **

19 The above chart shows that the direct usage of the typical Human Resource  
20 activities (Cost Centers 026 to 032) is used more heavily by the non-SWBT  
21 subsidiaries, with the exception of 028 and 031. If these activities were directly  
22 caused by the number of employees, one would expect SWBT to have the largest share  
23 of the direct expense. This is true only in the cost centers with the lowest percentage  
24 of their time directly assigned. For the cost center activities with a larger percentage  
25 of its costs directly assigned, the non-SWBT subsidiaries receive the larger share. This

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1 in part is caused by the fact that SWBT, with its own Human Resource Groups, will  
2 not need the level of support from SBC to the extent the smaller subsidiaries will.

3 The last three cost centers are not directly related to the number of employees.  
4 In fact, the cost centers are specifically not directly related to a majority of SBC  
5 employees since they are associated with SBC officers.

6 Q. On page 23 of his rebuttal testimony, Mr. Flaherty refers to his  
7 Schedule 2, pages V-58 through V-82 as "clearly demonstrating the fact the investment  
8 and employee factors are cost-causative and do not overstated the general allocation  
9 factor." Do you agree?

10 A. No. Mr. Flaherty's Schedule 2, pages V-58 through V-82 do not show  
11 that the SBC investment and employee factors are cost causative. He provides no  
12 analysis that shows and/or proves a relationship between these costs and his asserted  
13 factors. One reason he has provided no analysis is that most of these expenses are  
14 fixed in nature and not directly related to size and/or volume.

15 Q. On pages 24 through 26 of his rebuttal testimony, Mr. Flaherty asserts  
16 that an allocation based upon employee numbers is appropriate for the costs of the  
17 Leadership Forum. Do you agree?

18 A. No. First, it should be noted that Mr. Flaherty's workpapers show that  
19 the Leadership Forum does not occur every year. The last one occurred in 1991. A  
20 Leadership Forum was scheduled in January 1993 in St. Louis. It is now scheduled  
21 to begin in July in San Antonio, Texas. The purpose and objectives of the last  
22 Leadership Forum was as follows:





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1 Mr. Flaherty only referred to one speaker, Mr. Rick Ross, out of many from the total  
2 program in his testimony.

3 Schedule 2 also shows that the intent of the Leadership Forum was not to  
4 improve the participants management skills, as Mr. Flaherty suggests. It was designed  
5 to inform managers of SBC's intent for the subsidiaries to work together for the good  
6 of SBC. The video tape Mr. Flaherty refers to on page 26 of his rebuttal testimony  
7 is an edited version of the Leadership Forum program. Finally, Mr. Flaherty's  
8 testimony only addresses management employees, while the employee allocator is  
9 based on both management and non-management employees.

10  
11 ***THE SBC GENERAL FACTOR ADJUSTMENT***

12 Q. Can you describe how Mr. Flaherty's testimony addresses this  
13 component of the SBC issue?

14 A. No. I am not sure what this issue is or the portions of Mr. Flaherty's  
15 testimony that address it.

16 Q. What 86-111 requirement applies to this general area?

17 A. The SBC general factor adjustment would appear to be an issue related  
18 to the following 86-111 paragraph:

19 When neither direct nor indirect measures of cost  
20 causation can be found, the cost category shall be  
21 allocated based upon a general allocator computed by  
22 using the ratio of all expenses directly assigned or  
23 attributed to regulated and non-regulated activities.

24

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***SBC EXPENSE DISALLOWANCE***

1  
2           Q.     Can you describe the issue related to this component of the SBC issue  
3 and how Mr. Flaherty's rebuttal testimony addresses this component?

4           A.     Yes.   The SBC expense disallowance is an issue related to the  
5 following 86-111 paragraph:

6                   Costs shall be directly assigned to either regulated or  
7 non-regulated activities whenever possible.  
8

9           Q.     Can you address Mr. Flaherty's testimony regarding the SBC senior  
10 management and related costs at pages 40 through 45?

11           A.     Yes.  Mr. Flaherty fails to mention that at divestiture there was one set  
12 of officers for both SBC and SWBT.  The officers served a dual role.  At that time  
13 SBC/SWBT senior management provided certain economies in that SWBT was paying  
14 less than the full cost of these officers.  The situation would be similar to the  
15 regulated/deregulated operations within SWBT today.  However, as the needs of SBC  
16 grew, the SWBT officers could no longer handle both duties.  Therefore, two sets of  
17 officers were established; one for SBC and one for SWBT.  At this time the economies  
18 also ceased to exist and SWBT would now be charged the full cost of its officers.  
19 However, when SBC also allocated its officer costs to SWBT, SWBT was paying for  
20 more than one set of officers and more than its stand alone costs.  The need for the  
21 second set of officers (SBC officers) was created by an increasing perception of the  
22 separate needs of SBC versus SWBT.  While this is not wrong, it is wrong to charge

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1 SWBT for these costs since it is non-SWBT activities that created the need for the  
2 second set of officers.

3 Q. On page 27 of his rebuttal testimony, Mr. Flaherty discusses the SBC  
4 Board of Directors. Do you have any comment?

5 A. Yes. I agree with Mr. Flaherty that it is appropriate for the SBC Board  
6 of Directors to spend a portion of its time on SBC Foundation activities and issues.  
7 I disagree that the segmentation of the Board of Directors time associated with non-  
8 SWBT issues, such as the Foundation, is impractical. This is especially true given the  
9 support requirements for the enforcement of standard time assignments of the SBC  
10 employees. However, there exists another option if SBC does not want to separate the  
11 cost of non-SWBT activities from the Board of Directors costs. This option is that  
12 SBC can retain these costs.

13 Mr. Flaherty ignores the fact that \*\* \_\_\_\_\_  
14 \_\_\_\_\_  
15 \_\_\_\_\_  
16 \_\_\_\_\_  
17 \_\_\_\_\_  
18 \_\_\_\_\_  
19 \_\_\_\_\_  
20 \_\_\_\_\_  
21 \_\_\_\_\_

\*\*

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1 Q. Can you address Mr. Flaherty's testimony regarding SBC Board of  
2 Directors?

3 A. Yes. Mr. Flaherty ignores the duplication that takes place at the SWBT  
4 and SBC Board meetings. Both approve their respective SEC Form 10Ks. As  
5 previously discussed, both Boards address corporate contributions. Both discuss the  
6 financial results and legal problems of their respective entities. The SBC allocation  
7 process assigns SWBT for SBC Board costs that are not related to SWBT, and  
8 activities that SBC has edited from its Board minutes. In fact, even Mr. Flaherty in  
9 his testimony conceals the fact that SBC is charging SWBT for non-SWBT activity.  
10 Mr. Flaherty fails to acknowledge the existence of SBC Corporate Development  
11 Committee in his discussion of Board Committees. His workpapers disclose the  
12 activities of this committee as follows:

13 **The Corporate Development Committee met five**  
14 **times in 1992. It consists of four non-employee**  
15 **Directors and one employee Director. *The purpose of***  
16 ***the Corporate Development Committee* is to examine**  
17 ***proposed acquisitions and similar new ventures and to***  
18 ***advise management with regard to the expansion or***  
19 ***disposition of the Corporation's businesses through***  
20 ***mergers, acquisitions, sales and similar transactions.***

21 (Emphasis added).

22 Recently, SBC has withheld information related to this Committee's activities.  
23 It is improper for SBC to withhold SBC Board material on the grounds that it is non-  
24 SWBT related and at the same time include and charge SWBT for these activities  
25 through the SBC allocation system.

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1           The Board's cost center includes the unnecessary costs of Board meetings in  
2 Mexico as well as dinner parties. I would agree that SWBT's cost of service does not  
3 include the required two outside directors and the cost of the Audit Committee shown  
4 in Mr. Flaherty's workpapers.

5           I would agree to include in SWBT's cost of service the cost related to two  
6 directors and the allocated share of SBC Audit Committee cost if SBC would provide  
7 that information with underlying support to verify its accuracy. I am opposed to the  
8 current allocation system and Company's proposal to include in SWBT's cost of  
9 service non-SWBT related costs, as well as duplicative and unnecessary costs.

10           Q.     Could you address pages 50 through 52 of Mr. Flaherty's rebuttal  
11 testimony?

12           A.     Yes. Mr. Flaherty addresses three cost centers that the Staff did not  
13 include in its cost of service. These are (1) Trademarks, Patents and Graphic services;  
14 (2) Tax Return Preparation; and (3) Cash Management.

15           Approximately 30% of the cash management cost center is directly charged.  
16 SWBT was charged \$1,000 of this amount. SWBT has its own cash management  
17 function and activities and does not need this function from SBC. Mr. Flaherty's  
18 workpapers show that his line of credit is worth \$75,000 to SWBT.

19           For the Tax Return Preparation cost center, there is only one sheet of paper in  
20 Mr. Flaherty's workpapers supporting the \$50 million in tax savings that purportedly  
21 result from SBC activities in this case. I have not received the additional data that was



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1 requested to verify the validity of this claim. I have received no supporting data  
2 would show that the Company has reflected this item in this case.

3 In regard to the Trademarks cost center, SWBT provides the value to the SBC  
4 name. The non-SWBT subsidiaries receive the benefit of being able to capitalize on  
5 SBC's name. Therefore, either SWBT can charge a royalty income to the non-SWBT  
6 subsidiaries or the non-SWBT subsidiaries can pay the costs related to this cost center.

7 Q. On pages 48 and 49 of his rebuttal testimony, Mr. Flaherty asserts that  
8 SBC's Employee Information cost center is not duplicative of costs at SWBT. Did  
9 your examination show his assertion to be accurate?

10 A. No. On pages 48 and 49 of his rebuttal testimony, Mr. Flaherty states:

11 The Employee Information cost center contains costs  
12 which are primarily related to the creation and  
13 dissemination of information to employees regarding  
14 issues impacting SBC and its subsidiaries. This  
15 information relates and has relevance to all SBC  
16 subsidiaries, including SWBT, and can include  
17 information related to SBC financial results, competitive  
18 issues facing all SBC subsidiaries, subsidiary products  
19 and services, and human resource issues such as  
20 employee benefit programs. SBC is the primary  
21 provider of information related to employee benefit  
22 programs for all subsidiaries, including SWBT. SBC  
23 communications media are created to convey information  
24 relevant to SWBT and other subsidiaries by the  
25 maintenance of a broad corporate/industry perspective.

26  
27 Conversely, SWBT provides employee information  
28 specifically related to issues and concerns of telephone  
29 company employees. For example, the Employee  
30 Relations group at SWBT will on occasion provide  
31 supplemental information to SWBT employees regarding  
32 any changes in benefits that affect SWBT only. Both

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1 types of information are necessary, and they are separate  
2 and distinct from each other.

3 The Company's response to Staff Data Request No. 981 provides the following  
4 information regarding the SBC publications charged to Cost Center 3200, Employee  
5 Publications:

6 Enterprise Magazine

7  
8 Although not a newsletter, this all-employee/retiree  
9 magazine was produced four times in 1991. It ceased  
10 publication at the end of 1991 as the Corporation looked  
11 at reaching employees through other vehicles.

12  
13 *Enterprise* improved productivity and morale by  
14 providing employees and retirees a better understanding  
15 of SBC business objectives, and offering a discussion of  
16 the major issues affecting the company. It also provided  
17 news from around the family of companies to help  
18 employees and retirees be better external spokespeople  
19 for the Corporation.

20  
21 Total cost for 1991: \$609,598

22  
23 Benefit Bulletin

24  
25 This publication goes to all employees and retirees in the  
26 Corporation and was produced 6 times in 1991.

27  
28 *Benefit Bulletin* is published to meet legal requirements,  
29 but it also keeps employees and retirees informed about  
30 the company's changing benefit programs, helps in the  
31 effort to control rising medical expenses and helps  
32 employees and retirees make better health-related  
33 decision, thus leading to long and healthier lives.

34  
35 Total cost for 1991: \$132,294  
36

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Employee News Bulletins

1  
2  
3 These bulletins go to various audiences. In most cases,  
4 they are for the Corporate staff. Occasionally, *Employee*  
5 *News* goes to St. Louis-area employees, or to all  
6 employees throughout all subsidiaries. It all depends on  
7 the topic.

8  
9 The bulletins help employees 1) be more effective on the  
10 job, 2) stay informed on major issues and 3) improve  
11 their quality of life by passing along useful information.

12  
13 Total cost for 1991: not separately tracked

14  
15 SBC Fax

16  
17 This publication was faxed to employees throughout the  
18 Corporation and was sent to editors of publications at the  
19 Telephone Company. The Telco then used the  
20 information in its publications such as *Telephone Times*.  
21 Regular distribution of *SBC Fax* was halted at the end of  
22 1992 as the Corporation looked at revamping its  
23 communications. *SBC Fax* continues to be used for  
24 breaking bulletins.

25  
26 *SBC Fax* provided employees a quick look at news from  
27 around the Corporation, allowing them to speak more  
28 knowledgeably about the company, its products and  
29 services and its direction.

30  
31 Total cost for 1991: not separately tracked, though cost  
32 were minimal because we faxed our own telephone  
33 network

34 Mr. Flaherty's workpapers show that \*\* \_\_\_\_\_ \*\* was charged to this cost  
35 center in 1991. Therefore, the Enterprise Magazine represented approximately  
36 \*\* \_\_\_\_\_ \*\* of the total expenses charged to this cost center. The Enterprise Magazine  
37 ceased publication at the end of 1991. Mr. Flaherty's workpapers show that the

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1 Employee Information Cost Center \*\*\_\_\_\_\_\*\* in 1992, which is  
2 evidence of the impact of the discontinuance of the Enterprise Magazine.

3 Mr. Flaherty emphasizes in his testimony the employee benefit program  
4 information provided by SBC. However, the Benefit Bulletin represented \*\*\_\_\*\* of  
5 the total cost charged to the Employee Information Cost Center.

6 The final two publications, "Employee News Bulletins" and "SBC Fax" should  
7 not be allocated based on the employee allocator used by SBC. The response to Staff  
8 Data Request No. 981 shows that the Employee News Bulletins in most cases goes to  
9 SBC corporate staff. Occasionally, it goes to St. Louis-area employees or to all  
10 employees. SBC is using the employee allocator for these costs, which in most cases  
11 is inappropriate and over-allocates the costs to SWBT.

12 The SBC Fax should not be allocated based on employees. SWBT will incur  
13 its own costs to disseminate the information to its employees through its publication  
14 of the Telephone Times. The employee allocator will overstate costs allocated to  
15 SWBT.

16 Q. What is Schedule 4?

17 A. Schedule 4 is the Company's response to Staff Request No. 283, which  
18 describes various newsletters put out by SWBT in 1991. Schedule 4 also includes an  
19 index from the July 16, 1992 "This Week" publication.

20 Schedule 4 shows that SWBT's newsletters provide information regarding SBC  
21 as well as SWBT activities. Schedule 5 contains copies of two issues of SWBT's  
22 "This Week", one issue of SWBT's FYI bulletin, and one issue of SBC's Benefit

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1 Bulletin. The May 23, 1991 "This Week" discusses SBC's sponsorship of Space  
2 Center Houston and Southwestern Bell Telecom (Telecom) agreement to sell phones  
3 in the Caribbean. The July 3, 1991 "This Week" also discusses another Telecom  
4 event. This also provides an index of "This Week" articles. The SBC-related index  
5 indicates a series of articles related to non-SWBT activity. Therefore, SBC  
6 publications would be duplicative of the information related to non-SWBT SBC  
7 activity since this topic is already addressed in SWBT publications.

8 The FYI bulletin and SBC's Benefit Bulletin show an example of SBC  
9 publications that are duplicative of SWBT publications and practices.

10  
11 ***SPECIFIC REBUTTAL TESTIMONY COMMENTS OF MR. FLAHERTY***

12 Q. On page 7 of his rebuttal testimony, Mr. Flaherty states that assignment  
13 and/or allocation of SBC expenses to its subsidiaries is reasonable:

14 . . . because it is the existence of subsidiary operations  
15 which cause these expenses to be incurred. It should be  
16 further noted that SBC performs activities on behalf of  
17 its subsidiaries which are generally related to corporate  
18 governance or compliance functions. These same  
19 functions would have to be performed by each  
20 subsidiary, including SWBT, if SBC did not perform  
21 them on their behalf. Therefore, the assignment and/or  
22 allocation of these parent expenses to these subsidiaries  
23 is both reasonable and proper.

24 Do you agree?

25 Q. I disagree with this statement on three points. First, I agree that the  
26 SBC subsidiaries should be allocated costs related to functions they would have to

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1 perform if SBC did not perform them. However, this should be done to all SBC  
2 subsidiaries, operating and administrative. Second, SBC allocates and assigns costs  
3 to SWBT for functions it would not perform on its own if SBC did not perform that  
4 activity. Third, I disagree that SBC's subsidiaries are the cause for all the expenses  
5 at SBC, as previously discussed.

6 Q. On page 9 of his rebuttal testimony, Mr. Flaherty states that SBC meets  
7 the 86-111 requirements. Is this true?

8 A. No. SBC and/or SWBT's processes and procedures have failed to  
9 ensure compliance with the 86-111 requirements that serve as the FCC safeguards to  
10 prevent cross subsidization by SWBT's regulated operations. SBC is using its cost  
11 allocation system to charge SWBT for projects that are not related to SWBT and,  
12 therefore, using SWBT to improperly subsidize SBC and/or non-regulated affiliates.

13 Q. How do you know that SBC is charging SWBT for projects that are not  
14 related to SWBT and using SWBT improperly to subsidize SBC non-regulated  
15 affiliates?

16 A. \*\* \_\_\_\_\_  
17 \_\_\_\_\_  
18 \_\_\_\_\_  
19 \_\_\_\_\_  
20 \_\_\_\_\_

21 \_\_\_\_\_ \*\* (Staff Data Request No. 254).

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1 I requested the consultant documentation related to this unknown SWBT project  
2 in Staff Data Request No. 1074. In response, the Company provided consultant  
3 documentation regarding fees associated with specific SBC projects. In the Company's

4 \*\*  
5 \_\_\_\_\_  
6 \_\_\_\_\_  
7 \_\_\_\_\_

8 \*\* In 1991 SWBT was  
9 allocated 75% of the costs charged to Cost Center 05600. In Staff Data Request No.  
10 1025, the Staff requested all documentation related to Project PRIZM. The Company's  
11 response stated:

12 The Prizm Project involves non-Southwestern Bell  
13 Telephone Company ("SWBT") activities. This project  
14 does not involve SWBT projects, and no costs associated  
15 with this project are assigned, charged, or allocated to  
16 SWBT or SWBT-Missouri. Further, because of the  
17 sensitivity of this project and the potential impact of  
18 disclosure of project details, information regarding the  
19 project is not disclosed beyond the parties to the  
20 negotiations. For additional information, please refer to  
21 the response to Missouri PSC Staff Data Request No.  
22 800.

23 It is impossible at this time to measure the full extent SWBT has been  
24 overcharged for the PRIZM project without the data sought through Staff Data Request  
25 No. 1025. In fact, Mr. Flaherty's workpaper showed another instance of SWBT being  
26 allocated costs related to the PRIZM project. Schedule 6 is a copy of the workpaper.  
27 I have highlighted the line showing charges to cost center 5600 related to PRIZM. I  
could find no mention of this situation in Mr. Flaherty's testimony and schedules.

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1           \*\* \_\_\_\_\_  
2  
3  
4           \_\_\_\_\_\*\* (Staff

5 Data Request No. 1074). Metromedia Paging is a non-regulated subsidiary of SBC.

6           \*\* \_\_\_\_\_  
7           \_\_\_\_\_\*\* SWBT was allocated

8 75% of this Cost Center. \*\* \_\_\_\_\_  
9  
10           \_\_\_\_\_\*\* (Staff Data Request No. 1074). The Health

11 Center was a non-regulated subsidiary of SBC.

12           Q.     Did Mr. Flaherty's workpapers show other examples of SWBT being  
13 charged and/or allocated non-SWBT related costs?

14           A.     Yes. Mr. Flaherty's workpapers provide another example of SWBT  
15 being charged for a non-SWBT activity. Mr. Flaherty discusses this in his Schedule  
16 2, page V-44 and V-45. Mr. Flaherty describes, as follows, the SBC voucher test  
17 performed by his firm, Deloitte & Touche:

18                   *Cost allocation through use of the voucher system,*  
19                   *versus through payroll time charges, was tested by*  
20                   *performing the following procedures:*

- 21  
22                   -     Reviewed expenses on vouchers to ascertain that  
23                             they were properly coded with the correct cost  
24                             center number based on the nature of the expense  
25



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- 1 - Determined the selection process of cost center  
2 numbers through interviews with department  
3 personnel
- 4
- 5 - Ascertained if there was proper approval for cost  
6 center number selection by supervisors
- 7
- 8 - Assessed flow of expenses from the voucher  
9 through internal reports to the subsidiary invoice
- 10

11 For each of the departments selected for testing, four  
12 vouchers were selected from the 1992 Current  
13 Distribution report. The expenses selected made up at  
14 least 80% of the total vouchered expenses within the  
15 months selected and, therefore, indicated a representative  
16 sample. For each of the vouchers and their respective  
17 invoices that were reviewed, the cost center number  
18 recorded was verified against the description in the Cost  
19 Allocation System - User's Guide and checked for  
20 reasonableness. Using the cost center number and  
21 account number designated within each voucher package,  
22 the expense was checked against the "Detail by Center  
23 by Account" report which indicates that the expense was  
24 properly posted to the general ledger. Then, the total  
25 expense amount from this report was compared to the  
26 SWB Cost I report where overhead and other charges  
27 within the account number were totalled.

28  
29 The total expense was verified against the billing to the  
30 subsidiary using the "Cost Allocation To From" report.  
31 *No discrepancies were noted. Based on the review it*  
32 *appears all costs are properly allocated, direct charged*  
33 *or retained through the voucher system. (Emphasis*  
34 *added).*

35 Schedule 7 is the one page of Mr. Flaherty's workpapers that summarizes the  
36 vouchers his firm examined to support his statements. Schedule 2 shows a voucher

37 \*\*

38 \_\_\_\_\_\*\* SWBT is allocated cost from this cost center, as shown on page V-6

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1 of Mr. Flaherty's Schedule 2. \*\* \_\_\_\_\_  
2 \_\_\_\_\_

3 \_\_\_\_\_ \*\* Metromedia was a non-regulated subsidiary of SBC, as  
4 acknowledged by Mr. Flaherty on page III-1 of his Schedule 3.

5 Schedule 7 shows that on the one page of voucher No. 5 that Deloitte &  
6 Touche examined, one voucher charge out of the 18 voucher charges listed was  
7 inappropriately charged. The descriptions of Schedule 7 do not provide enough detail  
8 to determine if other voucher charges are inappropriate \*\* \_\_\_\_\_  
9 \_\_\_\_\_

10 \_\_\_\_\_ \*\* I would disagree with Mr.  
11 Flaherty's conclusion regarding the voucher system. I would be concerned about the  
12 accuracy of SBC voucher system given that I only sampled one page of vouchers and  
13 found at least one inappropriate charge.

14 Mr. Flaherty states on page 16 of his rebuttal testimony that, "My review of the  
15 SBC cost allocation system did not reveal the existence of an over-allocation of costs  
16 to SWBT." Mr. Flaherty's workpapers show this statement to be inaccurate.

17 Q. What is the impact of SBC's practice of charging non-SWBT costs to  
18 cost accounts that are allocated to SWBT?

19 A. SWBT's costs are overstated in two ways. First, because the  
20 Company's books will reflect the allocated portion of these non-SWBT costs, as  
21 previously discussed in this testimony. Secondly, the SBC general allocator to SWBT  
22 will be overstated because it is based in part on the direct expenses charged to the

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1 SBC subsidiaries. To the extent these SBC direct charges are not accurately charged  
2 to non-regulated affiliates, the general factor allocator will be overstated as it relates  
3 to SWBT. This will cause SWBT to be over-allocated SBC general expenses, even  
4 if one accepts the current SBC allocation method. In fact, Mr. Flaherty's Schedule 2  
5 fails to capture this secondary impact when it evaluates alternative allocation methods.

6 Q. On page 13 of his rebuttal testimony, Mr. Flaherty states:

7 The various analyses were intended to provide a  
8 comprehensive perspective regarding the nature,  
9 composition and value of the activities performed by  
10 SBC.

11  
12 In summary, the analyses provided a clear indication that  
13 the activities being performed are necessary and reflect  
14 the typical functions and requirements of headquarters  
15 organizations with respect to conducting business or  
16 facilitating corporate-wide management on behalf of  
17 multiple operating units. As such, these activities relate  
18 to corporate functions which are necessary to ensure that  
19 appropriate governance, compliance, strategic and  
20 operational responsibilities are executed effectively. In  
21 other words, these activities are nondiscretionary and  
22 unavoidable and most of these activities would have to  
23 be performed by SWBT-Missouri if SBC did not  
24 perform them on SWBT-Missouri's behalf.

25  
26 Is this true?

27  
28 A. No. SWBT is being charged by SBC for costs that SWBT would not  
29 occur if it were not owned by SBC. SWBT is being charged by SBC for unnecessary  
30 and duplicative costs. These costs would not be incurred by SWBT. These costs are  
31 being included in SWBT's expenses only because SWBT is a wholly owned affiliate  
32 of SBC.

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1           **Q.     On page 17 of his rebuttal testimony, Mr. Flaherty indicates that his**  
2           **"cost allocation study" reviewed and tested SBC's method of direct charging and**  
3           **allocating its costs". Further, he finds that the SBC cost allocation system was found**  
4           **to be both reasonable and equitable. Did your examination of SBC support Mr.**  
5           **Flaherty's conclusions?**

6           **A.     No. SBC's Cost Allocation System (CAS) provides a description of the**  
7           **supporting documentation for SBC cost center direct charges. (Staff Data Request**  
8           **Nos. 1084 and 44).**

9           **The CAS Users Guide describes the procedures which have been established**  
10          **by SBC for use by its employees in ensuring that SBC expenses are appropriately**  
11          **identified and categorized for retention, direct charging, or allocation through CAS.**  
12          **SBC employees will establish a standard cost center assignment. These cost center**  
13          **assignments should reflect the employees' regular activities and identify the percentage**  
14          **of their total time spent on each activity. The monitoring of work activities through**  
15          **the use of time studies is to take place when:**

- 16               **1.     SBC establishes a new position;**
- 17               **2.     SBC changes responsibilities in an existing position; and**
- 18               **3.     SBC's managers and/or supervisors determine through their**  
19               **ongoing monitoring of employee time and work activities that an updated time**  
20               **study is needed.**

21           **The time study tracks the employee work activities performed in thirty minute**  
22           **increments by cost center for a four week period. The four week monitoring period**

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1 of daily activities is to be performed by SBC managers and supervisors for all their  
2 subordinates each year.

3 The Staff requested the data (Staff Data Request No. 1201) supporting the SBC  
4 cost center assignments. In response to this data request, SBC sampled its employee  
5 base by taking every tenth employee shown on its organization chart. SBC provided  
6 only one time study to support its employee cost center assignments. SBC provided  
7 the explanation for this was that CAS was a guideline, not a requirement. The  
8 employee cost center assignments are signed by the employee and their supervisor.  
9 These individuals may or may not have some documentation to support the SBC cost  
10 center assignment.

11 The Staff received the following definitive response that SBC had no  
12 supporting documentation related to the standard cost center assignments in response  
13 to Staff Data Request No. 707:

14 There is no existing documentation to support the percents  
15 associated with the cost center numbers shown in the response to  
16 Information Request No. 707. However, these cost centers and percents  
17 are periodically reviewed and verified by the employee and the  
18 employee's supervisor. (Staff Data Request No. 1056).

19 Mr. Flaherty's workpapers contain an outline of the cost allocation process  
20 training held in 1992. The outline includes the following section:

21 III. Exception Time Reporting

22  
23 A. Each employee is responsible for  
24 reporting their own time to their payroll  
25 coordinator.  
26

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1           **B.     You are required to keep records of the**  
2           **time that your exception report, just like the**  
3           **time studies to establish your time on your**  
4           **payroll record.**

5  
6           **C.     Your payroll coordinator will report your**  
7           **time and exceptions into the SMMTR system on**  
8           **a regular basis.**

9  
10          **D.     If you are a supervisor, you are**  
11          **responsible for monitoring and reviewing your**  
12          **subordinates exceptions, just like their initial**  
13          **establishment of their PCR cost centers.**

14  
15          **E.     We will review the details of the**  
16          **exception reporting with the payroll coordinates**  
17          **immediately following this session.**

18  
19                   **(Emphasis added.)**

20           **The above training outline would indicate that time studies are required to**  
21           **support your standard cost center assignment and time records are required to support**  
22           **exception time reports.**

23           **The above material shows that SBC's actual practice is inadequate and provides**  
24           **no assurance that the SBC's direct charges through the standard cost center assignment**  
25           **are accurate or reliable. Further, the accuracy of the general factor allocator would be**  
26           **questionable given its reliance on SBC direct charges. The lack of support for SBC's**  
27           **standard cost center assignment also shows the lack of an effective audit trail from the**  
28           **direct cost center charges of SBC to the actual work activities performed at SBC.**

29           **Q.     Did your examination of SBC exception time reporting show similar**  
30           **problems?**

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1           A.     Yes. Schedule 8 is a copy of a portion of the Users Guide for SBC's  
2 CAS. While the sample did not reveal a majority of employees actually submitted  
3 exception time reports, there were no supporting documents (Schedule 8, page 18)  
4 detailing the actual activity reflected on the exception time report that were made.

5           Q.     On page 56 of his rebuttal testimony, Mr. Flaherty states his  
6 comprehensive evaluation of this issue in connection with the Corporate Value Study  
7 report (Schedule 3 to his rebuttal testimony) found no duplication of functions and  
8 activities between SWBT & SBC. Did your examination of SBC reveal the same  
9 conclusion?

10          A.     No. I found that SWBT was being charged for unnecessary and  
11 duplicative costs from SBC.

12          Q.     How do you know that SWBT is being charged for unnecessary and  
13 duplicative costs incurred at SBC?

14          A.     SBC was involved in an anti-trust lawsuit initiated by Metropolitan  
15 Publishing (Metropolitan Publishing Corp. v. SWB, et. al., Case No. 90-3430-CV-S-4.)  
16 In this lawsuit, SBC, Yellow Pages, and SWBT was represented by individual counsel.

17         \*\* \_\_\_\_\_  
18 \_\_\_\_\_  
19 \_\_\_\_\_  
20 \_\_\_\_\_  
21 \_\_\_\_\_

22         \*\* (Staff Data Request No. 1074-4).





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<b>Company</b>	<b>Attorneys</b>
<b>SWBT</b>	Alfred G. Richter, Jr. (#27444) Ann E. Meuleman Darryl W. Howard Joseph F. Jedlicka, III Katherine C. Swaller
<b>SBC</b>	William J. Free (#28280) William R. Drexel (#31792)
<b>SBYP</b>	Linda S. Legg (#26483) Gary T. Hartman (#34565)

It is unnecessary and duplicative for SWBT to be paying for two sets of legal representation. SWBT will include the costs of its attorney in its cost of service. This is normal and would occur if SBC did not own SWBT. However, SWBT will also pay for the costs of the SBC attorney under the correct allocation system. SWBT would not pay for the costs of the SBC attorneys if SBC did not own SWBT and could not use its cost allocation system to bill these costs to SWBT.

Q. On page 26 of his rebuttal testimony, Mr. Flaherty discusses the conclusion in your direct testimony that SWBT is being charged for non-SWBT activities, and also discusses his investigation of your conclusion. Do you agree with his statements?

A. No. Mr. Flaherty's workpapers show no evidence of any investigation of this matter. There is no documentation and/or interview notes that address or investigate the items recorded in the executive dining room logs. There is no documentation and/or interview notes that address or investigate the actual activity that took place related to the entries recorded on the executive dining room logs. Mr.

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1 Flaherty's workpapers contain no reference to any Internal Revenue Service  
2 requirements. I viewed the logs as evidence of executive activity related to non-  
3 SWBT activity that must be either reflected in the executive standard cost center  
4 assignment or exception time reported. Neither action was done.

5 Q. Do you have an example of SWBT being charged duplicative and  
6 unnecessary costs related to compliance with the Security Exchange Commission's  
7 (SEC) requirements?

8 A. SBC and SWBT are required to file various reports. Both SBC and  
9 SWBT filed the SEC Form 10K for 1991. SWBT is charged to entire cost for its 10K.  
10 The SBC 10K is charged to an allocable account and then allocated to SWBT. Under  
11 this system SWBT is charged costs in excess of the costs related to its own filing  
12 requirement.

13 Q. On page 28 of his rebuttal testimony, Mr. Flaherty states:

14 The cost allocation requirements imposed on SWBT are  
15 set forth in 47 C.F.R. 64.091. The rule actually lists  
16 four measures of assigning costs: (1) direct assignment,  
17 (2) allocation based on direct measures of use (such as  
18 units), (3) allocations based on indirect measures of use  
19 (such as relative size) and (4) allocations using a general  
20 allocator based on total expenses previously assigned  
21 and/or allocated.

22 Does Mr. Flaherty accurately list the rule's four measures of assigning costs?

23 A. No. Mr. Flaherty above provides his version of the FCC rules. The  
24 actual rules have already been discussed and are accurately described in Mr. Flaherty's

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1 Schedule 2 pages IV-6 through IV-8. Mr. Flaherty's additional language of "such as  
2 relative size" does not appear in the FCC requirements.

3 Q. On page 28 of his rebuttal testimony, Mr. Flaherty discusses his  
4 examination of the time SBC incurred higher than normal costs because of affiliate  
5 transaction; i.e., awarding bids to affiliates who were not the low bidder. Do you have  
6 any comments?

7 A. Mr. Flaherty's comments are circular. The last time SBC bid the work  
8 (printing of SBC's annual report), SBC chose an affiliate that did not submit the  
9 lowest price. Subsequent to this time, SBC has not submitted the work for additional  
10 bids, but continues to use the affiliate. Mr. Flaherty notes that SBC last bid out the  
11 printing of its annual report in 1987. At that time, SBC chose its affiliate because it  
12 would "send a negative message to the Company's shareholders concerning our  
13 printing (SBC's capabilities.)" The affiliate was not the low bidder. Mr. Flaherty  
14 notes two items in response to the Staff's criticism of this event. First, he states the  
15 event did not take place in 1991 or 1992. Second, he argues that continuous rebidding  
16 would disrupt operations and cause other problems.

17 I disagree with Mr. Flaherty's statement that the decision to use Gulf Printing  
18 and incur higher cost was appropriate in 1987. The impropriety of this action is  
19 further magnified by not taking bids after 1987. Therefore, not only did SBC incur  
20 unnecessary costs in 1987, but it failed to document through another bid process  
21 subsequent to 1987 the amount and magnitude of these unnecessary costs.

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1           Q.     On pages 30 through 33, Mr. Flaherty addresses the Staff's use of the  
2 term "discount". Do you agree with his testimony?

3           A.     No. I disagree with Mr. Flaherty's testimony on several points. First,  
4 it is obvious the term discount reflects a benefit. Mr. Flaherty discusses that a  
5 "discount" basis is not a logical allocation basis and is not reflected in accounting  
6 theory or practice. However, he also acknowledges on page 8 of his rebuttal testimony  
7 that "determination of benefit" is an item which is consistently applied in the  
8 determination of the most appropriate basis for allocation. The Staff's use of the  
9 "discount" concept is a discussion related to "determination of benefit" which is fully  
10 consistent with Mr. Flaherty's literature search.

11                 Second, Mr. Flaherty asserts that his value study determines the level of benefit  
12 to SWBT-MO. I disagree. The value study is flawed in its design and produces  
13 overstated results. The value study is addressed elsewhere in my testimony.

14                 Third, Mr. Flaherty asserts that the economies of scale are not caused by  
15 SWBT's size. On page 31 of his rebuttal testimony, Mr. Flaherty states that:

16                         Staff's allocation methodology also incorrectly assumes  
17 that the cause of the economies of scale is the size of  
18 SWBT relative to the size of the other SBC subsidiaries.  
19 In fact, in this instance, the economies of scale are  
20 created by the presence of all of these subsidiaries  
21 collectively, not individually, and the commonality of the  
22 activity that is performed on their behalf. Thus, the  
23 benefits from the economies of scale are not "scale" or  
24 discount related but are the result of a common cost  
25 which is allocable based on responsibility for causation  
26 or direct benefits received rather than a theoretical  
27 abstract of "scale" or discount.

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1 Mr. Flaherty's workpapers contain no support for this assertion. However, Mr.  
2 Flaherty's testimony provides an example of why he believes his assertion is incorrect.

3 Fourth, Mr. Flaherty provides an illustration on page 32 to support his  
4 testimony on this point. While I disagree with his illustration, I agree with his  
5 statement on page 31 of his rebuttal testimony that "they [SBC activities] are not  
6 actually divisible in this manner." Therefore, Mr. Flaherty's illustration does not  
7 actually apply to SBC activities. For example, if SBC activities were directly related  
8 to certain amount of units, then SBC costs would be assigned based on those units, and  
9 there should be no issue. However, SBC activities are largely fixed in nature (e.g.,  
10 shareholder meetings) or related to a measure of use (e.g., number of shareholders) that  
11 cannot be associated with SBC subsidiaries and/or the parent.

12 Mr. Flaherty's illustration assumes the number of subsidiaries change the total  
13 cost of SBC activity. This is not true for such items as the SBC shareholders  
14 meetings. For such a fixed cost as the shareholder meeting, Mr. Flaherty's Table 1 &  
15 2 would be:

16

	<b>Telco Stand Alone</b>	<b>Other Subs. Stand Alone</b>	<b>Total</b>
17 Cost of Shareholder Meeting	\$100	\$100	\$200
18	<b>Combined Operations</b>	<b>Telco</b>	<b>Other Subs.</b>
19 Cost of Shareholder Meeting	\$100	?	?
20			

21 The "?" indicates that, at this point, we are in disagreement as to the allocation  
22 of the fixed costs (\$100) of the shareholder meeting.

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1           However, Mr. Flaherty's illustration does illustrate the SBC bias against SWBT.  
2           His illustration shows that prior to combination the cost per unit was \$10 for SWBT  
3           and \$11 for "other subs". SWBT uses three times the number of units of the other  
4           subs. When SWBT is combined with the other subs, the unit price is \$9 (versus \$10  
5           for SWBT and \$11 for other subs). The combined operations have a total benefit of  
6           \$250 (\$2,050 - \$1,800). SWBT receives a \$150 benefit (\$1,500 - \$1,350) while the  
7           other subs receive a \$100 benefit (\$550 - \$450). On pages 32 and 33 of his rebuttal  
8           testimony, Mr. Flaherty states that:

9                       The direct benefits received by the Telco and other subs  
10                      are reflected in the units of service received. *The costs*  
11                      *related to these units (75/25 split) are allocated in*  
12                      *proportion to these benefits (also 75/25 split) which*  
13                      *are enjoyed by both entities.* Thus, the price paid by the  
14                      Telco is the same as the price paid by the other subs,  
15                      which reflects the commonality of the activity. This  
16                      allocation methodology, which is the methodology  
17                      followed by SBC, is wholly consistent with those  
18                      recommended by accounting standards organizations and  
19                      employed by various regulated and non-regulated  
20                      businesses I have surveyed. (Emphasis added.)

21           Mr. Flaherty's illustration does not show that the benefits enjoyed by both entities are  
22           allocated 75/25. SWBT is only receiving 60% ( $\$150 \div \$250$ ) of the benefits, while  
23           the other subs are receiving 40% ( $\$100 \div \$250$ ) of the benefits. Mr. Flaherty's  
24           illustration shows that a portion of the benefits created by the relative size of SWBT  
25           is being assigned away from SWBT to SBC's other subsidiaries which is inappropriate  
26           and inequitable to SWBT's customers.

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1           **Q.     On page 37 of his rebuttal testimony, Mr. Flaherty addresses removing**  
2 **the retained earnings amount from the investment factor. Is Mr. Flaherty consistent**  
3 **in his position?**

4           **A.     No. This is another example of the bias that exists at SBC towards cost**  
5 **assignment and cost allocation to SWBT. SWBT and Yellow Pages (YP) are the only**  
6 **two SBC subsidiaries that have positive retained earnings. This is caused by (1) these**  
7 **subsidiaries (i.e., SWBT and YP) being assigned positive retained earnings at**  
8 **divestiture, and (2) SBC requiring its subsidiaries to pay all earnings to SBC in the**  
9 **form of a dividend. The inclusion of retained earnings in the SBC investment**  
10 **allocation factor will increase the SBC cost allocated to SWBT and YP while**  
11 **decreasing the SBC costs assigned to the other SBC subsidiaries.**

12           **However, SBC and Mr. Flaherty argue that features that are unique to SBC**  
13 **subsidiaries other than SWBT and YP must be removed because these features would**  
14 **allocate more costs to the non-SWBT/YP subsidiaries. This can be shown in the**  
15 **following portions of Mr. Flaherty's rebuttal testimony:**

16           **The adjustments and exclusions made by SBC in**  
17 **calculating the general factor are meant to normalize or**  
18 **equalize the calculation for those expenses which are not**  
19 **paid for in the same manner by all subsidiaries. For**  
20 **example, SWBT pays for its portion of insurance**  
21 **premiums directly to the vendor, whereas the other**  
22 **subsidiaries are direct charged by SBC through the cost**  
23 **allocation system. Including these direct charges in the**  
24 **calculation of allocation factors would inappropriately**  
25 **skew the allocations toward the subsidiaries which are**  
26 **being billed for these costs through the allocation**  
27 **system. (page 24)**  
28

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1                   For example, SWBT pays many "pass-through" expenses  
2                   (i.e., third-party costs) directly, whereas other  
3                   subsidiaries are direct charged and reimburse SBC for  
4                   payment of these expenses. A case in point is where  
5                   SWBT pays for its portion of insurance premiums  
6                   directly to the vendor while SBC pays insurance  
7                   premiums on behalf of other subsidiaries and direct  
8                   charges each through the cost allocation system. This  
9                   difference in method of payment distorts the relationship  
10                  between direct and allocated expenses when comparing  
11                  SWBT and other subsidiaries. (pages 29 and 30.)

12                 In summary, positive retain earnings can be included in the investment  
13                 allocation factor which is unique to SWBT and YP. This decision will allocate more  
14                 SBC costs to SWBT and YP. However, "pass-through" expenses cannot be included  
15                 in the general allocator because SWBT pays most of its own expenses. This decision  
16                 to exclude pass-through expenses would again result in a higher allocation to SWBT.  
17                 This is another example of the SBC bias to increase cash flow and income by making  
18                 decisions that increase SBC's costs assigned and/or allocated to SWBT.

19                 Q.     Did your examination of SBC find the effective audit trail that Mr.  
20                 Flaherty discusses on pages 52 and 54 of his rebuttal testimony?

21                 A.     No. In Staff Data Request No. 254, the Staff requested certain  
22                 information regarding SWBT review of its SBC bills. The Company's response  
23                 included the \*\* \_\_\_\_\_  
24                 \_\_\_\_\_  
25                 \_\_\_\_\_  
26                 \_\_\_\_\_



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I then submitted Staff Data Request No. 1074 to request all the documentation related to \*\*

---

\*\*

I then submitted Staff Data Request No. 1246 requesting all documentation related to the Sunset Project. The Company responded that:

Documentation related to the Sunset Project, if any, cannot be located in the file. If any materials related to the project are located, they will be provided in a supplemental response.

Therefore, while SWBT was billed costs by SBC for a project that was for SWBT benefit, no information could be obtained to verify the project, the project activities, and the project's benefits to SWBT. A more serious gap in the SBC audit trail is related to the supporting documentation regarding SBC's time assignment. This was already discussed.

**Q.** On pages 17 through 19, Mr. Flaherty discusses your statements in your direct testimony regarding the incentive of SBC to increase income and cash flow by overcharging SBC costs to SWBT. Does Mr. Flaherty's testimony and underlying support show that SBC's behavior is contrary to its incentive to overcharge costs to SWBT?

**A.** No. First, in the portion of testimony that Mr. Flaherty addresses on this point, I stated that the incentive would encourage SBC to use methods that

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1 minimize and/or retard the rate of declining charges to SWBT. Schedule 9 is a portion  
2 of Mr. Flaherty's workpapers that discuss SBC CAS changes for the period 1987 to  
3 1992. This schedule shows that several changes were made to the SBC cost allocation  
4 system that had the impact of increasing the charges to SWBT. Schedule 9 shows that  
5 at times only SBC increased the charges to SWBT while retaining the other  
6 subsidiaries' portion of these changes.

7 Q. Is Mr. Flaherty's Corporate Value Study (i.e., stand-alone and external  
8 market studies) and his \$13.2 million of savings shown on Schedule 3, page VI-23  
9 reasonable?

10 A. Mr. Flaherty did not provide any supporting workpapers for the \$80  
11 million and \$13.2 million amounts shown on Schedule 3, page VI-23. Therefore, I  
12 cannot address these amounts other than to say they are unsupported.

13 Mr. Flaherty's stand-alone and external market studies do not attempt to  
14 measure the practical alternative to having the necessary functions of SBC performed  
15 by SWBT. This alternative would be to move the functions from SBC into SWBT.  
16 This is merely the opposite of such actions of moving the SWBT audit group into SBC  
17 Audit Services. It should be noted that certain SBC costs are costs billed to SBC by  
18 SWBT. Therefore, SWBT performs some services for SBC as well as for itself.

19 The Corporate Value Study includes not only SBC but Asset Management,  
20 Inc., (AMI) and Administrative Services (ASI). Schedule 3, Exhibit III-2 shows that  
21 AMI and ASI do their own billing to SWBT for the services SWBT chooses to  
22 purchase. Therefore, what SWBT currently pays would be unchanged in a realistic

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1 alternative scenario. Further, Mr. Flaherty's interview notes acknowledge that "SWBT  
2 has its own training function but in 1993 has agreed to use ASI more." Mr. Flaherty's  
3 workpapers show that SWBT offers equivalent courses to some of ASI's courses. It  
4 is stated that "In some cases, the content of CPD (Center for Professional  
5 Development) courses is closely related to courses offered by Southwestern Bell  
6 Telephone Company."

7 The Corporate Value Study does not pass a reasonableness test. For example,  
8 SBC identified its allocable costs to be \$108 million and \$103 million in 1991 and  
9 1992, respectively. These amounts allegedly represent the cost to provide the SBC  
10 function that benefits all subsidiaries. However, if SBC would incur \$108 million to  
11 provide common functions to all subsidiaries in 1991, then a SBC subsidiary (i.e.,  
12 SWBT) should incur no more than \$108 million to provide these functions itself. In  
13 fact, a subsidiary could expect to effectuate certain cost reductions.

14 While the SBC 1991 and 1992 costs were \$108 million and \$103 million,  
15 SWBT was allocated \$82 million and \$75 million, respectively. Therefore, high  
16 savings estimates related to SBC performing these functions would be \$26 million to  
17 \$28 million for SWBT and \$4 million for SWBT-MO (\$27 million x 15%, an  
18 approximate prorate factor for Missouri). Realistically, SWBT could and would  
19 eliminate certain costs that it was being charged if it performed the function internally  
20 (e.g., SBC officers). Depending on the level of savings, it could be cheaper for SWBT  
21 to move the necessary functions back in SWBT and avoid the inappropriate portion of  
22 the SBC charges that I have previously discussed.

**Supplemental Surrebuttal Testimony of  
Robert E. Schallenberg**

1           Therefore, the percent savings shown on Schedule 3, Exhibits VI-2-2 and  
2           VI-1-3 are significantly overstated if they actually exist at all. Further, it is quite  
3           possible that SWBT would achieve a lower cost of service if it performed any  
4           necessary functions internally and avoided the SBC cost assignment/allocation system.  
5           However, this is not a realistic scenario under the present holding company  
6           arrangement.

7           Q.     Does this conclude your supplemental surrebuttal testimony at this time?

8           A.     Yes, it does. However, I reserve the right to respond to any additional  
9           material that supports Mr. Flaherty's rebuttal testimony that, as of the date of this  
10          filing, has yet to be supplied to the Staff.

**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

The Staff of the Missouri Public Service )  
Commission, )

Complainant, )

v. )

Case No. TC-93-224

Southwestern Bell Telephone Company, )  
a Missouri Corporation, )

Respondent. )

and )

In the matter of Proposal to Establish an )  
Alternate Regulation Plan for )  
Southwestern Bell Telephone Company )

Case No. TO-93-192

**AFFIDAVIT OF ROBERT E. SCHALLENBERG**

STATE OF MISSOURI )

) ss.

COUNTY OF COLE )

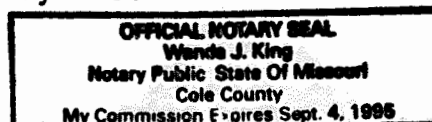
Robert E. Schallenberg, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Supplemental Surrebuttal Testimony in question and answer form, consisting of 55 pages to be presented in the above case; that the answers in the foregoing Supplemental Surrebuttal 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.

*Robert E. Schallenberg*  
\_\_\_\_\_  
ROBERT E. SCHALLENBERG

Subscribed and sworn to before me this 30th day of June, 1993.

*Wanda J. King*  
\_\_\_\_\_  
Notary Public

My Commission Expires: 9/4/95



**SCHEDULE 1**

**IS DEEMED TO BE**

**HIGHLY**

**CONFIDENTIAL**

**IN ITS ENTIRETY**

Mr. Flaherty's workpapers show the following topics of each session.

**MONDAY**

**CEO VIDEO**

Priorities and Direction

**LEADERSHIP FORUM**

Introduction

**FAMILY OF COMPANIES (2 Hrs; Ext.)**

- Why
- Types
- Benefits

**SBC FAMILY (1 1/2 Hrs; Int.)**

Mr. Blatherwick/Mr. Pope/

Mr. Ellis/Mr. Harris

- Current Directions
- Opportunities

Open Discussion

**NETWORKING WITH OFFICERS/SENIOR MANAGERS**

**TUESDAY**

**EXTERNAL ENVIRONMENT (3 Hrs; Ext.)**

Dynamic Competitive Marketplace

- Trends
  - National
  - International
  - Social
  - Environmental
  - Technological

**OPERATING IN THE '90s (4 Hrs; Ext.)**

Understanding the Characteristics of High Performance Organizations

- Alignment
- Purpose Driven/Customer Focused
- Structure's and Manager's Role

**Creating High Performance**

- Set Direction and Manage Focus
- Build Motivation and Commitment

**Sustaining High Performance**

- Set High Standards
- Balance Intuition and Reason

**MR. ADAMS (1 Hr; Int.)**

Operational Focus of SWBT

**NETWORKING WITH OFFICERS/SENIOR MANAGERS**

**WEDNESDAY**

**FINANCIAL OPPORTUNITIES:**

**BOTTOM-LINE PERFORMANCE (1 1/2 Hrs; Int.)**

- Maintaining Financial Flexibility
- Internal Perspective
- Bottom-Line Impacts of Decisions

**FULL/QUALITY SERVICE (1 1/2 Hrs; Ext.)**

- Perception
- Commitment
- Implications

**MANAGEMENT PRACTICES (2 1/2 Hrs; Ext.)**

- Business Fundamentals
- Changing Characteristics of Authority
- Organizational Behavior Principles

**OPERATIONAL HIGHLIGHTS (1 1/2 Hrs; Int.)**

- Dynamic Process
- Changing Priorities/Directions/Themes
- Subsidiary/Corporate

**MR. FOSTER (1 Hr; Int.)**

Operational Focus of National Subsidiaries

**NETWORKING WITH OFFICERS/SENIOR MANAGERS**



**THURSDAY**

**EMPOWERMENT (2 Hrs; Ext.)**

- Summary of the Week
- Manager's Critical Role
- Opportunities For Enhancing Job
- Motivated to Take Action

**CEO VISIT**

**Mr. Whitacre**

- Chairman's View
- Q's and A's

DATA INFORMATION REQUEST  
SOUTHWESTERN BELL TELEPHONE COMPANY  
STAFF REVIEW 1992

No. 121

Requested From

GRANT GRAY

As Requested:

MAY 13, 1992

Information Requested:

PROVIDE COPIES OF THE MATERIALS AND/OR VIDEO TAPES  
FOR THE CORPORATE POLICY SEMINARS.

Requested By:

John Cassidy

Information Provided:

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of the 1992 Staff Review, any matters are discovered which would adversely affect the accuracy or completeness of the attached information.

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

Date Response Received:

6/1/92

Signed by:

Grant Gray

Prepared by:

Q: PROVIDE COPIES OF THE MATERIALS AND/OR VIDEO TAPES FOR THE CORPORATE POLICY SEMINARS.

A: SOUTHWESTERN BELL CORPORATION ("SBC") CONSIDERS THE REQUESTED INFORMATION TO BE, IN PART, PRIVILEGED AND PROPRIETARY. AS SUCH, THIS INFORMATION SHOULD NOT BE DISCLOSED TO UNAUTHORIZED PARTIES WITHOUT THE WRITTEN CONSENT OF SBC.

1. A copy of a typical Leadership Forum '91 agenda is attached.
2. Also attached are video cassette recordings of presentations made at Leadership Forum '91 (three tapes). Mr. Kiernan's presentation (tape two) is considered privileged and proprietary, and is not for dissemination outside Southwestern Bell Corporation because it contains internal financial information.

121 230 0330 121 0330  
Data Request 121  
Third Set of Requests  
Missouri Staff  
Page 2 of 2

Responsible Person: Bill Wuest  
16625 Swingley Ridge Drive  
Chesterfield, Missouri 63017

---

<b>Monday</b>	11:30 - 1:00	Lunch.....	Ballroom A
	1:00 - 1:15	George Keely/Bill Wuest.....	LF '91 Purpose: Objectives: Structure
	1:15 - 1:20	Ed Whitacre.....	Priorities & Direction
	1:20 - 2:10	Jay Barney.....	Family of Companies
	2:10 - 2:20	Break	
	2:30 - 3:40	Jay Barney.....	Family of Companies (Continued)
	3:40 - 4:00	Break	
	4:00 - 5:30	J. Blatherwick/Liam Coonan..	S&C Family
	5:30 - 6:30	Reception	
	6:30 - 8:00	Dinner.....	Ballroom A
	8:00 - 11:00	Recreation/Hospitality	

---

<b>Tuesday</b>	7:00 - 8:00	Breakfast.....	Ballroom A
	8:00 - 9:00	Rick Ress.....	Operating in the '90s
	9:00 - 9:15	Break	
	9:15 - 10:20	Rick Ress.....	Operating in the '90s (Continued)
	10:20 - 10:40	Break	
	10:40 - 11:40	Royce Caldwell.....	Operational Highlights
	11:40 - 1:00	Lunch.....	Ballroom A
	1:00 - 2:00	Jim Crupi.....	External Environment
	2:00 - 2:30	Break	
	2:30 - 3:30	Jim Crupi.....	External Environment (Continued)
	3:30 - 4:00	Break.....	
	4:00 - 5:00	Ed Whitacre.....	CEO Visit
	5:00 - 6:00	Reception	
6:00 - 7:30	Dinner.....	Ballroom A	
7:30 - 11:00	Recreation/Hospitality		

---

<b>Wednesday</b>	7:00 - 8:00	Breakfast.....	Ballroom A
	8:00 - 9:30	Don Kiernan.....	Financial Opportunities
	9:30 - 10:00	Break	
	10:00 - 11:20	Rena Zaphropoulos.....	Management Practices
	11:20 - 12:40	Lunch.....	Ballroom A
	12:40 - 1:40	John Odom.....	Full/Quality Service
	1:40 - 2:00	Break	
	2:00 - 2:45	John Odom.....	Full/Quality Service (Continued)
	2:45 - 3:00	Stretch Break	
	3:00 - 4:00	Ed Mueller.....	Operational Highlights
	4:00 - 4:30	Break	
	4:30 - 5:30	Jim Adams.....	SWBT's Operational Focus
	5:15 - 6:30	Reception	
6:30 - 8:00	Dinner.....	Ballroom A	
8:00 - 11:00	Recreation/Hospitality		

---

<b>Thursday</b>	7:00 - 8:00	Breakfast.....	Ballroom A
	8:00 - 9:30	Tom Heinzelman.....	Empowerment
	9:30 - 10:00	Break	
	10:00 - 11:00	Charles Foster.....	National Subsidiaries' Operational Focus
	11:00 - 11:10	Close	
	11:10 - 12:30	Optional Lunch.....	Ballroom A

**SCHEDULE 3**

**IS DEEMED TO BE**

**HIGHLY**  
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**IN ITS ENTIRETY**

**Company Response to Staff Data Request No. 283**

**Copies of the following newsletters distributed by SWBT during 1991: These newsletters were**

- A. This Week**
- B. HQ Bulletin**
- C. Performance**
- D. HQ People**
- E. Missouri Business Plan**
- F. Telephone Times**
- G. Family Safety Health**
- H. Legislative Bulletin**
- I. FYI Bulletin**

**HQ People was discontinued in 1991. Performance was discontinued in 1992. Family Health-Safety was discontinued in 1991.**

**The benefits of each newsletter is as follows:**

**A. This Week - This newsletter educates employees and helps them better manage their jobs and serve customers, by offering general news about SWBT, SBC and the family of companies, with emphasis on the telephone company. Includes brief, timely information on topics ranging from regulatory changes to new products and services.**

**B. Performance informs managers of key performance indices (e.g., access line gain and growth of various services) to help them determine how and where to concentrate their efforts to maximize the performance of the company.**

**C. HQ People informs employees of the community service contributions of fellow employees and encourages further community service contributions by publicizing the selfless efforts of employees.**

**D. HQ Bulletin informs employees of events (e.g., wellness programs), seminars, building notifications (e.g., construction schedules and downtime of computers due to routine maintenance) at headquarters.**

**E. Missouri Business Plan informs employees of company goals, strategies, and relays the benefits to customers of these strategies; reinforces the need for customer focus.**

**F. Telephone Times keeps employees informed on the value of customer service, the value of products and services, service measurements, the need for efficiency, introduction of new services, key regulatory issues affecting customers and the company; encourages employees to be customer advocates through employee involvement programs such as the Employee Suggestion Plan, KEY referral program and by publicizing the**



**Rider/Nova awards. Also provides information on community and individual volunteer projects**

**G. Family Safety-Health is geared toward safety in the home and at work, with the philosophy that accident prevention is a form of cost control.**

**H. Legislative Bulletin is used on an as-needed basis to keep employees informed on policy and product issues that could affect customers and the company.**

**I. FYI Bulletins inform employees of company goals, strategies and relay the benefits to customers of these strategies; reinforce the need for customer focus.**

**Advertising**

ds promote additional listings, Dec. 19  
 ustomer guide back in Muskogee, Feb. 13  
 ew customer guide in Austin, Dec. 10

**Industry News**

ash signs telemarketing bill, Jan. 9  
 tage charge taken seriously, Dec. 5  
 ublisher advocates partnership, Dec. 19  
 chnology benefits older adults, Mar. 5

**Marketing & Sales**

cess lines jump, May 14  
 L sales on fast pace, May 14  
 L sales totals for 1991, Jan. 16

Ark. CCS repricing, new revenue, May 21  
 CCO sales brisk in Tulsa, Houston, Feb. 6  
 CCO San Antonio rollout, May 7  
 CCS sales no mystery to reps, May 21  
 Consultative selling, Feb. 27  
 DA offers ZIP codes, May 28  
 DEC signs BDS/LAN deal, May 28  
 Ft. Worth schools get Plexar®, Apr. 30  
 INFOMARK system tested, Mar. 12  
 Jail house TV saves money, Apr. 2  
 Multi-line inline rolls out, May 14  
 Network mgmt. services offered, May 7  
 1+ Saver begins in Kansas, Apr. 9  
 Oper. services claims a win, Mar. 12  
 Oper. services find market, Dec. 5  
 Pay phone contracts inked, Jan. 9  
 Public forms business unit, Jan. 9  
 Sales agents give full service, Mar. 26  
 SBMS offers traffic help, Apr. 16  
 SelectCar® ad trial, Mar. 19  
 Service reps sell to lifestyles, Dec. 10  
 Software sales growing, Mar. 26  
 Strong AOL holiday sales, Dec. 19  
 SWBT leads RBOCs in CCS, May 21  
 SWBT wins Amertech bid, Jan. 23  
 SWBT wins operator svcs. bid, Feb. 6  
 Team CPE sales for '91, Mar. 19  
 Team sale to chopper firm, Dec. 10  
 Teaming up for Winning Edge, Feb. 27  
 TeleBranch® service gains, Feb. 6  
 Texaco renews pay phones, Dec. 5  
 Texaco signs pay phone contract, Feb. 6  
 Texas begins DA/Call Completion, Jan. 23  
 VHA signs multi-svc. contract, Mar. 19  
 Winning Edge program kicks off, Jan. 23

**Media circus**

Analysts view of SBC, May 7  
 HB 1076 editorial, May 7, May 28  
 HB 1076 letter to editor, May 28  
 HR 5096 editorial, May 28  
 HR 5096 letter to editor, May 28  
 Operator-assisted yellow pgs., May 28  
 SWBT network management, May 7

**Network**

Area codes will look different, May 28  
 Ark. gets enhanced 911 System, May 7  
 Bellcore, SWBT host conference, Apr. 9  
 Broadband follows SONET, Mar. 12

Data service guaranteed, Feb. 27  
 Earthquake: one year later, Dec. 5  
 Flooding, fire ants in Texas, Jan. 16  
 ISON group meets in Houston, May 14  
 Mo. legislation moves ahead, Mar. 12  
 Netwk. reliability group formed, Feb. 20  
 Preparing for 800 database, May 28  
 SWBT links GSA in video trial, May 21  
 SWBT tests frame relay, Feb. 6  
 SWBT to upgrade 150 switches, Jan. 2  
 SWBT's capital budget, May 26  
 Teleradiology and healthcare, Feb. 27  
 Video Santa hook-up, Jan. 2

**New ideas/new ventures**

All. regulation proposed in Ark., Apr. 16  
 Bad Plant team wins Novas, Dec. 19  
 Clean fuel trucks in Austin, May 21  
 Information services begin, Jan. 16  
 Minority/women suppliers, May 7  
 'New' This Week begins, May 7  
 Paperless vouchers begin, Jan. 2  
 Strategy, mission outlined, May 21  
 SWBT begins work on mission, Jan. 30  
 SWBT mission & strategy, Mar. 12  
 SWBT tests billing with disks, EDI Feb. 20

**Quality**

Best practices studied, May 7  
 Brown paper fair critique, Apr. 23  
 Budget, net. analysis begins, Mar. 19  
 Budget, net. analysis update, Apr. 16  
 Call trace team profile, May 21  
 Cutting bureaucracy a must, May 28  
 HQ team tracks down errors, Feb. 13  
 '92 goal: less bureaucracy, Apr. 16  
 Suggestion program and quality, Dec. 5  
 SWBT set to expand quality, May 21

**Regulatory**

All. reg. legislation filed in Mo., Feb. 6  
 Caller ID gets Okla. approval, Apr. 9  
 Court action filed on CPNI, May 14  
 Exchange connec. svc. approved, May 14  
 History of regulation/part I, May 28  
 Legislation would reinstate MFJ ban, May 14  
 Missouri gets new pricing, Jan. 23  
 Missouri legislation fails, May 21  
 Okla. ALJ files recommendation, May 28  
 Okla. telco legislation filed, Feb. 20  
 PSC chairman favors legislation, Mar. 19  
 Regulatory freedom = growth, May 14  
 Senate debate begins on HB 1076, May 14  
 Senate panel approves legislation, Apr. 23  
 Texas OCP approved, May 14  
 Whitacre assails Okla. regulation, Feb. 27  
 Why info svcs. good for consumers, Mar. 5

**SBC-related**

AMI offers services, Dec. 5  
 Annual meeting coverage, Apr. 30  
 Annual meeting videotape, May 7  
 Annual Report available, Apr. 2  
 Blatherwick elected Pioneer pres., May 7  
 Cellular One® offers info svcs., Feb. 20  
 Cellular One® offers sports info, May 7

Cellular One® tests digital system, Dec. 10  
 Cellular sales soar, Apr. 16  
 Dale opens cable HQ, May 7  
 Employees steered SBYP effort, Feb. 13  
 First quarter dividend, Apr. 2  
 First quarter earnings, Apr. 23  
 Freedom Phone® products expand, Feb. 13  
 Golfing greets tee up, May 7  
 New York Times praises SBC, Feb. 6  
 Pocket phone test begins, Apr. 9  
 Quarterly dividend declared, Jan. 2  
 SBC ranks 25 on Forbes list, Apr. 30  
 SBC reports annual earnings, Jan. 30  
 SBC restructures Mast, May 7  
 SBC stock finishes year strong, Jan. 23  
 SBC, Panasonic test pocket phone, Jan. 30  
 SBC, telco executive changes, Jan. 16  
 SBC to serve Repub. convention, Jan. 9  
 SBMS roaming svc. in U.S., Mexico, May 14  
 SBT focuses on customer, Feb. 20  
 SBT rolls out new phones, Dec. 19  
 SWBT, SBT team sale, Apr. 2  
 Switched broadband trial, Mar. 5  
 Telex after one year, Jan. 30  
 Telex profits up in 1991, Mar. 5  
 Wireless expertise wanted, Apr. 9

**Workplace/workforce**

Adams ADA remarks, Jan. 23  
 After EMP, new profile, Apr. 23  
 As others see us by Dennis DRIZ, May 28  
 Attendance award called back, Dec. 5  
 Attendance award options, Dec. 19  
 Bargaining begins, May 28  
 Bargaining starts early, May 7  
 Callaway named to UW search, Apr. 9  
 Charge card changes, Feb. 27  
 Community work recognized, Dec. 10  
 Driving course goes high tech, May 28  
 EEO Compliance Booklet, Jan. 23  
 Employment verification policy, Apr. 30  
 EP addresses surplus situation, Apr. 2  
 EP deadline approaches, May 7  
 EP offered to nonmanagement, Mar. 19  
 Fax scammers foiled, May 7  
 Finance dept. update, Apr. 2, Apr. 30  
 Hackers foiled by employees, May 14  
 How to get duplicate W-2s, Feb. 27  
 Invol. separations update, Feb. 13  
 KC group kicks off recycling, Dec. 10  
 Managers find new challenges, Apr. 23  
 Mgmt. force reduction ends, Feb. 20  
 Michelangelo computer virus, Mar. 26  
 Okla. wins health, safety honors, Feb. 13  
 Pamphlet highlights ADA, Apr. 9  
 Proprietary information alert, Mar. 19  
 Replacing old CO batteries, May 21  
 Separations group consolidates, Jan. 30  
 Scriber scan reduces expenses, Apr. 23  
 Terminations called 'last resort,' Jan. 9  
 3,750 say yes to EMP, Dec. 10  
 Tuition remains non-taxed, Jan. 23  
 Wage attachment changes, Apr. 30  
 Why sign vouchers in black, Mar. 5

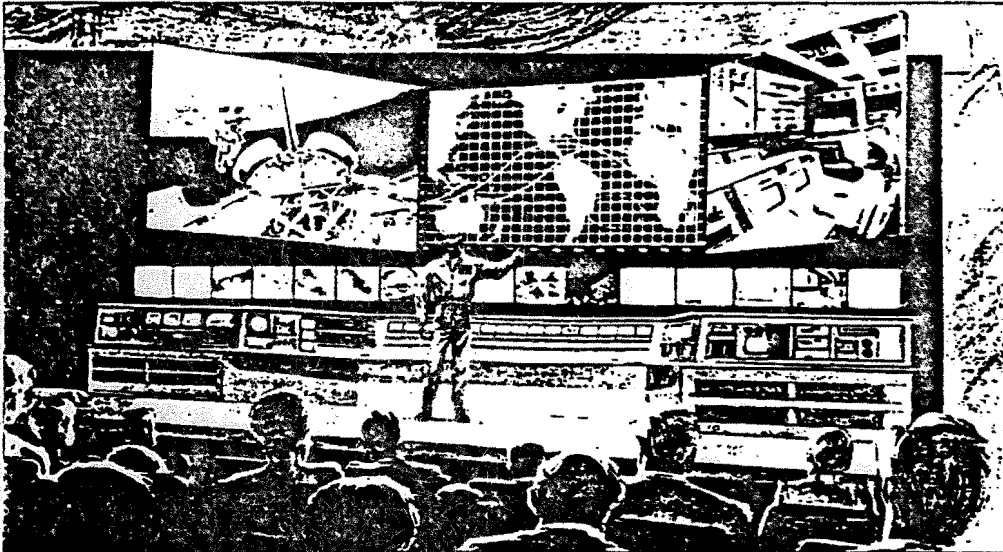
“Promoting education is a goal we share.”

# This Week

—Tricia Holland, area manager-external affairs-Houston



Southwestern Bell Telephone



## SBC-sponsored Space Center to break ground

SBC was the first corporate sponsor of Space Center Houston, which breaks ground this week.

Space Center Houston will contain exhibits, tours and high-tech attractions. Its mission: Expose visitors to the spectacle of manned space flight.

“A primary goal of the center is to encourage America’s youth to pursue education in science and engineering,” says Tricia Holland, area manager-external affairs-Houston. “That’s a goal we at Southwestern Bell share.

“Our sponsorship fits Southwestern Bell’s commitment to education, which is a key to economic development in our region,” she says. “In addition, it enhances our reputation as a high-tech company.”

Space Center Houston, located on the grounds of the Johnson Space Center, is scheduled to be completed and open to the public in late 1992.

The center is not a theme park but it will include entertainment elements similar to those found at EPCOT Center in Florida. In fact, the entire concept of the space

center is being designed and planned by the creative minds behind EPCOT: Walt Disney Imagineering.

The exhibit carrying SBC’s name is the Mission Status Center (pictured above). Here, visitors will hear and see what’s going on at NASA.

Live cameras will show what’s happening in Houston’s Mission Control, at the Kennedy Space Center launch pad or aboard the Space Shuttle during flights.

Also available to Space Center Houston visitors will be:

- Guided tours of NASA, including Mission Control and astronaut training.

- Space Shuttle mock-up, an exact duplicate of the mid-deck and flight deck of the shuttle.

- The “feel of space,” where visitors can experience how objects feel in the vacuum of space.

When Space Center Houston is fully operational, SWBT will have the opportunity to use the facility for corporate gatherings, employee meetings, sales conferences and other events.

## Headlines

SBC announces executive changes  
SBC last week announced several personnel changes.

They are:

Robert Lynch was appointed vice president and general counsel for SWBT’s Texas Division. Lynch is currently vice president and assistant general counsel for SBC.

William J. Free will replace Lynch. Free currently is vice president and associate general counsel of SWBT in St. Louis.

Durward D. Dupre will replace Free. Dupre currently is vice president and general counsel of SWBT’s Texas Division.

Appointments for Lynch and Dupre are effective June 1. Free’s appointment is effective July 1.

Data Center gets topped out  
SWBT’s new data center in St. Louis held a “topping out” ceremony this week as workers poured concrete for the roof deck, completing the structural frame.

Construction began on the building in November 1988. Installation of communication and computer wiring is scheduled to begin early next year.

The first computers are scheduled to be moved into the building in May 1992. Personnel will move in several phases so operations are not interrupted.

## Around SBC

**Freedom Phone® goes Caribbean** Southwestern Bell Freedom Phone® and the Caribbean Association of National Telephone Organizations (CANTO) recently signed an agreement giving Freedom Phone and each CANTO member an opportunity to market Freedom Phone customer premises equipment in the Caribbean.

"We're very encouraged by the opportunities we see available in this largely untapped market," says Darrell White, vice president.

He says few trade barriers and good potential partnerships are factors favoring business with the region.

**Yellow Pages customers satisfied** An independent 1990 survey shows an average of 67 percent of respondents were satisfied overall with Southwestern Bell Yellow Pages' products and services.

The company's goal in 1991 is to increase the satisfied group to 70 percent.

**Interest Income Fund note** Effective July 1, 1991 through December 31, 1991, the Interest Income Fund (IIF) interest rate for the management savings plan is 8.75 percent. The IIF interest rate for the nonmanagement savings plan is 8.50 percent.

These rates apply to all new money previously invested in IIF accounts as well as new funds invested before January 1, 1992.

### Stock Watch

May 15	▼0.375	49.500
May 16	No Change	49.500
May 17	▲0.625	50.125
May 20	▼0.250	49.875
May 21	▲0.625	50.500

Southwestern Bell Corporation  
Closing stock prices, May 15-21, 1991.

## Call Forwarding becomes mobile in Austin offering

SWBT this week begins a new service that is ideal for the person on the go.

Remote Access to Call Forwarding (RACF) is a new service that allows customers with Call Forwarding to activate, deactivate or change the feature without returning to their residence or business location.

RACF offers a significant enhancement over Call Forwarding, which only allows calls to be programmed from the customers' premises.

A 12-month trial of RACF will take place in Austin, Texas. That city was selected for the initial offering based on the necessary technology required to provide the service and the ability to file an experimental offering.

"We'll learn how important RACF is to existing Call Forwarding customers," says Lisa Wilder, area manager-product

management. "We'll also determine whether RACF should stand as an enhancement or as a separate product."

Wilder says residence customers—particularly busy families—will find RACF an aid to staying in touch. Business customers will find RACF equally valuable, says Sandy Van Dillen, area manager-business product management.

"Real estate agents frequently work out of their homes," Van Dillen says. "But agents sometimes get stuck at an open house or waiting for a client to call. If they miss a phone call, it could mean losing a six-figure deal."

During the initial offering, RACF will be priced at \$1.50 per month for residence customers and \$2.75 per month for business customers. The initial installation charge will be waived during the experimental period.

## Missouri experiment gives customers credits

Missouri Division last week said it expects to issue \$12 million in credits among customers as part of an incentive regulation experiment developed with the Public Service Commission (PSC).

The credits, which vary depending upon what customers pay for local service, will appear on June telephone bills and are for the entire year of 1990.

SWBT estimates the credit for a one-party residence customer will range from about \$1.48 to \$8.33 and the credit for a one-party business customer will range from about \$3.32 to \$24.77.

The three-year regulatory experiment began last year. Part of the plan is a "sharing formula" which calls for SWBT to

give customers a portion of any annual earnings at or above a 14.1 percent rate of return on equity.

The regulation plan also gives SWBT incentives to increase efficiencies and modernize the network.

"The customer credits signal the incentive regulation experiment is working for customers and the company," says Dale Robertson, assistant vice president-comptrollers and external affairs.

"We also are pleased that our modernization program is on schedule because the new technology positions Missouri communities for increased economic development opportunities," Robertson says.

## This Week

May 23, 1991  
Address comments to  
Bill Motchan,  
This Week editor,  
1010 Pine, Room 1021,  
St. Louis, MO 63101.  
Circulation Manager:  
Doris Wright.  
To request back issues,  
call (314) 331-2152.



“Distance learning will support education.”

—Bill Evans, area manager-market planning

# This Week



Southwestern Bell Telephone

## SWBT begins marketing effort directed at educators

Telecommunications can be a valuable tool in improving the quality of education. That's the message of a marketing program that begins this week.

SWBT is telling 2,500 school supervisors how “distance learning” provides educators with a new, high-tech tool.

Distance learning offers classrooms in rural areas the same quality and diversity of subjects their city counterparts take for granted.

SWBT can deliver distance learning to those rural classrooms, says Bill Evans, area manager-market planning.

“In rural schools, students don't always have the curriculum they need to get into college,” Evans says. “Classes in physics or a foreign language may be unavailable.

“Distance learning gives those schools the ability to share a teacher who specializes in a particular subject,” he says. “The teacher doesn't need to be physically on the premises. The teacher is delivered to the classroom electronically.”

While rural areas have been the first to respond, Evans says, metropolitan schools have similar needs and have shown considerable interest.

Distance learning applications range from voice-only teleconferencing to inter-

active, two-way video. The latter calls for a communications link and video cameras, monitors, microphones, speakers and control systems at each end of the network.

(Interested in learning more about how technology is changing the face of education in America? A special section printed by *Business Week* contains several related articles. To receive a copy, send your name, work address and work phone number to: EDUCATION, 1010 Pine, Room 921, St. Louis, Mo. 63101.)

### SWBT helps Kansas schools rate an A-PLUS

A group of rural schools in southwest Kansas is reaping the benefits of distance learning. The A-PLUS (Advanced Photonics Linking Unified Schools) Network has been up and running since last fall. It allows the schools to offer courses that were previously unavailable because of low enrollment or lack of certified staff in certain areas. SWBT and independent telephone companies deliver the A-PLUS network via full analog fiber transmission. The students don't know much about analog or fiber cable; they do know they like the system. “Our kids love the video system,” says Dale Moody, superintendent of the Ashland School District. “They've taken to it unlike anything we've seen.”

## Headlines

Interim increases denied in Texas  
Interim rate increases filed in May with the Texas Public Utility Commission for Directory Assistance services and residence Custom Calling Services were denied in pre-hearings held the past two weeks.

Hearings on the repricing requests for both groups of services are scheduled in September; final orders are expected in late November or early December.

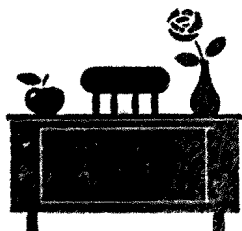
SWBT requested that either the increases be effective—or interim rates be OK'd—by August 1. The administrative law judge approved consolidating three dockets involving Directory Assistance services into one repricing hearing. The services are: Directory Assistance call completion, multiple list Directory Assistance and Directory Assistance repricing. Ruling that the cases involve the same cost studies and common issues, the judge said the move will avoid duplication and save time.

Kansas firm big repeat customer  
Fourth Financial Corp., the Wichita-based parent of Bank IV, now does more than \$1.2 million a year of business with SWBT and Southwestern Bell Telecom. Renewal of a maintenance contract and purchases of equipment and services were the latest sales.

### Background: Student enrollment in SWBT's five states

SWBT's territory accounts for 13 percent of the total U.S. education market. Here's a look at the number of students and teachers in the five SWBT states, along with student-teacher ratios.

State	Students	Teachers	Ratio
Ark.	462,510	23,009	20.1
Kan.	463,264	28,798	16.1
Mo.	939,093	44,143	21.3
Okla.	612,677	32,299	19.0
Tex.	3,434,831	151,813	22.6
Total	5,912,375	280,062	21.1



## Around SBC

Freedom Phone<sup>®</sup> products roll out Southwestern Bell Freedom Phone<sup>®</sup> has added a two-line memory phone to its line of home/office feature telephones.

The new FT 350 has several memory features, including "save"—a temporary number storage location that's the next step beyond last number redial. By using the feature, users may redial a busy number later, regardless of how many calls are made in-between.

The new FA 955 answering machine, bound for retailers in July, includes variable announcement length, remote turn-on and message capability and announcement interrupt from any branch extension. The machine also has a built-in telephone, uses a single microcassette and mounts on desks or walls.

New FA 960 and FA 985 answering machines are deluxe models that feature a single microcassette and solid state outgoing message voice chip. Both include an LCD display, day/time stamping, announcement interrupt and conversation record capability.

**SBC declares 71-cent dividend**  
The Board of Directors of Southwestern Bell Corporation on June 28 declared a regular quarterly dividend of 71 cents, payable August 1 to shareowners of record at the close of business July 10, 1991.

### Stock Watch

June 26	▲0.250	51.625
June 27	▲1.250	52.875
June 28	▲0.625	53.500
July 1	▲1.250	54.750
July 2	Not Available	

Southwestern Bell Corporation  
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# This Week

July 3, 1991  
Address comments to Bill Matchan, This Week editor  
1010 Pine Room 1021 St. Louis, MO 63101  
Circulation Manager Doris Wright  
To request back issues, call (314) 331-2152

Printed on recycled paper





# FYI Bulletin



Southwestern Bell Telephone

## August enrollment scheduled for supplemental medical plan

Enrollment for CarePlus, the optional new medical plan open to employees, retirees and their dependents, will run through the month of August. CarePlus is a supplemental medical plan that covers expenses for several costly experimental medical procedures not covered by CustomCare or HMOs. The plan is entirely separate from CustomCare and HMOs.

A CarePlus enrollment packet will be mailed the first week of August to employees at work locations. Included in the packet are a special edition of *Benefit Bulletin* which describes the plan in detail, and an enrollment form that can be returned via company mail. (Retirees will receive the packet at home and can return their form via U.S. mail.)

Regardless of your decision about CarePlus, please complete, sign and return the CarePlus enrollment form by Aug. 30. If you do not choose CarePlus during August, you will not be able to sign up again until the next enrollment period in late

1993, when a 12-month pre-existing condition limitation will apply. Employees can cancel coverage at any time.

Because the plan is entirely employee-funded and a stable pool of money is needed to pay for covered procedures, 30 percent of employees must choose CarePlus in order for it to be implemented Sept. 1.

Please read your enrollment packet carefully. If you have additional questions about CarePlus, you may wish to attend one of the CarePlus information meetings. Reservations are needed for employees located in downtown St. Louis. Please indicate which session you prefer and return the form below to: CarePlus Session, Room 1021, 1010 Pine. A ticket will be returned to you. Employees throughout the rest of St. Louis and across the state should coordinate with their supervisor about attending a session scheduled at or near their work location. (See schedule on back.)

Name: \_\_\_\_\_

Department: \_\_\_\_\_

Company mail address: \_\_\_\_\_

Phone: \_\_\_\_\_

I would like to attend a CarePlus Information Session. (Please mark (1) first, (2) second and (3) third preferences.)

I'm unable to attend any of the information sessions. I'm interested in borrowing a CarePlus Information Session videotape. *NOTE: Several departments have reserved videotapes for their work groups. Please contact your supervisor before requesting a video.*

**Kansas City**

Aug. 5	500 E. 8th Auditorium	8:00 a.m. 9:00 a.m. 10:00 a.m. 1:00 p.m. 2:00 p.m. 3:50 p.m.
	6215 Holmes	9:00 a.m. 10:15 a.m.
Aug. 6	500 E. 8th Auditorium	8:00 a.m. 9:00 a.m.
	215 N. Spring	1:00 p.m. 2:00 p.m. 3:00 p.m.
Aug. 7	800 E. 101st Ter. Cust. Svcs. empl. (Sessions will be held in each unit)	8:00 a.m. 9:00 a.m.
	14250 52nd St. & 2501 Savage	Will be posted at worksite

**St. Louis**

Aug. 8	115 W. Adams	8:00 a.m. 9:00 a.m. 10:00 a.m.
	403 N. 3rd.	2:00 p.m. 3:00 p.m. 4:00 p.m. 5:00 p.m. 6:00 p.m.
Aug. 9	100 N. Tucker Auditorium	8:00 a.m. 9:50 a.m. 1:00 p.m. 2:50 p.m.
Aug. 12	OBC, Rm. 422	8:00 a.m. 9:50 a.m. 1:00 p.m. 2:50 p.m.
Aug. 13	14780 Manchester	8:00 a.m. 9:00 a.m. 10:00 a.m.
	2651 Olive	1:00 p.m. 2:00 p.m. 3:00 p.m.
Aug. 14	801 N. 11th	8:00 a.m. 9:50 a.m. 11:00 a.m. 1:00 p.m. 2:50 p.m.
Aug. 15	815 Olive 6th Floor	8:00 a.m. 9:50 a.m. 11:00 a.m. 1:00 p.m. 2:50 p.m.

**Springfield**

Aug. 14	800 St. Louis Pioneer Lounge	1:00 p.m. 3:50 p.m.
Aug. 15	600 St. Louis Pioneer Lounge	7:00 a.m. 8:00 a.m. 9:00 a.m.

**St. Louis**

Aug. 16	OBC, Rm. 422	8:00 a.m. 9:50 a.m. 1:00 p.m. 2:50 p.m.
Aug. 19	OBC, Rm. 422	8:00 a.m. 9:50 a.m. 1:00 p.m. 2:50 p.m.
Aug. 20	100 N. Tucker Auditorium	8:00 a.m. 9:50 a.m. 1:00 p.m. 2:50 p.m.
Aug. 21	1010 Pine Mark Twain Rm.	8:00 a.m. 9:50 a.m. 1:00 p.m. 2:50 p.m.
	14 S. 4th Assembly Rm.	5:45 a.m. 6:50 a.m. 8:50 a.m. 9:15 a.m. 4:30 p.m. 5:15 p.m.
Aug. 22	550 N. Florissant	8:00 a.m. 9:00 a.m. 10:00 a.m. 11:00 a.m.
	135 N. Lindbergh	1:50 p.m. 2:50 p.m. 3:50 p.m. 4:50 p.m. 5:50 p.m.
Aug. 23	OBC, Rm. 422	8:00 a.m. 9:50 a.m. 1:00 p.m. 2:50 p.m.
Aug. 26	1010 Pine Daniel Boone Rm.	8:00 a.m. 9:50 a.m. 1:00 p.m. 2:50 p.m.

**Cape Girardeau**

Aug. 27	2200 Themis	7:00 a.m. 8:00 a.m.
	551 Silver Springs 800 Broadway	10:00 a.m. 1:00 p.m. 2:00 p.m.
Aug. 28	551 Silver Springs	8:00 a.m. 9:00 a.m.



# Benefit Bulletin

**Special**



Southwestern Bell Corporation  
and Participating Companies

## CarePlus: New Optional Medical Plan Covers Some Experimental Procedures

**C**arePlus. It's an optional new supplemental medical plan that can mean peace of mind and financial security for you as an employee or retiree\* of a Southwestern Bell company.

For a small monthly contribution, employees will have a benefit of up to \$500,000 to cover expenses for several costly experimental medical procedures not covered by the SBC companies' medical plans, including CustomCare and the Comprehensive Medical Plan, or HMOs.\*\*

The procedures include several types of bone marrow transplants, which are used as treatments of "last resort" for many cancerous conditions, and pancreas and islet cell transplants, which are used to treat severe insulin-dependent Type I diabetics.

CarePlus. It's an innovative medical plan that offers employees of the Southwestern Bell family of

companies an opportunity few employees have: to be covered for certain experimental procedures that can be lifesaving, but are far beyond the price range of most people. CarePlus is entirely separate from the SBC companies' medical plans and HMOs.

Very few employers (or insurance companies) offer coverage for "experimental" medical procedures. But because some of these procedures are being recommended for Southwestern Bell employees or their family members, and because the cost of these procedures could create a financial crisis for an employee's family, a program has been developed that offers this type of coverage at a minimal price to the employee.

Because CarePlus is entirely employee-funded, 50 percent of employees must choose CarePlus coverage in order for the program to go into effect (continued on page 2)

\* Future references to employees include retirees.

\*\*HMOs may differ. Contact your HMO for information regarding coverage.

## CarePlus Fast Facts

### Plan Description:

Optional supplemental medical plan for employees, retirees and eligible dependents; covers some experimental procedures not covered by the SBC companies' medical plans (including CustomCare and the Comprehensive Medical Plan) or HMOs; funded entirely by participants

### Employee Contribution:

Individual (employee only) = \$4/month  
Family (employee plus dependents) = \$6/month

### Coverage:

Designated facility: 100% of covered charges  
Non-designated facility: 80% of designated facility rate(s)  
Lifetime maximum: \$500,000 per family member

### Enrollment:

Initial Open Enrollment: August 1991 for coverage effective Sept. 1, 1991 (50% enrollment required)  
Subsequent Enrollments: every third plan year (next enrollment in 1993 for coverage effective Jan. 1, 1994)

**Cancellation Policy:** can cancel coverage at any time but can't re-enroll until the next enrollment (preexisting condition limitation applies)

### Procedures:

Coverage under CarePlus includes expenses related to the following experimental procedures:

- **Allogeneic bone marrow transplants for the treatment of:**
  - chronic lymphocytic leukemia
  - breast cancer
  - multiple myeloma
- **Autologous bone marrow transplants for the treatment of:**
  - breast cancer
  - lung cancer
  - ovarian cancer
  - colon cancer
  - testicular cancer
  - brain cancer
  - Wilms' tumor
  - Ewing sarcoma
  - multiple myeloma
  - chronic myelogenous leukemia
- **Pancreas transplant**
- **Islet cell transplant**

## The CarePlus Option *(Continued from page one)*

and in order for the program to be continued. *This level of participation is necessary to ensure that an adequate and stable pool of money is available to pay for covered procedures.*

If this level of participation is met, coverage will begin Sept. 1, 1991. If enrollment is less than 30 percent, CarePlus will not be implemented.

This bulletin is intended to provide enough information about CarePlus to help you make an informed decision regarding enrollment. Regardless of what your decision is, you must complete, sign and return the enclosed CarePlus Enrollment Form by Aug. 30, 1991.

CarePlus informational meetings will be held at selected company locations during the month of August. Employees will be notified regarding dates, times and locations of the meetings. At locations where meetings are not held, employees may have access to a videotape explaining the program.

### The Plan Basics

CarePlus is a completely optional supplemental medical plan designed to cover expenses for certain experimental medical treatments not covered by the SBC companies' medical plans, including CustomCare and the Comprehensive Medical Plan, or HMOs.

The plan offers 100 percent coverage (up to a lifetime maximum of \$500,000 for each covered family member) if the treatment is performed at a designated medical facility. Any treatment received for covered procedures or services through a non-designated facility will be reimbursed at 80 percent of the designated facility rate(s).

The \$500,000 maximum also includes limits for air ambulance up to \$5,000 (when medically necessary) as well as transportation, lodging and meals up to \$10,000 for a travel companion(s).

Employee contributions will be \$4 per month for employee only coverage and \$8 per month for family coverage. Contributions may be adjusted from time to time. Participants will be notified of these adjustments, which may be made as a result of plan usage, as procedures are added or dropped, or for other reasons.

Full-time, part-time, regular, temporary and permanent employees are eligible for CarePlus as well as all retirees. Employees who are enrolled in HMOs also are eligible.

If you choose CarePlus coverage, your contributions will be deducted each month from your paycheck. *Employees can cancel coverage at any time.*

During the initial open enrollment period (August 1991), there will be no "preexisting condition" limitation or medical exam required. (A preexisting condition is a condition for which an individual has consulted with a physician or has been tested, treated or diagnosed within the 90 days immediately preceding the coverage effective date.)

During subsequent enrollment periods, pre-existing conditions are not covered for 12 months from the coverage effective date.

.....  
"We decided to make the CarePlus option available to help our employees and retirees deal with the high costs of certain experimental medical procedures. CarePlus can offer employees peace of mind."

Ed Whitacre  
SBC Chairman and Chief Executive Officer

.....  
The initial open enrollment starts Aug. 1, 1991, with a coverage effective date of Sept. 1, 1991. Subsequent enrollments occur every third plan year. If you do not choose CarePlus during this enrollment period, the next enrollment period will occur in late 1993, with coverage effective Jan. 1, 1994.

It's important to remember that because these procedures are considered "experimental," they are not covered under the SBC companies' medical plans, including CustomCare and the Comprehensive Medical Plan. However, most of these plans *do* cover the non-experimental transplants shown on the chart on the facing page.

### "Experimental" Procedures

While there is no universally accepted definition of "experimental," a procedure is generally classified as experimental when it lacks sufficient

*(continued on page 4)*

## The CarePlus Medical Treatments: Who Needs Them, How They Work

The procedures covered by CarePlus generally are considered "high risk/low success" treatments that are used as a last resort for patients with life-threatening diseases. In addition, the incidence rate in the general population of individuals who need these treatments—and qualify for them—is very low.

It's important to remember that enrollment in CarePlus does *not* guarantee that a participant will receive a covered procedure. Many factors—including the patient's age and current state of health as well as the requirements of the facility performing the procedure—determine whether a patient is a candidate for a certain procedure.

CarePlus provides coverage for the experimental procedures described earlier when certified by Prudential, the Claim Administrator. A predetermination process will enable employees to verify coverage before obtaining treatment.

Despite the generally low success rate and low incidence of these experimental procedures, the plan does offer financial security in the event that an employee, retiree or dependent would need one of these costly procedures.

The cost of bone marrow transplants generally ranges from \$100,000 to \$500,000; pancreas transplants range from \$75,000 to \$100,000.

When making their enrollment decision about CarePlus, employees must weigh the low monthly cost against the likelihood of needing this coverage. Certain factors such as age, current health status and family history should be considered.

**SPECIAL NOTE:** According to Dr. Richard Champin of the University of Texas M.D. Anderson Cancer Center, because complications and risks associated with bone marrow transplants increase proportionately with age, most medical centers will not recommend these transplants for candidates over age 60.

In programs which offer pancreas and islet cell transplants, patients tend to be under 50.

### Bone Marrow Transplants

Bone marrow is an active spongy tissue inside the breast bone, spine, pelvis and ribs which produces most of the body's blood cells—red blood cells (for carrying oxygen), white blood cells (to fight infection) and platelets (that aid clotting).

Several diseases, such as leukemia, Hodgkin's disease and multiple myeloma, may destroy bone marrow. Bone marrow also may be destroyed as a result of aggressive chemotherapy and radiation used to treat diseases such as leukemia, breast

cancer or lung cancer. When the bone marrow is damaged or destroyed, the individual is at risk for a fatal infection or uncontrollable bleeding.

For cancer patients, a bone marrow transplant makes it possible to receive higher and possibly more effective doses of chemotherapy and radiation therapy because marrow damaged by treatment can then be replaced with healthy marrow. For leukemia patients, the transplant is intended to provide disease-free marrow.

Once the transplant is completed, the transplanted healthy cells should begin to grow and reproduce and the patient's marrow can resume production of normal blood cells.

.....  
"Employees must weigh the low monthly cost of CarePlus against the likelihood of needing this coverage."  
.....

There are two types of bone marrow transplants: *allogeneic* and *autologous*.

### *Allogeneic Bone Marrow Transplants*

In allogeneic transplants, the source of marrow is another person, generally a sibling or parent. The success of this procedure depends on how well "matched" the donor's marrow is to the patient's marrow. Complex matching tests are run to reduce the chances of the transplanted bone marrow reacting against the patient's body.

Finding a good match for this procedure isn't easy. According to the National Cancer Institute and the National Marrow Donor Program, only about 30 to 40 percent of patients have a sibling or parent with an acceptable match, and the odds of obtaining a compatible marrow from an *unrelated* donor range from 1 in 10,000 to 1 in 20,000.

### *Autologous Bone Marrow Transplants*

In autologous transplants, the patient's marrow is replaced with his or her *own* marrow. The marrow is usually removed when the patient is in remission and is then frozen. The patient is treated with extremely high doses of chemotherapy, which kills cancer cells but also destroys bone marrow.

After chemotherapy, the marrow is returned to the body. During this period, the patient lacks a complete immune system and is highly susceptible to infections, which may cause complications resulting in death. (continued on page 4)

# CAREPLUS

## The CarePlus Option *(continued from page 2)*

medical evidence to be considered consistently effective and safe.

To keep current on the experimental status of certain procedures, the CarePlus Plan Sponsor, Southwestern Bell Corporation, will consult with a number of outside sources, including the Claim Administrator, Prudential. Many factors are used to decide which procedures are experimental, including the results of clinical studies, medical literature and the assessment of groups such as the American Medical Association and the Health Care Financing Administration.

Within the experimental category, there are certain procedures considered by the medical community to be "unacceptable," including those

that are very unsafe or ineffective or those in the very early stages of development.

At the other end of the scale are the "more acceptable" procedures, including those that have some degree of success but also involve substantial risks or those that lack substantial clinical research. The treatments included in CarePlus fall in the "more acceptable" range of experimental procedures.

### Plan Changes

As other experimental medical treatments find increasing acceptance within the medical community, the CarePlus plan could be changed from time to time by the Plan Sponsor. Employees' contributions may be adjusted as needed.

## Medical Treatments *(continued from page 3)*

### Pancreas/Islet Cell Transplants

*Pancreas transplants* are recommended only for those patients who suffer with severe complications from "Type I" diabetes. With this form of diabetes, the pancreas produces no insulin or an insufficient amount.

Type I diabetics usually develop the disease as children and are dependent on daily insulin injections. There are approximately one million Americans who suffer with Type I diabetes. *(With Type II diabetes, the pancreas is able to produce insulin, although the body is not able to metabolize it. These diabetics often can control the disease with diet and oral medication.)*

Because diabetics often suffer kidney failure, pancreas transplants are frequently done in conjunction with kidney transplants.

At leading U.S. medical centers, the one-year success rate for pancreas transplants—success meaning the patient no longer requires insulin and has normal blood-sugar levels—is over 50 percent. However, transplant patients have to take immunosuppressive drugs for the rest of their lives to prevent rejection of the new pancreas. And researchers are studying whether

pancreas transplants can prevent, stop or reverse the complications of diabetes.

Similar to pancreas transplants, *islet cell transplants* are considered only for severe Type I diabetics, and the purpose of the transplant is the same: to achieve "insulin independence" for the patient.

Islet cells are the cells within the pancreas that produce insulin. Although the islet cell transplant is not nearly as successful as the pancreas transplant, it's a much simpler procedure. Using a local anesthetic, a small incision is made and the cells are inserted into the liver.

The down side to the islet cell transplant: Currently, insulin independence is very short-lived. Also, in order to achieve a sufficient volume of cells, one transplant of islet cells requires several donor pancreases, which are in extremely short supply.

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*Note to employees and retirees: For more information about your rights under ERISA concerning CarePlus, please consult your Financial Protection binder ("Other Important Information" tab; section entitled "Rights of Participants and Beneficiaries Under ERISA").*

CarePlus Plan Sponsor: Southwestern Bell Corp.  
One Bell Center, 18th Floor  
St. Louis, MO 63101

CarePlus Plan Administrator: Southwestern Bell Telephone Co.  
1010 Pine, Room 808  
St. Louis, MO 63101

NOTE: Your Financial Protection For You and Your Family binder contains details on the benefit plans mentioned in this publication. If you have questions about your coverage, please check the binder or call your benefit office. Benefit Bulletin is not intended to change the terms of your benefit plans or the official documents which govern them. If there are any inconsistencies between this bulletin and the official plan text, the text will prevail.

# Q&A

**Question:** Why are subsequent enrollments only held once every three years?

**Answer:** Because CarePlus is entirely employee-funded, the three-year interval provides a stable pool of enrollees, ensuring the funds to pay for the costly procedures covered by CarePlus.

**Question:** Who is considered a qualified dependent?

**Answer:** The following people qualify as dependents under CarePlus:

- your spouse;
- your unmarried children until the end of the month in which they reach age 19, or until the end of the month in which they reach age 23 if they are full-time students at an institution of learning;
- your unmarried child, regardless of age, who is mentally, physically and/or medically incapable of self-support and fully dependent on you for financial support.

**Question:** What happens if my family status changes and I need to change my coverage?

**Answer:** The employee or retiree is responsible for notifying the Benefit or Payroll Office of any change within 30 days of the date the dependent becomes qualified for CarePlus coverage, or the dependent is no longer qualified for coverage. (If you have family coverage, it is not necessary to notify the company of any additions.)

Employee contributions will be increased or decreased the first of the month following the notification. There are no late enrollment or refund privileges.

**Question:** Can I add my family later even if they're eligible now?

**Answer:** Not until the next enrollment period, which will occur during 1993 for coverage effective Jan. 1, 1994. In addition, they must satisfy a 12-month preexisting condition limitation.

*(continued on back side)*

## COVERAGE FOR TRANSPLANTS: SBC COMPANIES' MEDICAL PLANS VS. CAREPLUS

### CustomCare & the Comprehensive Medical Plan\*

*(Non-Experimental Transplants)*

- Cornea transplant
- Heart transplant
- Heart/lung transplant
- Lung transplant
- Liver transplant
- Kidney transplant
- Allogeneic bone marrow transplants for:
  - Aplastic anemia
  - Acute leukemia (lymphocytic and non-lymphocytic)
  - Chronic myelogenous leukemia
  - Neuroblastoma
  - Advanced Hodgkin's and non-Hodgkin's lymphoma
- Autologous bone marrow transplants for:
  - Advanced Hodgkin's and non-Hodgkin's lymphoma
  - Acute leukemia (lymphocytic and non-lymphocytic)
  - Neuroblastoma

### CarePlus

*(Experimental Transplants)*

- Pancreas transplant
- Islet cell transplant
- Allogeneic bone marrow transplants for:
  - Chronic lymphocytic leukemia
  - Breast cancer
  - Multiple myeloma
- Autologous bone marrow transplants for:
  - Breast cancer
  - Lung cancer
  - Ovarian cancer
  - Colon cancer
  - Testicular cancer
  - Brain cancer
  - Wilms' tumor
  - Ewing sarcoma
  - Multiple myeloma
  - Chronic myelogenous leukemia

\* Based on CustomCare and the Comprehensive Medical Plan. Participants of other plans should contact their benefit representative to determine coverage for the above non-experimental transplants. HMO participants should contact their HMO directly. Eligibility for any procedure is subject to all plan provisions and medical protocols.

# Q&A

**Question:** How will the designated facilities be chosen?

**Answer:** Only certain medical centers throughout the country perform the experimental procedures covered by CarePlus. Southwestern Bell Corporation will contract with top medical centers specializing in each of the procedures.

**Question:** Does CarePlus cover every procedure not covered by the SBC companies' medical plans?

**Answer:** No. CarePlus covers *only* the specific experimental medical procedures described earlier in this bulletin.

**Question:** Is experimental drug therapy included in this plan?

**Answer:** No. If a drug is approved by the FDA, it is covered under most SBC companies' medical plans. Experimental drug therapy expenses are generally covered by the product manufacturers, who assume this as a research expense.

**Question:** What about radial keratotomy (corrective eye surgery)?

**Answer:** The procedures covered by CarePlus are performed to combat life-threatening diseases. Radial keratotomy generally is considered cosmetic surgery by the medical community and is therefore not part of CarePlus.

**Question:** Are employee contributions subject to change?

**Answer:** Yes. Contributions could go up or down as a result of plan usage, as procedures are added or dropped, or for other reasons.

**Question:** Can I keep coverage if I go on leave?

**Answer:** Yes. There is a "continuation of coverage" provision available to employees called COBRA. At the start of the leave, the company will notify you regarding your options. If you don't choose COBRA, your CarePlus coverage will end. In this case, you can't re-enroll until the next

enrollment and you will be subject to a preexisting condition limitation.

**Question:** What happens if participation in CarePlus falls below 50 percent in the middle of a plan year?

**Answer:** If this happens, CarePlus will be terminated at the end of that year. If an enrollment is scheduled during a year in which participation drops below 50 percent, the enrollment will be conducted to determine if CarePlus should be continued.

**Question:** How is my monthly contribution used?

**Answer:** The contributions, which are put in a trust fund, are used to pay the claim costs of any covered procedures for eligible participants and all administrative costs.

**Question:** What happens to the money in the trust fund if the plan is terminated?

**Answer:** Expenses for any procedure in progress that has been certified by the Claim Administrator will be paid as well as any remaining administrative expenses. Any excess would then be returned to the current participants.

**Question:** If one of the CarePlus procedures is no longer considered experimental within the medical community, will it then be covered under our regular medical plan?

**Answer:** CustomCare and the Comprehensive Medical Plan specifically exclude procedures covered by CarePlus. From time to time, procedures may be moved from CarePlus into the SBC companies' medical plans. However, unless a procedure is moved, it is covered *only* by CarePlus.

**Question:** What should I do if my physician suggests one of these procedures for me or one of my covered dependents?

**Answer:** Call Prudential at 1-800-445-5692 and ask for the CarePlus Coordinator.

**SCHEDULE 6**

**IS DEEMED TO BE**

**HIGHLY**  
**CONFIDENTIAL**

**IN ITS ENTIRETY**

**SCHEDULE 7**  
**IS DEEMED TO BE**  
**HIGHLY**  
**CONFIDENTIAL**  
**IN ITS ENTIRETY**



**SOUTHWESTERN BELL CORPORATION**

**COST ALLOCATION SYSTEM**

**USERS GUIDE**

**SEC  
FEBRUARY 1992**

**SCHEDULE 8-1**

Southwestern Bell Corporation  
Cost Allocation System  
Users Guide

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SOUTHWESTERN BELL CORPORATION

GUIDELINES AND PROCEDURES FOR THE COST ALLOCATION SYSTEM

The purpose of this guide is to describe the procedures which have been established by Southwestern Bell Corporation (SBC, the Corporation, the Parent) for use by SBC employees in ensuring that SBC expenses are appropriately identified and categorized for retention, direct charging or allocation through the Cost Allocation System (CAS).

This document should be carefully reviewed in full by every new employee, and any questions concerning its contents should be discussed during the orientation session at the initiation of employment. For existing employees, this manual should be reviewed at least annually as part of the job evaluation process in conjunction with prescribed CAS time assignment studies. In addition, whenever an employee accepts a new position within SBC, it will be necessary for the employee to review the guidelines and procedures contained in this manual to ensure ongoing compliance and CAS integrity.

## COST ALLOCATION SYSTEM OVERVIEW

The Cost Allocation System was developed for the purpose of providing SBC with a system to allocate corporate costs based on the specific activities performed by its employees for specific corporate entities. The CAS is structured to allow employees to identify the specific activities (cost centers) they perform and the amount of time they normally spend on a given activity on an ongoing basis. Also, the CAS allows employees to identify the corporate entity which benefits from their work. Finally, the CAS allows for temporary or permanent modifications to an employee's time reporting records to recognize changes in work responsibilities.

Each SBC department is characterized by the general group of activities its employees perform, and this characterization should serve as a guide for identifying the cost center assignments for each employee. However, each employee should review their activity performance requirements with their supervisor to ensure that the appropriate cost centers are selected. In each instance, variances from the departmental activities may occur. When these variances occur, they are reported on an exception basis through SBC's payroll system. Additionally, it is the responsibility of SBC supervisory and managerial personnel in each department to monitor the accuracy of the division of work time on an ongoing basis.

The effectiveness of the CAS depends on the accuracy of each employee's activity records and the awareness and sensitivity of each employee to changes in the types and time requirements of the activities performed. Thus, each employee, in conjunction with their supervisor, must take responsibility for developing and maintaining accurate cost centers on the payroll records and report any temporary variances in job responsibilities.

The sections which follow describe in greater detail the mechanics of the CAS process and the responsibilities of each SBC employee to ensure the effectiveness of the CAS.

### EMPLOYEE RESPONSIBILITIES

The employee plays a critical role in maintaining the effectiveness of the Cost Allocation System. The CAS will not be effective unless each employee recognizes their responsibilities with respect to:

- Understanding what the system requires of an individual;
- Monitoring and reporting changes on an ongoing basis;
- Modifying the standard assignment as necessary;
- Coding bill and voucher expenses with the appropriate cost centers;
- Recognizing valid account/cost center number combinations.

The employee's role in the Cost Allocation System involves:

- Establishing initial cost center assignments(s) for the distribution of time;
- Reporting temporary changes to the cost center assignments as they occur through the "exception" reporting of time spent on activities different from the original cost centers assigned (see Section 8 for exception reporting);
- Modifying the original cost center assignments as job duties change.

Additionally, it is incumbent upon managerial and supervisory personnel to initiate ongoing monitoring of the distribution of employee time and work activities for all subordinate personnel.

### ESTABLISHMENT OF COST CENTER ASSIGNMENTS

The Cost Center Number (CCN) assignment should reflect the specific activities individual employees perform and the percent of their total time required to complete those activities on an ongoing basis. Thus, an employee may have more than one CCN depending on the nature of their job responsibilities and work being performed. For example, an employee in the Corporate Communications Department may work on Corporate Advertising (CCN 08000) and News and Public Information (CCN 05000). Accordingly, the CCN assignments on that particular employee's payroll records would reflect those activities being performed on a regular basis and would identify the percent of their total time expended on each activity.

The monitoring of work activities through the use of time studies will take place when:

- A new position is established in the Corporation;
- An existing position has a change in responsibilities;
- Managerial and/or supervisory personnel determine through their ongoing monitoring of employee time and work activities that an updating time study is required.

#### NEW POSITIONS

When a new position is established in the Corporation, monitoring of work activities of this position through the use of a time study will begin. The employee in this new position tracks work activities performed in 30-minute increments, by CCN, for a period of four weeks. Information and directions regarding recording activities can be found on Attachment 1 of Section 3. For the first four weeks, or until the appropriate time distribution is established, the new employee's supervisor must estimate, as accurately as possible, the CCNs and the percentage distribution of the employee's time in order to establish a payroll record. When the study is completed, the payroll record must be modified to reflect the new CCNs and percentages as determined by the study. Payroll records are established and modified with the Payroll Change Report (PCR). See Section 4 of this manual for more information concerning the use of the PCR.

#### EXISTING POSITIONS - CHANGES IN RESPONSIBILITIES

When an existing position has a change of responsibilities, a monitoring of work activities through the use of a time study is required (as in the case of a new position) in order to establish standard CCNs that are consistent with the employee's revised responsibilities.

MANAGERIAL REVIEW OF STANDARD COST CENTER NUMBER ASSIGNMENTS

A manager or supervisor selects an appropriate period to reevaluate CCN assignments. At a minimum, this reevaluation should be performed on an annual basis for all SBC employees. The purpose of performing these monitoring activities is to assure that each employee's CCN assignment(s) accurately reflect the activities being performed and the associated amount of time required for each activity.

COST CENTER TIME STUDY FORM

DIRECTIONS FOR USE

A four-week monitoring period of daily activities is required for all new or changed positions within departments of SBC. Also, a four-week monitoring period of daily activities should be considered by managers and supervisors for all their subordinates each year.

A form has been provided (Attachment 1, page 2 of 2) which may be used to record time during the monitoring period. The form should be completed daily, with an employee recording activities in 30-minute increments by CCN and amount of time spent for each CCN listed. At the end of the four-week period, the department should determine the appropriateness of CCNs and the time assigned to each cost center. (Section 4 of this manual outlines the steps for making or changing CCN assignments.)





#### CHANGING COST CENTER NUMBER ASSIGNMENTS

The preceding section described the establishment of CCNs for each employee. The primary points of consideration included the following:

- Appropriate CCNs are identified and included in each employee's payroll record;
- The CCN includes the percent (rounded to a whole percent) of standard hours associated with activity performance as developed in the CCN study period;
- Each employee has the responsibility to be thoroughly familiar with their CCNs;
- Managerial and supervisory personnel are responsible for oversight and monitoring of the accuracy of the work-hour distribution of subordinate employees as well as the development of appropriate time-monitoring devices on an ongoing basis.

#### EXCEPTION TIME REPORTING

In the daily course of business, the employee may perform activities different from their CCN assignments. When these exceptions occur, the employee may be required to complete an Exception Time Report if certain criteria are satisfied. An Exception Time Report allows recognition and adjustments for variations from an employee's standard CCN assignment. The following factors should serve as guidelines for determining when an Exception Time Report is required:

- The activity being performed requires a CCN different from the employee's designated CCNs;
- The amount of time required to perform the activity is one hour during any given day or an accumulation of four hours in a given calendar work week.

An Exception Time Report may be initiated by either the employee or the supervisor, although the primary responsibility rests with each employee. The decision to utilize an Exception Time Report should be made with the concurrence of an employee's supervisor. While the preceding factors serve as guidelines for initiating an Exception Time Report, there may be limited situations where smaller increments of time on a weekly basis may be requested to be recorded. These special activities will be handled through the standard payroll exception reporting mechanism. Instructions on exception time reporting may be found in Section 8.

COST CENTER NUMBER ASSIGNMENT MODIFICATION

Standard CCN assignments are established or modified using a Payroll Change Report (PCR). Establishment or modification of an employee's designated CCN assignments should occur under one of the following circumstances:

- Initial assignment of job responsibilities;
- Change of job responsibilities;
- Exception reporting to one or more CCNs begins to occur on a regular basis.

If a pattern of exception reporting to a particular CCN develops, the employee should initiate a PCR change to incorporate the time reporting change. In determining the percent of time to commit to a CCN, the employee should use the percent of actual hours worked during a four-week period. The decision to initiate a PCR should be made by the employee with the concurrence of the employee's supervisor. Each employee may have up to ten CCNs on their PCR, with an associated percentage for each CCN. The percentages must add up to 100% and must be whole numbers (no fractions). Detailed instructions on preparing the PCR should be obtained from your departmental personnel coordinator.

### COST CENTER NUMBER SELECTION

Whether a decision is to be made by an employee to adopt the use of a standard CCN, exception time report, process an expense voucher, or modify their use of a standard CCN, the employee must carefully consider the selection of the appropriate CCN.

The selection of an appropriate CCN generally requires that:

- Employee activities must be identified and related to appropriate cost centers (e.g., Shareowner Services, Public Issues Research, Corporate Budgets, etc.);
- Employees, in conjunction with their supervisors, must determine whether the time and expense associated with activity performance should be directly charged to one or more but not all subsidiaries, retained by the Parent, or allocated to all subsidiaries.

Attachment 1 of Section 5 lists the cost centers with their CCN and the charging directions with their codes. A combination of the cost center and the charging direction produces a 5-digit CCN to be used for time and expense reporting.

#### SELECTING THE APPROPRIATE COST CENTER NUMBER

Attachment 1 of Section 5 should be used to select the appropriate CCNs. A definition of each cost center can be found in Attachment 2 of Section 5. In the definition of each cost center are examples of activities performed within that cost center. However, the lists of examples are not intended to be exhaustive and do not include all activities performed by SBC employees.

During initial employee orientation and discussions with their supervisor, CCN selection will be made and should be reflective of the nature of work activities to be performed (e.g., a corporate budget analyst in the Finance Department would select the Corporate Budgets CCN). The employee's job description should serve as a guide for the initial assignment of CCNs. Percentages of time assigned to CCNs and the CCNs used should be reviewed and updated as necessary with each time study based on the results of the daily activity summaries. Selection of CCNs should be reviewed by the employee's supervisor. Questions regarding the appropriateness of CCN selection for the job activities performed should be addressed to either the supervisor or the Corporate Manager - Regulatory Issues.

#### DESIGNATING A CHARGING DIRECTION

Selection of a CCN generally requires a second decision (charging direction) as to whether the time or expense is directly charged to one or more (but not all) subsidiaries, retained by the Parent or allocated to all subsidiaries.

#### DIRECTLY CHARGING CORPORATE EXPENSES

Activities and expenses should be directly charged to a subsidiary when:

- Assistance is provided to an entity at its request, such as:
  - Trademarks, patents and graphics services;
  - Preparation of tax returns;
  - Litigation assistance.
- Activities are performed relating to one or more entities, and each entity can be uniquely identified, such as:
  - FCC-related assistance;
  - Assistance with personnel training.

When a decision to directly charge expenses has been made, selection of the 2-digit code for the entity(ies) to be charged should be appended to the appropriate 3-digit code previously selected from the cost center numbers list (e.g., Tax Return Preparation for Mobile Systems - 03904).

#### RETAINING OF CORPORATE EXPENSES

The decision to retain expenses in the Parent is generally made when there are no benefits to be received by any subsidiary entity.

Examples of expenses associated with activities which are generally retained are:

- Mergers, acquisitions, and new ventures;
- Corporate artwork program activities.

If a decision to retain expenses has been made, the charging direction code selected should be a 50 designation, and placed after the appropriate CCN.

#### ALLOCATION OF CORPORATE EXPENSES

Allocation of SBC employee time and expenses should be made in the following instances:

- Performance of activities related to providing corporate oversight and direction to all subsidiaries;
- Functions performed centrally for the benefit of all subsidiaries;
- Performance of activities not directly charged or retained by the Parent.

When a decision is made to allocate a portion of an employee's time and expense to all operating subsidiaries, selection of the charging direction code should be a 00 designation placed after the appropriate CCN.

Attachment 3 provides a listing of all valid cost centers and charging direction combinations. Refer to this listing to ensure the CCN that you have chosen is available for use, especially if you have not used the CCN before.

The purpose of this section is to provide guidelines which may be used in making the appropriate determination. Although guidelines are provided, instances may arise where activities are performed or expenses are incurred which do not clearly fall into a specific cost center or charging direction. In those instances, the employee and supervisor should first fully discuss the nature of the activity being performed and determine a proper categorization. If the categorization is still uncertain, the Corporate Manager - Regulatory Issues (235-6354) should be contacted prior to a CCN being selected and reported.

#### EXCEPTION TIME REPORTING FOR PAYROLL

This section describes the criteria and procedures to be used for exception reporting an employee's time.

- Time spent on a project which does not fall into an employee's normal cost centers and is in excess of one hour per day or an accumulation of four hours per week should be exception time reported. It is important to track the time spent on these projects carefully so that the benefitting entity will be charged accurately, as well as the appropriate cost center. Use the form presented as Attachment 1 to keep track of individual time to be exception coded. This form also serves as substantiation of how time is spent and charged, and should be kept with each department's payroll records. Precise documentation is important. Attachment 2 of Section 8 is an example of how this form should be prepared.
- The Exception Time Report forms should be used for preparing the SWMIR Form FASW-4568 (Payroll Time Record). The following criteria will be employed:
  - Payroll hours should be exception time reported on Form FASW-4568 (Payroll Time Record - see Attachment 4) in the Section for "Payroll Wage Distribution Exceptions."
  - It is necessary to maintain a table using Form FA SW4569 (Payroll Wage Distribution Accounting Information - see Attachment 5) for each payroll number, identifying exception codes, their associated CCNs and Project IDs.
  - Refer to the SWMIR PHASE II TIME REPORTING TRAINING MANUAL to determine how these exception code tables are maintained and how payroll exception hours are coded.
  - The SWMIR PHASE II TIME INPUTTER TRAINING MANUAL should be used as a guide for the actual input of the codes and the payroll data. It is the inputters' responsibility to review their SWMIR reports to ensure that all codes have been properly inputted. Attachment 6 is a sample of a Wage Distribution Data table after the codes have been input into SWMIR. Each entry must be reviewed carefully.
  - Use the Responsibility Code, Job Function Code (JFC) and Environment Code (always zero) associated with the payroll record of the exception coded employee's reported time. The JFC used will determine the account to which the salary will be journalized. There may be more than one JFC per payroll number, so be sure to choose the correct one. (Wrong JFC equals wrong salary account.)

- The section of Form FA SW4569 entitled "Keep Cost/Estimate Number" should contain the appropriate OCN from the list in Section 5 of this guide, using two leading zeros to fill in all of the available spaces. (These leading zeros should not be used in the cost center space on Forms SBC-4471 and SBC-4472.)
- The section of Form FA SW4569 entitled "Location Code" should be used to contain the Project IDs that have been assigned and intended for exception reporting. If no Project ID is to be used, leave this space blank (it will default to SC0000).
- The section of Form FA SW4569 entitled "Eng. Rate/Labor Code" should not be used.
- The SWMIR System will accept two-digit exception codes using numbers 10 through 99 sequentially, and alphanumeric codes that range from 1 through 5 in the first position and from A through Z in the second position (i.e., 1A-1Z, 2A-2Z, 3A-3Z, 4A-4Z, 5A-5Z). These combinations allow a maximum of 220 codes.
- Only the same number of hours (or less) that are in the pay period, excluding holidays, may be exception reported through SWMIR. Therefore, exception hours must be reported each pay period and not accumulated until the end of the month.
- DO NOT send in correcting time sheets to report additional cost center or Project ID exception hours. Simply report them on the following pay period SWMIR form. SWMIR will not make retroactive adjustments to OCNs or Project IDs. If an error has been made, contact the Corporate Manager-Regulatory Issues for instructions on how to correct it.
- Follow the instructions contained in the payroll practice for preparing the top portion of Form FASW-4568 (reporting for vacations, EWP days, sickness, etc.).



EXCEPTION TIME REPORT (EXAMPLE)

Week Ending:

Name:

<u>Project Description</u>	<u>Date</u>	<u>Time Worked*</u>	<u>Paid Over-Time Worked</u>	<u>Company</u>	<u>Cost Center Number</u>	<u>Project ID</u>
----------------------------	-------------	---------------------	------------------------------	----------------	---------------------------	-------------------

\*This does not include paid overtime.

Summarize hours recorded on this sheet to be charged to a cost center number onto SWMIR Form FASW-4568 each pay period. Retain these forms for supporting documentation.

EXCEPTION TIME REPORT (EXAMPLE)

Week Ending: January 10, 1992

Name: Jane Smith

<u>Project Description</u> (1)	<u>Date</u> (2)	<u>Time Worked*</u> (3)	<u>Paid Over-time Worked</u> (4)	<u>Company</u> (5)	<u>Cost Center Number</u> (6)	<u>Project ID</u> (7)
1. New Venture - Project M	1-5	6 Hours	-	SBC	06350	S63009
2. Missouri Rate Case	1-5	2 Hours	-	Missouri	06742	-
3. Missouri Rate Case	1-6	5-1/2 Hours	-	Missouri	06742	-
4. Litigation for Yellow Pages	1-7	6-3/4 Hours	-	YP	06920	-
5. Worked on External Audit for SBC	1-8	8 Hours	2 Hours	-	01900	-

\*This does not include paid overtime.

(8) Summarize hours recorded on this sheet to be charged to a cost center number onto SWMR Form FASW-4568 each pay period. Retain these forms for supporting documentation.

NOTE: See Attachment 3 for explanation and use of circled ( ) items.

INSTRUCTIONS FOR PREPARING THE EXCEPTION TIME REPORT

- (1) Provide a brief description of the project.
- (2) The date that the exception hours are being recorded.
- (3) Time worked - the number of hours worked on the project, not including any overtime (paid or unpaid).
- (4) Report only paid overtime hours worked on the project in this column.
- (5) The Company is the name of the subsidiary (or SWBT state) for which the project is being performed. If the expenses associated with this project are to be retained by SBC, indicate "SBC" in this column. If the project falls into a cost center that will be allocated to all subsidiaries, leave this column blank for that particular entry.
- (6) The cost center number is the five-digit number representing the appropriate cost center and charging direction. Refer to Section 5 of this manual for assistance in selecting this number.
- (7) Select the appropriate Project ID if there is one associated with this project. This is not a required field.
- (8) This report will be used to prepare the SWMIR Form FASW-4568 each pay period for actually recording exception time. Forward this form promptly to your departmental SWMIR coordinator.

PAYROLL TIME RECORD

OP 38

Retention Period - See O.P. 47

1 - 15 - 92  
PAY PERIOD ENDING

ORIGINAL	<input checked="" type="checkbox"/>
CORRECTING	<input type="checkbox"/>
PAYROLL NUMBER 2T3ABCX	

SOCIAL SECURITY NUMBER		INITIALS	LAST NAME		SOCIAL SECURITY NUMBER		INITIALS		LAST NAME		SOCIAL SECURITY NUMBER		INITIALS		LAST NAME	
410-99-3131		J	Smith													
MON	TUE	WED	THUR	FRI	SAT	SUN	MON	TUE	WED	THUR	FRI	SAT	SUN	MON	TUE	WED
DAY	DAY	DAY	DAY	DAY	DAY	DAY	DAY	DAY	DAY	DAY	DAY	DAY	DAY	DAY	DAY	DAY
CODE	CODE	CODE	CODE	CODE	CODE	CODE	CODE	CODE	CODE	CODE	CODE	CODE	CODE	CODE	CODE	CODE
HOURS/AMOUNT	HOURS/AMOUNT	HOURS/AMOUNT	HOURS/AMOUNT	HOURS/AMOUNT	HOURS/AMOUNT	HOURS/AMOUNT	HOURS/AMOUNT	HOURS/AMOUNT	HOURS/AMOUNT	HOURS/AMOUNT	HOURS/AMOUNT	HOURS/AMOUNT	HOURS/AMOUNT	HOURS/AMOUNT	HOURS/AMOUNT	HOURS/AMOUNT

PAYROLL WAGE DISTRIBUTION EXCEPTIONS							
EXCP CODE	IND	HOURS/AMOUNT	EXCP CODE	IND	HOURS/AMOUNT	EXCP CODE	IND
1,0	0	0,6,0,0	1,2	0	0,7,5,0		
1,1	0	0,6,7,5	1,A	0	0,8,0,0		
1,A	1	0,2,0,0					

INDICATORS:

- 0 = Regular hours
- 1 = Overtime hours
- 2 = Travel Allowance
- 3 = Personal Vehicle Reimb. (OP 48)
- 4 = Home Board/Lodging
- 5 = Evening Meal
- 6 = Noonday Meal

NEW EMPLOYEE DATA

PAY CODE	SOCIAL SECURITY NUMBER	PAY GRP
INITIALS	LAST NAME	NGP IND.
PAYROLL NUMBER	PRE-SI	ISC

Continued on second sheet

Correct J. James  
(TITLE) ASSISTANT

DATE 1-12-92

TELEPHONE 235-6354

Authorized J. Brown  
(TITLE) DIRECTOR

DATE 1-12-92

TELEPHONE 235-6355



REPORT - FP765-002  
 REV-SMTR REPORTS REFERENCE GUIDE  
 SOUTHWESTERN BELL CORPORATION

PAYROLL AUTHORIZATION  
 WAGE DISTRIBUTION DATA  
 PAYROLL NUMBER - 8L000CH

PAGE- 1  
 RUN DATE- 01/30/92  
 RETENTION- 1 YEAR

CODE	LOCATION CODE	JFC	RC	EC	KCO	ENO/LABOR
1B	8L0010	1340	MSL000000	0	0004350	
1C	8C0000	1340	MSL000000	0	0004005	
1F	8C0000	1340	MSL000000	0	0003001	
1G	8S0110	1340	MSL000000	0	0003002	
1H	8C0000	1340	MSL000000	0	0003004	
1T	8C0000	1340	MSL000000	0	0003009	
1J	8C0000	1340	MSL000000	0	0003001	
1K	8C0000	1340	MSL000000	0	0003004	
1M	843147	1340	MSL000000	0	0004350	
1N	8L0020	1340	MSL000000	0	0003005	
1O	800018	1340	MSL000000	0	0007915	
2A	8C0000	1342	MSL000000	0	0007901	
2B	8C0000	1342	MSL000000	0	0007903	
2C	8C0000	1342	MSL000000	0	0007904	
2D	8C0000	1342	MSL000000	0	0007905	
2E	8C0000	1342	MSL000000	0	0007906	
2F	8C0000	1342	MSL000000	0	0007907	
2G	8C0000	1342	MSL000000	0	0007908	
2H	8C0000	1342	MSL000000	0	0007909	
2I	8C0000	1342	MSL000000	0	0007911	
2J	8C0000	1342	MSL000000	0	0007912	
3A	8C0000	1342	MSL000000	0	0007913	
3B	8C0000	1342	MSL000000	0	0007915	
3C	8C0000	1342	MSL000000	0	0007914	
3D	8C0000	1342	MSL000000	0	0007917	
3E	8C0000	1342	MSL000000	0	0007918	
3F	8C0000	1342	MSL000000	0	0007919	
3G	8C0000	1342	MSL000000	0	0007920	
3H	8C0000	1342	MSL000000	0	0007921	

\*\*\* THIS INFORMATION IS FOR AUTHORIZED SOUTHWESTERN CORPORATION EMPLOYEES ONLY \*\*\*

Section 8  
 Attachment 6  
 Page 1 of 1

**SOUTHWESTERN BELL CORPORATION  
COST ALLOCATION SYSTEM CHANGES  
1987 - 1992**

1987

- The current cost allocation system was put into place using cost centers as functional designations.

1988

- Cost center (CCN) 80, Corporate Advertising and CCN 81, Marketing Support were formerly allocated based on relative revenue but are now allocated based on direct charges and allocations based on direct charges. This change was implemented in December 1988 retroactively for the full year and was required by the order in FCC docket 86-111. In 1988 only SWBT and PUB received allocations for advertising; the charges related to the other subsidiaries were retained.
- For CCN 61, Cash Management, and 62, Southwestern Bell Foundation, costs are no longer retained. CCN 61 is changed to an allocation based on investment. CCN 62 - Foundation is distributed to SWBT and PUB by the Composite Factor. CCN 62 costs for administration are retained. These changes were implemented in December retroactive for the full year.
- Directors insurance premiums in CCN 49 are allocated to the subsidiaries starting in July of 1988.
- For CCN 74, Executive Air, SWBT started receiving its portion of the parent's use of corporate aircraft based on relative mileage. No allocation is made to the other subsidiaries for the parent's use of aircraft.
- The subsidiary Technology Resources Inc. (TRI) was created in 1988 and the costs categorized in CCN 79. Costs are computed for assignment by TRI and billed by parent based on direct charging and the composite factor.

1989

- The General Factor was implemented in place of the Composite Factor. The General Factor is based on direct charges, employee based charges, and investment based charges. The Composite Factor was based on subsidiaries' proportion of revenues, expenses and assets. This change was required by the order in FCC docket 86-111.
- Certain SBC expenses which were formerly excluded from cost center accounting related to depreciation and miscellaneous taxes are now included within Tier 1 expenses and allocated to CCN's based on the salary factor. Other taxes are included within CCN 299 and the former charges to CCN 299 (EEO/AAP) now are in CCN 499. Depreciation is charged to CCN 599.
- The investment and employee allocation factors are changed to reflect a moving 12 month average.
- All SWB Foundation costs, donation and support, are now included in the allocation but only SWBT and PUB receive allocations.
- CCN 60, Memberships, was created. These costs were formerly retained but are now allocated based on the General Factor to SWBT and PUB only.
- The Supplemental Retirement portion of CCN 77, Senior Management Benefits, was formerly retained but is now allocated by the employee factor.
- For CCN 74, Executive Air, PUB, in addition to SWBT, started receiving an allocation based on mileage for the parent's use and their own use of the corporate aircraft.
- CCN 45, General Regulatory, is now directly assigned, where possible, and the remaining costs allocated based on the direct assignment.
- TRI started doing its own billing instead of passing its costs through SBC to the subsidiaries that it services.
- No costs were budgeted for CCN 18, Financial Advertising.



- A decision was reached to push down various expenses to SWBT for pool recovery from prior years which were retained previously. These were as follows:

	<u>1987</u>	<u>1988</u>
SBC Foundation Donation	7.8	N/A
SBC Foundation Support	.4	.4
Supplemental Retirement	7.8	(.6)
Parent Executive Air	2.7	N/A

1990

- The following CCNs are deleted:
  - 13 Special Shareowner Projects  
(use CCN 11 - Shareowner Services)
  - 47 Internal Audit Staff Support  
(use CCN 70 - Internal Audit Services)
  - 73 Corporate Services - Security  
(use CCN 35 - Executive Support)
  - 44 Corporate Policy Development  
(use CCN 56 - renamed Corp. Policy Devel.)
  - 64 Subsidiary Specific Projects  
(use CCN 75, Subsidiary Support)
- The following CCNs are added:
  - 30 Benefit Planning and Development  
(was in CCN 29)
  - 31 Human Resources Planning and Staffing  
(was in CCN 29)
  - 32 Employee Information  
(was in CCN 28)
  - 53 Legislative Advocacy  
(was in CCN 45 - General Regulatory)
  - 54 Federal Regulatory  
(was in CCN 45)
- Publications subsidiary became Mast and Yellow Pages with 2 different charging directions (October 1990).
- St. Louis Health Center went away (October 1990).
- Gateway Rivers was added.
- Mobile Systems began receiving allocations for SWB Foundation, Advertising, and Executive Air. This adjustment was made in September business and was retroactive to January 1, 1990.

1991

- The following CCNs are eliminated:

- 18 Financial Advertising  
(use 80 - Corporate Advertising)
- 27 Actuarial Services  
(classify actuarial expense into the category  
in which it belongs such as pensions, savings  
plans, benefit planning)
- 66 Trustees fees and expenses  
(use CCN in which the expense belongs)
- 78 Benefit Payments  
(no longer exists)
- 79 Technology Management  
(no longer exists - absorbed by TRI)
- 83 ESOP  
(in Savings Plan CCN)
- 45 General Regulatory  
(split into Federal and State)

- The following CCNs are added:

- 27 Savings Plan Management
- 79 Legal Support
- 45 State Regulatory Activities

- The following CCN title changes are made:

- 199 From Bill and Voucher Processing to  
Controllers Support - now contains LAN  
management charges
- 399 From Pensions to Depreciation
- 499 From Other Employee Benefits to Pensions and  
Other Employee Benefits

1992

- CCN 9950 is eliminated. All charges for new  
venture/acquisition activities will be placed into CCN  
6350. The project IDs will be used to distinguish each  
project.
- SBC will no longer allocate or charge to second tier  
subsidiaries. This activity is slowly being phased out  
during 1992, but the charging directions for second  
tier subsidiaries will be eliminated for 1993.