

Other Rate Procedures

Many telecommunications providers in Missouri are either under price-cap regulation, or are not price regulated, which allows them to adjust rates with a tariff change, but no rate case.

In such matters, the staff reviews the proposed tariff changes to ensure compliance with applicable statutes and the commission's rules. If the proposed tariffs do

comply, then the matter is processed without becoming a case.

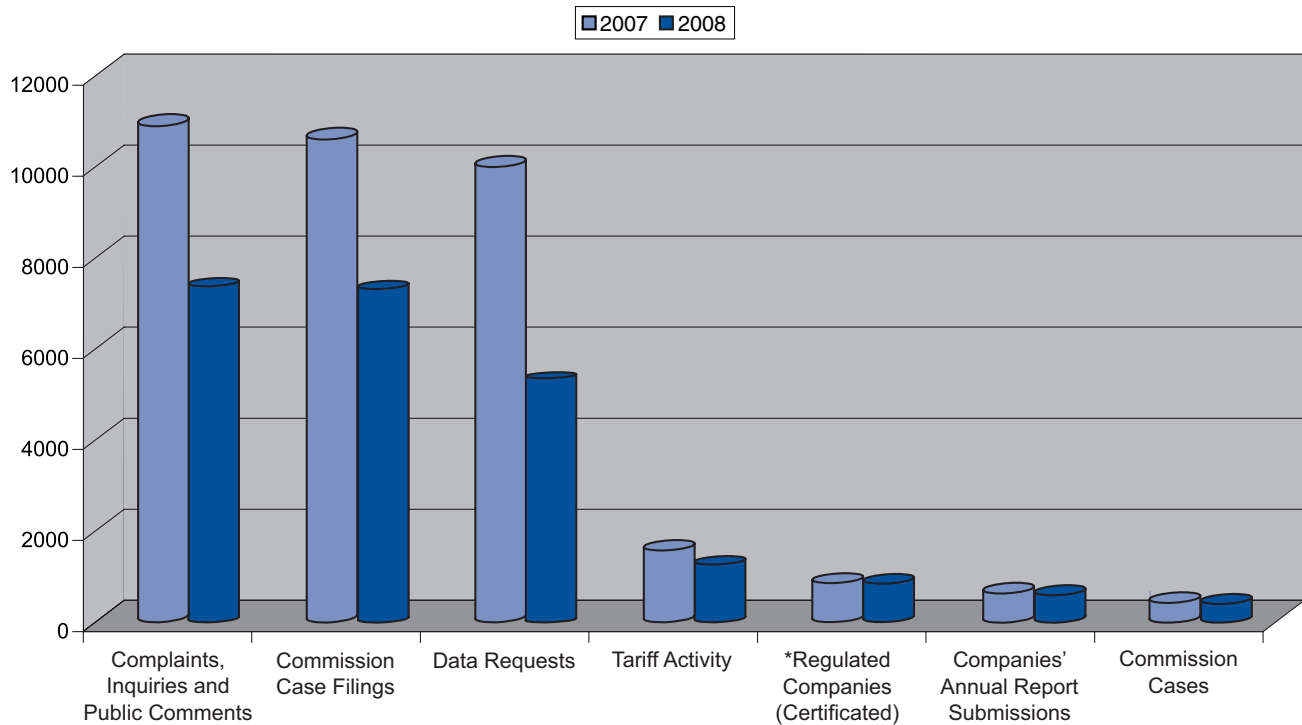
Special rules apply for water and sewer companies with fewer than 8,000 customers in Missouri, which can seek rate changes informally (larger companies must use the rate case procedure). The PSC does not regulate the rates of municipal utilities, utility cooperatives, public water supply or sewer districts, wireless telephones or cable television.

Utility Issues

Missouri PSC Authorized Number of Employees vs. Workload (2007-2008)
Figures Quoted as of 09-25-2008

FY2007 Staffing = 200.5 FTE

FY2008 Staffing = 200.5 FTE



* Not all certificated companies are required to file annual reports.

ELECTRIC

Electric rates across the nation, including Missouri, are rising due to the demand for additional energy. However, electric rates for Missouri's residential, commercial and industrial customers continue to be among the lowest in the nation. Through the efforts of the Missouri Public Service Commission, Missouri's electric utilities and various parties that have participated in proceedings before the commission, all classes of Missouri customers benefit from low electric rates while receiving safe and reliable service.

The United States Energy Information Administration (EIA), a non-partisan office in the federal Department of Energy, annually ranks states according to their average rates in cents per kilowatt-hour. In 2007, Missouri electric rates for residential, commercial and industrial customers were lower than the national average (see tables on this page).

RESIDENTIAL

State Name	Avg. Revenue (cents/kWh)	State Rank
Idaho	6.35	1
West Virginia	6.63	2
Kentucky	7.19	3
Nebraska	7.52	6
Missouri	7.57	7
Tennessee	7.79	9
Kansas	8.26	14
Oklahoma	8.59	15
Arkansas	8.73	18
Iowa	9.34	25
Illinois	10.40	32
U.S. Average	10.64	
Connecticut	18.67	49
Hawaii	24.13	50

COMMERCIAL

State Name	Avg. Revenue (cents/kWh)	State Rank
Idaho	5.13	1
West Virginia	5.78	2
Wyoming	6.20	3
Missouri	6.25	4
Nebraska	6.29	5
Kentucky	6.65	11
Arkansas	6.88	12
Kansas	6.90	13
Iowa	7.06	14
Oklahoma	7.30	17
Tennessee	7.99	24
Illinois	9.14	32
U.S. Average	9.67	
New York	15.44	49
Hawaii	21.92	50

INDUSTRIAL

State Name	Avg. Revenue (cents/kWh)	State Rank
Idaho	3.88	1
West Virginia	3.91	2
Wyoming	4.09	3
Kentucky	4.49	4
Nebraska	4.72	6
Missouri	4.73	7
Iowa	4.76	8
Kansas	5.19	13
Arkansas	5.21	14
Oklahoma	5.39	17
Tennessee	5.40	18
Illinois	6.01	27
U.S. Average	6.36	
Massachusetts	13.58	49
Hawaii	18.38	50

Source: US Energy Information Administration - 12 months ending December 2007 -Table 5.6.B, *Electric Power Monthly*, March 2008

PSC Staff Issues Storm Outage and Restoration Reports

Many Missouri residents lost power for extended periods of time due to ice storms that hit the west and central sections of the state in December 2007.



This photo shows some of damage the 2007 ice storm caused to the service territory of The Empire District Electric Company.

In June 2008, the PSC staff filed detailed reports regarding the preparation and restoration process of the four Missouri investor-owned utilities. The PSC staff concluded that while the electric utilities had storm restoration plans in place and that those plans were executed in restoring power to customers, there were areas for improvement.

In particular, staff recommended the companies improve communication efforts with customers during a storm related outage. That includes improved communications with customers through call center operations and company web sites, with city and county officials and the media. During the storm outage, call centers provide a critical function as they often serve as the primary means for customers to contact the utility company.

The commission has asked all the electric utilities to file responses to the PSC staff recommendations by November 10, 2008.

Commission Rulemakings

Electric Service Reliability Rules

With the goal of increased electric service reliability for customers, the Missouri Public Service Commission adopted rules which require the state's four investor-owned electric companies to do more extensive tree-trimming and develop detailed vegetation management plans.

The vegetation management rules require: specific tree-trimming standards and clearances from

power lines; visual inspections of all power lines; specific factors to be considered in determining the extent of vegetation management to be performed; and customer notice/education programs.

Under infrastructure inspection standards adopted by the Public Service Commission, all investor-owned electric companies will be required to have detailed programs for monitoring the condition of, and if need be, replacing infrastructure (wires, poles, transformers, etc.).

These rules require electric companies to perform visual inspections on utility poles, wires, transformers and underground facilities at least once every four years in urban areas and every six years in rural areas. A more detailed inspection is required on wires, regulators, transformers and underground facilities every eight years in urban areas; every 12 years in rural areas. A detailed or intrusive inspection is required at least every 12 years on utility poles.

A third rule adopted by the commission establishes reliability monitoring and reporting requirements for Empire District Electric, AmerenUE, Kansas City Power & Light Company and Aquila, Inc.

Under service reliability rules, each electric company will be required to establish and maintain a program for identifying and analyzing its worst performing circuits during the course of each calendar year. The program must include an analysis of the five percent worst performing circuits used to serve a company's electric retail customers. If a circuit has been on the worst performing circuit list for any two of the three most recent consecutive calendar years, the company will be required to include detailed plans and schedules for improving the performance of that circuit.

Consistent with utility easements and applicable laws, electric companies will be required under the rules, where reasonable, to locate all newly installed electric distribution facilities underground. This would apply to residential subdivisions with average lots no larger than 0.5 acres.

All three rules took effect during the summer of 2008.

Environmental Cost Recovery Mechanisms (ECRM)

Senate Bill 179 (SB 179), which took effect on January 1, 2006, provides the PSC with the authority to implement rules for recovery of the costs of meeting environmental laws, regulations and rules through an environmental cost recovery mechanism. The Public Service Commission, on February 28, 2008, adopted rules which set guidelines for requesting, continuing, modifying and discontinuing an environmental cost recovery mechanism (ECRM).

An ECRM, if approved for a company, allows for periodic rate adjustments outside of a rate case to reflect increases or decreases in an electric utility's environmental costs. A maximum of two rate adjustments could be made in a given year and the environmental adjustments would be capped annually at 2.5 percent of the company's gross jurisdictional revenues as established in the company's last general rate proceeding.

This rule became final June 30, 2008. To date, no electric utility has requested the ECRM cost recovery mechanism.

Net Metering Rule Revisions

Senate Bill 54 (SB 54) revised the net metering guidelines for all

electric utilities in the state effective January 1, 2008. Tariff sheets have been filed and approved for each utility governing the provision of electricity to net metering customer-generators. The Public Service Commission began revising its rules for net metering and expects the process to be complete by the end of 2008.

Rate Increase Requests Granted

Kansas City Power & Light Company (Case No. ER-2007-0291)

In accordance with its regulatory plan approved by the commission on July 28, 2005, Kansas City Power & Light Company (KCPL) filed its second electric rate case with the Public Service Commission on February 1, 2007.

In this case, KCPL sought to increase annual electric revenues by approximately \$45 million. According to KCPL, the requested increase was necessary to implement air quality improvement investments in its regulatory plan as well as recover higher fuel and other operational costs.

On December 6, 2007, the commission approved a \$35.5 million increase effective January 1, 2008.

The Empire District Electric Company (Case No. ER-2008-0093)

On October 1, 2007, The Empire District Electric Company filed an electric rate case seeking to increase its annual electric revenues by approximately \$34.7 million.



Work continues on the new Iatan 2 power plant near Weston. The plant is being constructed by Kansas City Power & Light Company.

Empire stated it was seeking rate relief largely to recover its capital additions, which included a new generating unit at the Riverton Power Plant and a selective catalytic reduction (SCR) system at the Asbury Power Plant. The rate request also reflected costs of significant reconstruction work after the catastrophic ice storm in January 2007.

Empire also sought to implement a fuel adjustment clause (FAC) as permitted by SB 179.

On July 30, 2008, the commission approved a \$22 million increase to take effect on August 23, 2008. As part of that decision, Empire was authorized to implement a fuel adjustment clause.

Aquila, Inc.

In December 2007, Aquila, Inc. filed to increase its fuel adjustment charge for both its MPS and L&P divisions. Aquila stated since the effective date of its last rate increase, fuel costs to serve its MPS division increased by approximately \$13.2 million and by approximately \$3.5 million in its L&P division. In accordance with a commission order authorizing Aquila to implement a fuel adjustment clause, the electric company requested that the fuel adjustment charge be changed to recover only 95% of these costs. The commission granted a change effective March 1, 2008.

KCPL GMO filed to increase the fuel adjustment charges in the former Aquila MPS and L&P divisions again in June 2008. It stated that fuel and purchased power costs were higher than the base set in the Aquila, Inc. rate case by approximately \$14.4 million in its MPS division and \$1.8 million in its L&P division. This request

was also to recover only 95% of the increased costs. That change, which was approved by the commission, took effect on September 1, 2008.

Trigen-Kansas City Energy Corporation (Case No. HR-2008-0300)

On March 11, 2008, Trigen-Kansas City Energy Corporation filed a steam rate case with the Public Service Commission. Trigen is seeking to increase annual steam revenues by approximately \$1.2 million, or approximately 19.5%. Trigen has not had a rate adjustment since 1990 and stated that it is seeking rate relief to recover the increased costs of fuel, operations and maintenance expenses, and net plant.

Hearings in the case are scheduled to begin in mid-October.

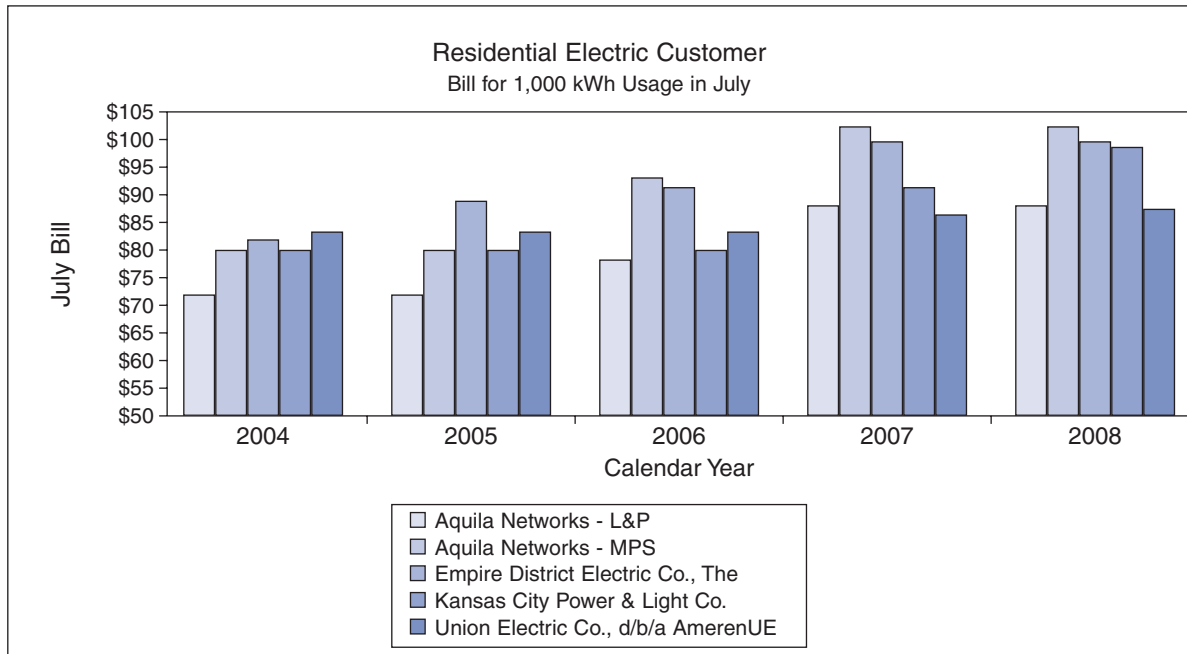
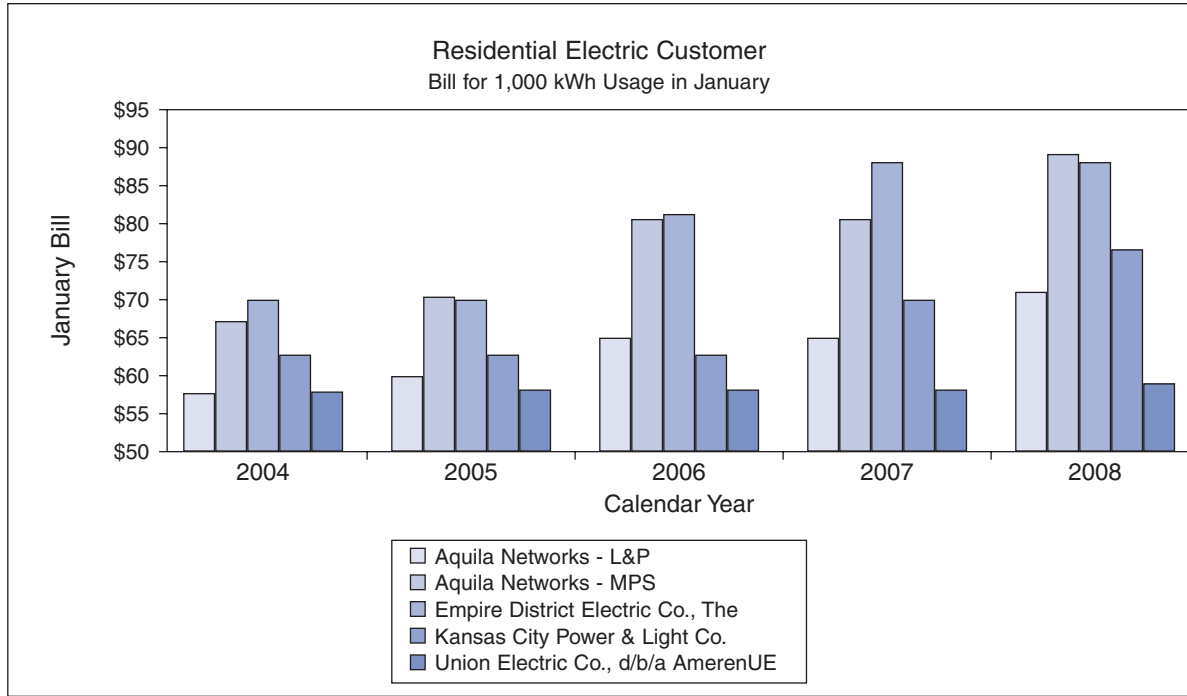
Union Electric Company, d/b/a Ameren UE (ER-2008-0318)

On April 4, 2008, AmerenUE filed an electric rate case with the Public Service Commission seeking to increase annual electric revenues by approximately \$251 million. If the request is granted, AmerenUE estimates that a typical residential customer would see their electric bill increase by about \$9.00 per month.

AmerenUE stated that it is requesting a Fuel Adjustment Clause, as permitted by SB 179, to recover future fuel and purchased power costs. AmerenUE's requested rate increase would also finance its Power On Project to increase reliability.

Hearings are scheduled to begin in early November 2008.

Average Electric Bills for Customers in January and June (Based on 1,000 kWh Usage)



Other Electric Utility Activity

Great Plains Energy/Kansas City Power & Light Company/Aquila, Inc. Merger

After extensive hearings in December 2007 and June 2008, the commission on July 1, 2008 approved the merger of Aquila, Inc. with Great Plains Energy as a wholly owned subsidiary. The commission determined that the merger was not detrimental to the public interest.

Approval by the Missouri Public Service Commission came with a number of conditions. One such condition is that any post-merger financial effect of a credit downgrade of Great Plains Energy Incorporated, Kansas City Power & Light Company, and/or Aquila, Inc., that occurs as a result of the merger, shall be borne by the shareholders of the companies and not the ratepayers.

The commission considered a number of factors in determining the merger was not detrimental to the public interest. Those factors included projected synergy savings, transaction and transition costs, post merger credit worthiness, service quality and customer service. As part of its decision, the commission determined that Great Plains Energy Incorporated would not be allowed to recover transaction costs from ratepayers.

Effective August 8, 2008, the commission approved a request to change the name of Aquila, Inc. d/b/a Aquila Networks – L&P and Aquila, Inc. d/b/a Aquila Networks – MPS to Aquila, Inc. d/b/a KCP&L Greater Missouri Operations Company.



AmerenUE continues to work on rebuilding its Taum Sauk Pumped Storage project after a 2005 incident.

Resource Plan Filings

The Empire District Electric Company

On September 5, 2007, Empire filed documentation of its resource planning process as required by the commission's electric utility resource planning rules. The PSC staff and other interested parties filed reports regarding the compliance of Empire's process with the rules. On May 6, 2008, parties filed an agreement to remedy all of the alleged deficiencies. The commission approved the agreement effective May 23, 2008.

AmerenUE

AmerenUE filed documentation of its resource planning process on February 5, 2008. The PSC staff and other parties filed reports regarding compliance on June 19, 2008. This resource planning docket remains open and discussions continue.

Federal Activity in Electric Southwest Power Pool

During the 2008 fiscal year, the Missouri Public Service Commission was very involved in issues related to allocating the costs of transmission upgrades that, while not needed for reliability, provide cost-effective savings in production costs throughout the Southwest Power Pool (SPP) region.

At its January meeting, the SPP Regional State Committee, of which Missouri PSC Chairman Jeff Davis serves on the board, approved a concepts paper on a Balanced Portfolio approach for cost allocation. Subsequently, tariff language was developed by the Regional Tariff Working Group of the SPP.

The Cost Allocation Working Group, chaired by the Missouri Public Service Commission's chief economist, Michael Proctor, developed the concepts paper for the SPP Regional State Committee. In addition, the Cost Allocation Working Group developed and presented a revision to the existing allocation of costs for transmission upgrades required for delivering power from new designated wind generation resources to load.

Because the region is robust in high efficiency locations for renewable wind generation, significant resources were devoted to developing proposals for an Extra High Voltage (765 kV) transmission overlay in the SPP. This system will be required if additional wind farms are added in the region. On a going forward basis, several economic studies are planned to evaluate the benefits from these resources.

Midwest ISO

A major project in the Midwest ISO is the implementation of markets for regulating and operating reserves.

Regulation is a service that is automatically provided through generators designated to maintain the instantaneous balance between the demands for power from end-users and the generation required to supply that power. This service is complicated by schedules for imports into and exports out of the MISO markets.

Operating reserves are particularly needed as quick start back up in case on-line generation or transmission is forced out of service

through unplanned shut downs for emergency reasons. Significant time was spent testing the software and communications systems required to begin the operations of these markets.

In addition, the Organization of MISO States (OMS), of which Missouri PSC Chairman Jeff Davis serves on the board, was deeply involved with the Midwest ISO's filing on resource adequacy.

The OMS developed approaches to be taken by MISO to implement its proposal to enforce capacity reserve margins consistent with a one-day in ten-year loss of load expectation.

At issue here were charges for entities who fail to provide sufficient capacity to meet their monthly peak load forecasts including reserve margins. The Midwest ISO adopted the proposal developed by the OMS and submitted this to the Federal Energy Regulatory Commission (FERC) for final approval.

Energy Market Operations

Both the SPP and Midwest ISO operated their regional markets with very few concerns from market participants. Wholesale prices for electricity started to increase in January 2008, most likely due to higher costs for fossil fuels used to generate the electricity. However, neither market experienced extremely high prices that are associated with a shortage of generation supply to meet demand. In this regard, both markets continue to look strong.

NATURAL GAS

Consumer Alert for the Upcoming Heating Season

The commission issued an alert to consumers in June regarding the potential for significant increases in natural gas bills this winter. The alert came after local natural gas companies made filings with the commission which reflected increases in current natural gas rates of between 18 and 44 percent. Consumers were advised that if rates did not change, the impact on bills for the winter of 2008-2009 would be significant.

Consumers were given information from the PSC which indicated that the wholesale price of natural gas was at all-time highs for the summer period. Prices have

traditionally been lower during the summer periods, allowing local natural gas companies to purchase gas at lower prices and put it into storage as well as use hedging instruments to take the volatility out of the price of gas and keep the prices down as much as possible during the winter heating period.

The commission continues to work with a number of other agencies including community action agencies across Missouri, to provide information on natural gas price impacts and what consumers can do to reduce consumption and, therefore, hold down winter heating costs.

Missouri Gas Utility's Rate Case

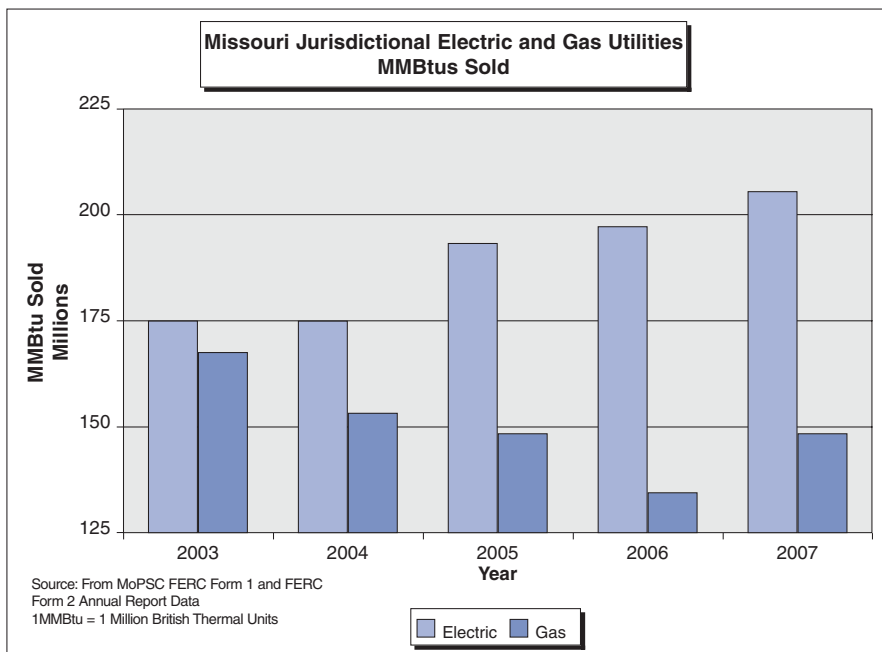
On August 29, 2007, Missouri Gas Utility (MGU) filed a rate request with the Public Service Commission seeking to increase MGU's annual revenues by approximately \$443,000.

MGU stated that the proposed increase was needed to recover increased operating and maintenance costs.

On March 20, 2008, the commission approved an agreement reached by parties in the case which granted an increase of approximately \$301,000 in annual non-gas revenues for MGU.

The agreement included a one-time donation of \$3,717 and annual funding of approximately \$9,000 to Green Hill Community Action Agency to promote conservation of natural gas usage for space-heating customers.

MGU serves approximately 900 gas customers in northwest Missouri.



Southern Missouri Natural Gas Company Expands Its Service Territory

Southern Missouri Natural Gas Company L.P. (SMNG) filed an application for a certificate of convenience and necessity (CNN) seeking to provide natural gas service to Lebanon, Missouri on December 6, 2006. It later filed an additional application seeking to also serve Houston and Licking.

The commission held a hearing in the consolidated case on July 27, 2007. On August 16, 2007, the commission issued an order conditionally granting a certificate of public convenience and necessity to SMNG to provide natural gas service to Lebanon, Houston and Licking, Missouri.

On June 29, 2007, SMNG filed an application with the commission seeking to provide natural gas service to Branson, Branson West, Reed's Spring and Hollister, Missouri.

The commission held hearings on November 27-28, 2007 and issued a conditional CCN on February 5, 2008. A full CNN was granted to Southern Missouri Gas on June 24, 2008.

Infrastructure System Replacement Surcharges

Two investor-owned natural gas utilities requested adjustments to Infrastructure System Replacement Surcharges (ISRS) in the past year.

The commission approved requests by Missouri Gas Energy (MGE) and Laclede Gas Company (Laclede) for adjustments to their ISRS effective in January, 2008 after reviewing PSC staff recommendations and other documents. These January 2008 ISRS adjustments reflect infra-

structure replacement investments made by the natural gas companies from April 1, 2007 through September 30, 2007.

Laclede received approval to adjust its ISRS again in June 2008 to recover costs incurred from October 1, 2007 through May 31, 2008.

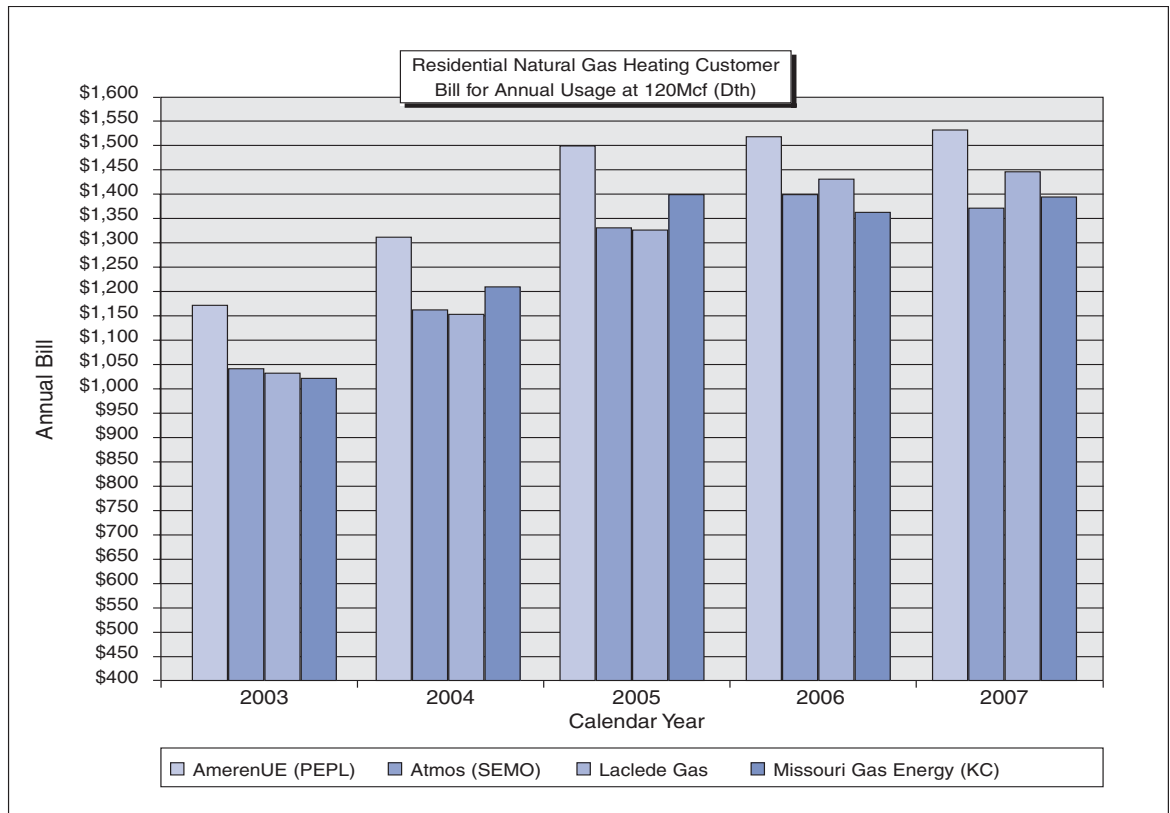
The commission also approved Union Electric Company d/b/a AmerenUE's first ISRS filing with the PSC. This ISRS adjustment, which went into effect on March 29, 2008 reflected investments made from October 1, 2006 through October 31, 2007.

Commission Seeks Penalties Against Two Natural Gas Transporters

In August 2007, the commission pursued penalties against Missouri Pipeline Company (MPC) and Missouri Gas Company (MGC) for allegedly engaging in price discrimination and assisting an affiliated company in gaining a competitive advantage over other natural gas marketers in violation of PSC regulations and their own tariffs.

Based upon evidence presented in a complaint case filed by the PSC staff, the commission determined, among other things, that MPC and MGC failed to maintain separate facilities and personnel from an affiliate, Omega Pipeline Company (Omega). Omega was a gas marketing company which provided marketing services to several entities that obtained natural gas through MPC or MGC.

The circuit court will review the commission's decision and determine whether to assess penalties against MPC and MGC. If penalties are assessed, the court would determine the amount. Any money paid would, by law, go to the state public school fund.



NATURAL GAS SAFETY

Gas Safety/Engineering Activities

The PSC’s pipeline safety program is carried out by the gas safety/engineering staff of the Utility Operations Division’s Energy Department. Gas safety/engineering inspectors are involved in an on-going field inspection program consisting of annual comprehensive pipeline safety code compliance inspections of the jurisdictional natural gas operators. In addition, specialized code compliance inspections, follow-up inspections, gas incident investigations, construction and safety-related consumer complaint investigations are also conducted.

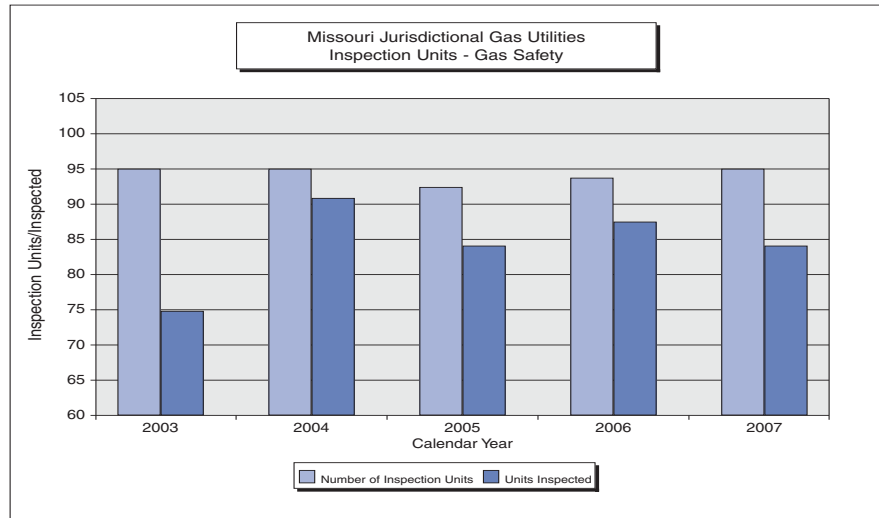
The commission has pipeline safety jurisdiction over three intra-state transmission pipelines, seven investor-owned natural gas distribution utilities, 40 municipally owned natural gas distribution systems, a gas distribution system operated on the Department of Defense facility at Fort Leonard Wood, two transmission pipelines serving power plants, and two piping systems supplying landfill gas (one to a high school and one to a large industrial customer). These operators are divided into approximately 100 separate units for inspections, which include more than 900 miles of transmission pipelines, over 26,000 miles of mains, and approximately 1.5 million service lines.

FEDERAL NATURAL GAS ACTIVITIES

Among other things, the Federal Energy Regulatory Commission (FERC) regulates interstate natural gas pipeline companies. Decisions by the FERC directly impact Missouri natural gas consumers. The PSC actively participates in company-specific and generic proceedings at FERC, focusing on those pipelines having the greatest impact on Missouri consumers and/or those where representation of Missouri interests is otherwise limited or absent. The PSC participates in FERC cases and related judicial proceedings to ensure that Missouri consumers receive reliable natural gas service at reasonable rates.

Missouri's local distribution companies (LDCs), including both natural gas utilities and electric utilities that generate energy with natural gas powered combustion turbines, must rely on FERC regulated interstate pipelines for storage and delivery of their natural gas supplies. Currently 11 interstate pipelines serve Missouri utility companies, with an additional 4-6 upstream pipelines providing transportation and, in some cases, storage service.

The three pipelines delivering a majority of the state's natural gas to Missouri LDCs are: Panhandle Eastern Pipe Line Company, LP (Panhandle), Southern Star Central Gas Pipeline Inc. (SSC), and CenterPoint Energy-Mississippi River Transmission Corporation (MRT). Both Panhandle and SSC serve a number of systems across the state. SSC has several pipelines that serve the Kansas City, St. Joseph, Springfield and Joplin areas as well as small lateral terminating in St. Louis. Panhandle serves Kansas City, central Missouri and St. Louis.



MRT serves St. Louis and portions of southeast Missouri.

Department Focus During The 2008 Fiscal Year

The department spent most of its time in preparation for the SSC rate case, (FERC Docket No. RP08-350) which was filed on April 30, 2008. In addition, the department reviewed, analyzed and participated in cases involving certification of MoGas as an interstate pipeline, (Docket Nos. CP06-407 et al.) and MoGas' request for construction of a compression station, (Docket No. CP07-450).

The PSC intervened in a number of FERC proceedings filed by interstate pipelines to set their Fuel and Lost-and-Unaccounted-for-Gas (LUFG) rates, which are recovered through in-kind gas from shippers. The extra gas shippers must put into the system for the pipelines' use is typically used in two ways: for the pipelines to use for compression and to account for gas that is lost or unaccounted for in the transportation process. Gas may be lost from

QUICK FACT

The Missouri Association of Natural Gas Operators is a nonprofit organization comprised of Missouri natural gas operators (investor-owned and municipal systems). These operators work together with the PSC Gas Safety/Engineering staff to enhance the operations and safety of natural gas systems throughout the state.

a pipeline leak or during repair and maintenance of the pipeline.

The shipper LDCs in Missouri pass through the costs of the in-kind gas collected by the interstate pipelines to their end-use customers. The FERC allows pipelines to adjust these rates based upon the actual usage experienced during the last period. The interventions allow Missouri to participate in the proceedings and any settlement discussions that may occur. The majority of these Fuel and LUGF rate filings are accepted and approved by FERC without issue.

Southern Star Central Gas Pipeline Inc.

The PSC filed an intervention and protest to SSC's annual filing to set its LUGF rate (Docket No. RP08-84) for natural gas transmission and storage operations. As a result of interventions by the PSC and others, including the Kansas Corporation Commission (KCC), FERC scheduled a technical conference to discuss the issues and possible solutions to the rate increase.

Two separate incidents led to SSC's filing for significant increases in its fuel percentages. One of the incidents was a leak that occurred over a 15-day period on an SSC transmission line near Hutchinson, Kansas, that resulted in the loss of approximately one Bcf (one million Mcf) of gas. The second incident was the result of a rupture of a lateral pipeline at SSC's McLouth Storage Field that resulted in over 200,000 Mcf of gas lost. SSC sought to include this lost gas in its LUGF rate. The PSC protested stating Missouri consumers should not be charged for the full cost of gas lost from these events.

SSC and intervenors in the case reached an agreement that removed 75% of the gas lost from

the Hutchinson leak and 50% of the McLouth rupture from the fuel percentage to be recovered during 2008. This reduction will amount to a savings of over \$3 million to Missouri LDCs and their customers during 2008. These savings will ultimately be passed through to end use customers.

The regulation of Kansas storage fields by the KCC has led to more stringent environmental guidelines that are being addressed in SSC's FERC storage field cases. SSC has filed at FERC for approval to complete improvement/expansion projects at four of its Kansas natural gas storage fields.

The PSC has intervened in two recently filed cases (Docket No. CP07-89, North Welda Storage Field and Docket No. CP08-4, South Welda Storage Field). The migration of natural gas out of the storage fields and venting of natural gas by oil well producers has contributed to increased fuel losses. SSC's improvements and expansions at the natural gas storage fields should help reduce the amount of fuel lost from these fields, resulting in a lower level of LUGF and reduced costs to Missouri consumers.

SSC has also filed for FERC approval to complete a pipeline section replacement in Johnson County, Missouri (Docket No. CP08-53) and to replace equipment at its Hesston compressor station in Harvey County, Kansas (Docket No. CP08-73). The PSC has intervened in both of these cases.

SSC filed a rate case at FERC on April 30, 2008 (Docket No. RP08-350) to increase natural gas transportation rates effective November 1, 2008. SSC's application requests an increase of approximately \$80 million annually. SSC has made a number of plant addi-

tions and some operating costs have increased since SSC's 2004 FERC rate case (Docket No. RP04-276).

The Missouri PSC and the KCC both intervened in this case. In preparation for settlement negotiations and hearing, the PSC is analyzing SSC's rate base and cost of service. Initial settlement negotiations will begin in October and continue through November. If settlement negotiations fail, the hearing date is May 5, 2009.

MoGas Pipeline Company (MoGas)

Missouri Gas Pipeline (MGC) and Missouri Pipeline Company (MPC) were regulated by the PSC as intrastate pipelines until the MoGas FERC tariffs became effective on June 1, 2008.

At the end of June 2006, Missouri Interstate Gas (MIG), MPC and MGC applied to become a single interstate FERC-regulated pipeline. The PSC filed a protest challenging the ability of the intrastate pipelines to become FERC jurisdictional without PSC approval. The protest also identified numerous instances of excessive costs the pipelines included in their cost-of-service.

On April 20, 2007, FERC issued an order authorizing the three affiliated pipelines to merge. The order also reduced the proposed tariff rates by approximately \$2 million.

On February 19, 2008, FERC issued an order on rehearing of the April 20, 2007 order. The order addressed the issue of cross subsidization of MIG through rates charged to MPC and MGC customers.

MoGas filed revised tariffs and rates on February 29, 2008, to which the PSC, AmerenUE and municipal intervenors protested. All of the protestors contended that

the Zone 1 rates were not in compliance with FERC's order on rehearing. The PSC calculated the impact of the error to be approximately \$1 million.

On May 7, 2008 FERC agreed with the intervenors and required MoGas to re-file its tariff and rates to include the \$1 million reduction. FERC approved the rates to be effective June 1, 2008.

Additional issues in the cases have led to rehearing requests by the PSC and MoGas. Those requests are still pending before FERC.

On September 21, 2007 MoGas filed a request with FERC to construct a compressor station near its interconnect with Panhandle Eastern Pipe Line Company to expand its capacity (Docket No. CP07-450).

The PSC filed an intervention and protest in the case over concerns that not enough information was provided in the application to determine if the project was necessary. AmerenUE also filed an intervention and protest in the case.

The PSC also expressed concerns that the approximate \$6.4 million expansion project not be rolled into the current rates that existing customers were paying. Rather, an incremental rate should be applied to customers contracting for the additional capacity resulting from the compression project.

On May 9, 2008, FERC staff filed a letter requesting additional data and stating that it considered the expansion proposal to be a regular certificate application and not to be eligible under the FERC blanket certificate rule. A FERC decision was issued on September 25, 2008, authorizing MoGas to proceed with its project subject to conditions.

Rockies Express Pipeline, LLC

The Missouri Public Service Commission intervened in the third phase of the construction project (Docket No. CP07-208). Rockies Express Pipeline, LLC (REX), an affiliate of Kinder Morgan Energy Partners LP, requested approval of the third phase of its new interstate pipeline construction project.

FERC issued its order approving the certificate on May 30, 2008. The new interstate pipeline will ultimately transport natural gas from production fields in the Rocky Mountains to customers on the East Coast.

The REX passed through Missouri during its second phase and will continue during the third phase of the project. A REX interconnection with Panhandle occurs near Mexico, Missouri in Audrain County. Construction is proceeding further east to Ohio during the pipeline's third phase with a January 2009 projected completion date. The Missouri PSC is monitoring the filings in this case.



Construction crews work on a natural gas pipeline project near Carrollton.

Other Proceedings

FERC issued notices of proposed rulemakings (NOPRs) seeking comments from interested parties. The PSC regularly provides comments to FERC on rulemakings that affect Missouri consumers.

RM07-9-000 Revisions to Forms, Statements, and Reporting Requirements for Natural Gas Pipelines (NOPR) March 21, 2008 – Order No. 710 (Final Rule). June 20, 2008 – Order 710-A – Revisions to Forms, Statements, and Reporting Requirements for Natural Gas Pipelines – Order No. 710 was issued as the Final Rule to the NOPR originally filed in September 2007. The Order

called for revisions to FERC Forms 2, 2-A, and 3-Q effective January 1, 2008 and for the termination of FERC Form No. 11 effective February 28, 2009. FERC found that the information provided in the current forms was not sufficient enough to allow complaints to support the filing of a Section 5 complaint case. The Section 5 rate case filed against Southwest Gas Storage, in which the Missouri PSC was an active participant, was one of two major cases that prompted FERC to seek these revisions and enhance the transparency of the financial reporting by interstate natural gas pipelines.

RM07-1-000 Standards of Conduct for Transmission Providers (NOPR) -

In the NOPR, FERC sought comments regarding several related issues. First, FERC sought comments regarding the promulgation of a permanent standards of conduct rule applicable to natural gas pipelines and their affiliates consistent with the Court's decision in National Fuel. Specifically, FERC sought comments regarding whether to make permanent the Interim Rule regulations making the standards of conduct inapplicable as between natural gas pipelines and their energy affiliates.

Second, FERC requested comments regarding comparable changes to standards of conduct for electric utility transmission providers (i.e., whether the standards of conduct should govern the relationship between electric utility transmission providers and their energy affiliates).

Finally, FERC is proposing to make several other changes to the standards of conduct including: revising the definition of marketing, sales or brokering; making permanent the changes adopted in the

Interim Rule for risk management employees and discretionary waivers; removing the regulations that permit the transmission provider to share information necessary to maintain the operations of its transmission system with its energy affiliates; adding and revising various regulations to facilitate integrated resource planning and competitive solicitations; revising the regulations to require each transmission provider to post the name of its chief compliance officer, to delete outdated references, and to require that transmission provider employees certify that they have completed standards of conduct training; and, revising the definition of affiliate regarding exempt wholesale generators. FERC has not issued a final rule on the NOPR.

PSC Support of NAESB Intra-day Natural Gas Nomination Changes

The PSC also participated in discussions with other industry representatives and by filing a letter to the North America Energy Standards Board (NAESB) in support of a proposal to provide an additional Intra-day “bumping” cycle to afford firm natural gas transportation capacity holders an opportunity to insure that their daily nominations could be adjusted to be more closely aligned with evening peak demands.

The PSC believes that such a proposal will enhance the value of firm capacity and the reliability of pipeline service. The PSC was supportive of the proposal for two additional nomination cycles. This would allow both gas LDC systems and electric LDC gas generation additional opportunities to adjust nominations intra-day to react to weather changes and changes to power demand.

It is especially critical for electric LDC gas generation with respect to changing electric generation dispatches for power from gas turbines on the intra-day cycle. Moreover, additional value and flexibility would encourage the contracting of firm service and the related construction of necessary infrastructure. The NAESB proposed guidelines to FERC to continue with the existing nomination process.

PROCUREMENT ANALYSIS

Natural Gas Actual Cost Adjustment Activities

There are seven natural gas local distribution companies serving Missouri – AmerenUE, Atmos Energy Corporation, Empire District Gas Company, Laclede Gas Company, Missouri Gas Energy, Missouri Gas Utility and Southern Missouri Natural Gas.

The Procurement Analysis Department conducts an actual cost adjustment (ACA) review annually at the end of each ACA period for each natural gas local distribution company. A primary purpose of the ACA process is to reconcile the company’s actual gas costs with what it charged customers (its billed revenues).

In its purchased gas adjustment filings, the company estimates its gas costs for the upcoming year. In the ACA, the estimate is reconciled with the actual prudently incurred cost of gas. In this function, Procurement Analysis Department staff reviews the gas purchases of the Local Distribution Company (LDC) to ensure that the claimed costs are properly attributed to the period

under review and that the pipelines and natural gas suppliers have charged or invoiced the LDC for the volumes nominated and received at the proper contract rates. A comparison of billed revenue recovery with actual gas costs will normally yield either an over-recovery or under-recovery of the ACA balances.

Another purpose of the ACA process is to examine the reliability of the LDC's natural gas supply, transportation and storage capabilities. For its analysis, staff reviews the estimated peak day requirements and the capacity levels to meet those requirements, peak day reserve margin and the rationale for this reserve margin, and natural gas supply plans for various weather conditions.

A third purpose of the ACA process is to review the LDC's gas purchasing practices to determine the prudence of the company's natural gas purchasing and operating decisions. Staff will consider the financial impact on customers of the LDC's use of its natural gas supply, transportation and storage contracts in light of the conditions and information available when the operational decisions were made.

The Procurement Analysis Department, in conjunction with other staff, held discussions with the LDCs with regard to their hedging activities for the 2007/2008 winter and 2008/2009 winter.

These discussions were held to inquire as to whether the LDCs were taking actions to mitigate the effects of potential winter price spikes on its price of gas.

Other Proceedings

Although focused largely on natural gas ACA activities, the Procurement Analysis Department, because of its knowledge of natural gas issues, assisted in the review of rate cases including the areas of natural gas incentives for LDCs to reduce gas costs for customers (gas supply incentive plan, capacity release, off-system sales), natural gas roundtables to prepare for potentially significant natural gas price increases for the upcoming winter, energy efficiency programs to encourage customers to make their homes and businesses more energy efficient, and certificate cases, including Missouri Gas Utility and Southern Missouri Natural Gas expansions where existing companies had plans to expand or bring natural gas to areas without this service.

The department also assisted in the review of tariff filings that impacted the recovery of gas costs. As an example, along with the assistance of other parties in the Laclede rate case, the Procurement Analysis Department helped ensure that the majority of benefits associated with off-system sales and capacity releases were flowed through to the customer.

QUICK FACT
There are seven natural gas local distribution companies serving Missouri. The PSC staff performs an Actual Cost Adjustment review annually at the end of each ACA period for each natural gas local distribution company.

TELECOMMUNICATIONS

Legislation

House Bill 1779: This bill was implemented on August 28, 2008. The scope of this bill deregulates and relaxes existing regulatory requirements for various telecommunications markets. For example, telecommunications services using voice over internet protocol (VoIP) technology are essentially exempt from state regulation; however, VoIP providers are required to register with the commission and comply with certain limited social funding requirements.

Telecommunications carriers offering voice services using traditional technologies other than VoIP are allowed greater pricing flexibility for all business services, packages of services as well as for directory assistance and operator services.

The criterion for obtaining competitive status was also eased. Provisions in the bill allow waivers of quality of service standards and customer billing requirements if a company is experiencing local voice service competition in its service area.

Competitive Status

Competitive status permits a company to raise or lower telephone rates at its own discretion, subject to the marketplace. A company would no longer be subject to price or rate regulation by the PSC in those exchanges deemed to be competitive. Competitive status is granted to residential services and/or business services within an exchange if two other qualifying entities are providing local voice service within the exchange.

During the past year, the commission addressed four separate filings by granting competitive status for additional exchanges for three companies. By the end of fiscal year 2008, CenturyTel, Spectra, AT&T and Embarq had received competitive classification for 126 residential and 109 business services exchanges.

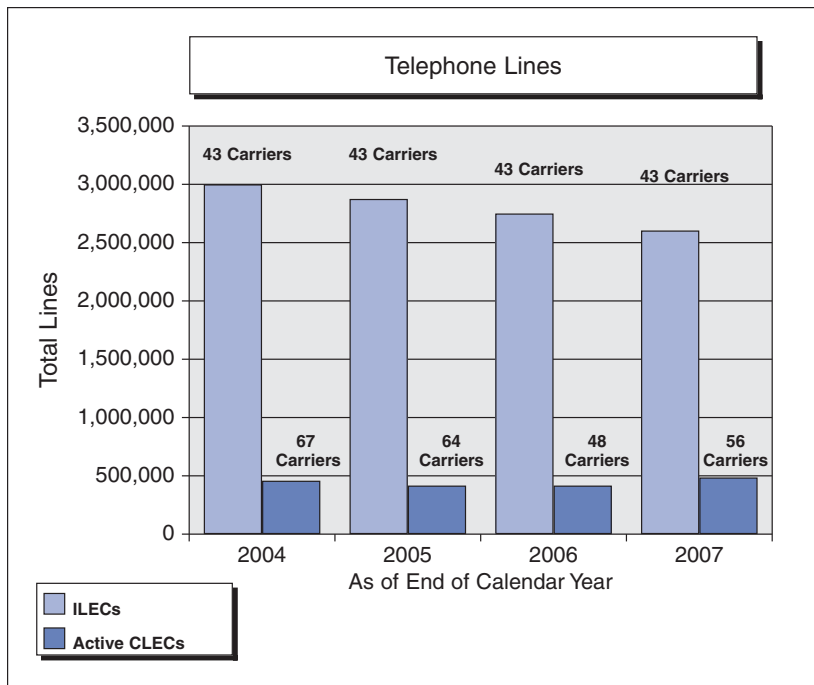
Prior to implementation of HB1779, state statutes required the commission to review the status of competition in any exchange deemed

Number of Competitively Classified Exchanges

<u>Company</u>	<u>Residential</u>	<u>Business</u>
CenturyTel	19	15
Spectra	13	4
AT&T	77	75
Embarq	17	15
Totals	126	109

competitive in which the Incumbent Local Exchange Company (ILEC) increases basic local rates.

During the past year, the commission conducted the following investigations and found competition continues to exist in competitively classified exchanges of Embarq (Case No. IO-2008-0092), CenturyTel (Case No. IO-2008-0096), Spectra (Case No. IO-2008-0097) and AT&T Missouri (Case No. TO-2007-0053).



Price Cap Elections

No companies elected to become price cap regulated during 2007-2008. Currently AT&T Missouri, Inc., Embarq, CenturyTel, Spectra and Windstream are price cap regulated.

Telecommunications Quality of Service

The following information is based on the quarterly quality of service results during the past fiscal year for all companies providing basic local telephone service:

- 81% of basic local service requests were installed within five days.
- 97% of installation commitments were met.
- 99.53% of all attempted calls were completed without a problem.
- Only 2.19% of consumers experience a service problem on an average day.
- 59% of trouble reports pertain to an out-of-service condition.
- 84% of out-of-service conditions are restored within 24 hours.
- 95% of commitments to address a trouble report were met.

Rulemakings

During the past year the commission approved three rulemakings and is currently considering two others.

Relay Missouri (Case No. TX-2008-0392): This rulemaking is pending. If approved the rulemaking establishes requirements for telecommunications carriers for billing and collecting the Relay Missouri surcharge.

Missouri USF (Case No. TX-2009-0030): This rulemaking is pending and makes permanent an emergency rulemaking. If approved, the rulemaking changes the definition of low-income customers to include participation in Missouri’s Medicaid program, no matter the Medicaid program name that appears on the customer’s card.

Customer Proprietary Network Information (Case No. TX-2008-0090): This rulemaking was initiated to more closely align the commission’s rules with recent Federal Communications Commission (FCC) changes. More

specifically the revisions pertain to only allowing an opt-in process for disclosing Customer Proprietary Network Information (CPNI) to a company's joint venture partners. The rules also establish verification procedures before releasing CPNI to the customer. In addition, the rules establish procedures for CPNI security breaches.

Missouri USF (Case No. TX-2008-0122): This rulemaking established verification requirements to ensure Lifeline subscribers qualify for the program. Such requirements address recommendations contained in an independent audit of the Missouri universal service fund.

Eligible Telecommunications Carrier (Case No. TO-2008-0007): In order to receive federal universal service funding a carrier must receive Eligible Telecommunications Carrier (ETC) status from a state regulatory commission. The commission amended its existing ETC rules to generate greater parity among carriers seeking ETC designation. In addition the rulemaking codified various requirements pertaining to the required annual certification process applicable to all ETCs.

Roundtable Meeting: A roundtable meeting on telecommunications rules was held on September 10, 2007 to discuss and receive feedback about the commission's rules applicable to telecommunications carriers. The meeting was attended by members of the industry and other interested parties. In general the meeting focused on the commission's quality of service standards and reporting requirements.

Number Reclamation and Conservation Efforts

The Missouri Public Service Commission has been delegated certain authority by the FCC to assist in telephone number conservation efforts in Missouri. During the past year, the commission contacted all carriers with an assigned block of one-thousand telephone numbers with 10 percent or less utilization.

Carriers are allowed to retain such blocks of telephone numbers if certain criteria are met, otherwise such blocks need to be returned. A total of 1,077 blocks of one-thousand telephone numbers were ultimately donated back to the federal numbering administrator. Such efforts should help delay the exhaustion of the supply of telephone numbers for Missouri's area codes.

Requests to Overturn Numbering Administrator Decisions

Federal procedures allow a telecommunications carrier to seek relief from a state commission if the numbering administrator has denied the carrier's request for telephone numbers. During the past year, the PSC addressed and approved three such requests (see Case No. TO-2009-0196, LO-2008-0199, and LO-2008-0199).

Funds Administered by the Missouri Public Service Commission

Missouri Universal Service Fund (USF): The Missouri Universal Service Board (Board) consisting of the commission and Office of the Public Counsel oversee the Missouri USF pursuant to Section 392.248 RSMo.

Currently, the Missouri USF solely provides funding for discounted telecommunications

Telephone Numbers

Missouri's area codes are projected to exhaust all available telephone numbers at the following time periods:

314 -- 4th quarter of 2017

417 -- 4th quarter of 2011

573 -- 3rd quarter of 2012

636 -- 3rd quarter of 2029

660 -- 3rd quarter of 2017

816-- 1st quarter of 2016

NOTE -- Forecast as approved by the FCC in April 2008. Relief planning generally starts three years prior to exhaustion date. Since the April 2008 forecast, the commission has completed additional conservation efforts that may adjust the projected exhaustion dates.

services for qualifying low income and disabled customers. There are approximately 71,980 subscribers in Missouri receiving support which represents a 7.51% increase over the past year.

As of July 2008, the fund reserve balance was \$719,000 with average monthly incoming revenues of \$243,695 and average monthly outgoing funds of \$219,290. Funding is generated through an assessment applied to telecommunications company revenues.

During the past year, the board met periodically to address and review issues related to the Missouri Universal Service Fund. These meetings consisted of review of fund financial statements, approval of carriers eligible to receive disbursements, approval of fund administrator invoices and other issues.

Central Bank has been the fund administrator since July 23, 2007 and is responsible for keeping the books and records related to the fund. Central Bank's contract provides administrative, banking, auditing and database development services for two years with two, one-year renewal options.

As required by statute, the Missouri universal service fund is annually audited by an independent auditor. During a recent audit, the independent auditor made recommendations that the board initiate additional audits.

The board has complied with these recommendations by directing the commission staff and fund administrator to initiate such audits. The additional audits are designed to ensure companies are appropriately paying into the fund as well as receiving support from the fund. Procedures have also been implemented to ensure customers are qualified to receive discounted phone service.

Relay Missouri Fund: The Public Service Commission oversees the Relay Missouri Fund pursuant to Section 209.253 RSMo. The fund is used to provide a statewide system using third party intervention to connect deaf, hearing-impaired and speech-impaired persons with the telephone system.

The fund is also used for an equipment distribution program which is administered by the Missouri Assistive Technology Council. Sprint is currently the contractual provider of Relay Missouri services. This contract is for a two year time period through June 30, 2010.

A 14-member Relay Advisory Committee consisting of six members from the deaf, hard-of-hearing, speech-impaired community as well as additional members from the PSC staff, Missouri Telecommunications Industry Association and Office of the Public Counsel provide recommendations to the commission for improving the program.

Relay Missouri is funded through a surcharge applied to telephone access lines for basic local telecommunications service. Currently, the surcharge is \$0.13 per month. The PSC staff has a recommendation before the commission to reduce the surcharge to \$0.11 per telephone access line.

Usage for traditional relay service, including CapTel service, was 1,761,289 minutes during the July 1, 2007 through June 30, 2008 time period. This usage compares to 2,204,488 minutes for the prior fiscal year. The May 2008 closing balance of the Relay Missouri fund was \$3,179,217.

The PSC staff monitors companies paying into the fund. During the past year, complaints were filed against various companies for

failure to submit Relay Missouri payments in a timely manner. A pending rulemaking is designed to help ensure companies are adequately billing, collecting and remitting revenues to the fund.

Arbitration/Wholesale Disputes

Sprint vs. AT&T (Case No. TC-2008-0182): Sprint submitted a request to adopt a similar interconnection agreement used in Kentucky for these two companies. The commission denied relief to Sprint in a complaint it brought against AT&T Missouri (AT&T). The essence of Sprint's complaint was that AT&T had failed to comply with merger commitments AT&T made to the FCC in the BellSouth merger case.

Charter/CenturyTel arbitration case (Case No. TO-2009-0037): Charter Fiberlink-Missouri has requested the commission arbitrate unresolved issues with CenturyTel. The unresolved items include, but are not limited to, issues surrounding direct and indirect interconnection, telephone number porting, cost based rates, single points of interconnection, use of CenturyTel's service guide, bill disputes, deposits, contract termination and third party assignments. The commission has set an October 28-30, 2008 hearing date.

Charter vs. CenturyTel (Case No. LC-2008-0049): On August 24, 2007, Charter Fiberlink, LLC filed a complaint against CenturyTel whereby Charter disputed charges applied by CenturyTel for porting telephone numbers. The case is pending.

Northeast Missouri Rural Telephone Company vs. AT&T (Case No. IC-2008-0285): The commission appointed a mediator in Northeast's complaint against AT&T. In its complaint, Northeast has alleged that AT&T neglected

to pay access charges to Northeast for traffic attributed to certain prepaid calling cards. According to Northeast, AT&T estimated that through the third quarter of 2004, it had failed to pay \$340 million in intrastate access charges to Northeast and other carriers, and had failed to pay \$160 million in universal service contributions. For its part, AT&T admits to some of Northeast's allegations but has denied other allegations, pointing to AT&T's belief that the parties have reached settlement of the claims underlying the complaint.

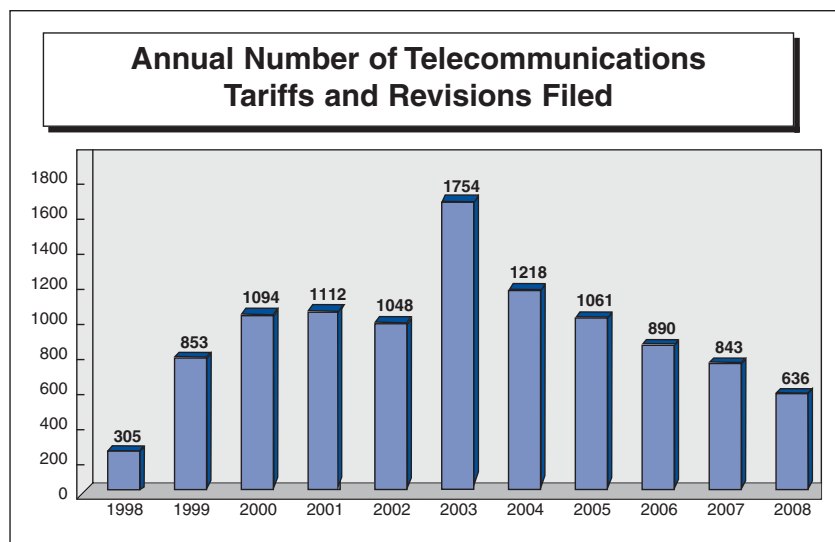
Socket vs. CenturyTel (Case No. TC-2007-0341): On March 19, 2007, Socket Telecom filed a complaint against CenturyTel alleging CenturyTel's refusal to port numbers to Socket in contravention to the party's interconnection agreement and federal law. Socket asked the commission to require CenturyTel to port numbers so that customers can both be served by their provider of choice and retain their telephone numbers, while obtaining from Socket a form of foreign exchange service, also known as Virtual NXX service. CenturyTel denied the allegations. A hearing was held on July 11, 2007. On March 26, 2008, the commission issued its decision in which CenturyTel was ordered to port the affected telephone numbers. This case has been appealed.

Socket vs. CenturyTel (Case No. TC-2008-0225): On January 8, 2008, Socket filed this complaint against CenturyTel regarding various interconnection issues. The commission's mediation procedures were initially used at a company's request to resolve this complaint; however mediation was unsuccessful. The case is currently pending.

CenturyTel vs. Socket (Case No. IC-2008-0068, et al.): On September 5, 2007, CenturyTel filed

QUICK FACT

The Missouri Public Service Commission continues to actively participate each year in a number of telecommunications issues before the Federal Communications Commission.



this complaint against Socket. The complaint centers on whether the interconnection agreements at issue establish reciprocal compensation or bill-and-keep as the compensation mechanism to be utilized for termination of local traffic. The commission ultimately granted a summary determination in favor of CenturyTel for a bill-and-keep mechanism.

Investigation of Non-impaired Wire Centers (Case No. TO-2006-0360): This case required the commission to examine the extent of competitive telecommunications activity in certain AT&T wire centers. More precisely, certain competitive local exchange companies asked the commission to provide guidance on whether AT&T properly identified wire centers as non-impaired; meaning, there are sufficient opportunities in a wire center such that a CLEC's ability to do business through that wire center is not impaired without access to the incumbent's unbundled network elements.

The commission was presented with nine issues to decide. The commission issued its Report and Order on March 31, 2008, ordering AT&T to make network elements available to competitors in accordance with specific conclusions contained within the order.

Verizon Wireless, Cellco Partnership, St. Joseph Celltelco vs. AT&T Missouri (Case No. TC-2008-0150): On November 7, 2007, Verizon Wireless filed a complaint against AT&T Missouri seeking an order from the commission acknowledging the right to extend the term of the parties' interconnection agreement. On February 26, 2008, Verizon voluntarily dismissed its complaint.

Verizon Access Transmission Services/Embarq arbitration case (Case No. TO-2008-0037): On August 8, 2007, Verizon filed a request seeking the commission arbitrate outstanding issues involving compensation for Virtual NXX traffic and charges for directory listings. Pursuant to a request from Verizon, the commission dismissed the case on December 11, 2007.

Big River vs. AT&T (Case No. TC-2007-0085): On August 23, 2006, Big River filed a complaint against AT&T alleging AT&T had charged Big River higher amounts for local switching and loops than the rates set forth in the interconnection agreement approved by the commission pursuant to the arbitration order in Case No. TO-2005-0336. This case is stayed pending the conclusion of litigation concerning the commission's arbitration order in Case No. TO-2005-0336.

Big River Telephone Company's request for interconnection with BPS Telephone Company (Case No. TO-2008-0003): On July 7, 2007, Big River petitioned the commission to require BPS Telephone Company to grant Big River's request for interconnection. This interconnection was necessary so that Big River could partner with cable television telephone companies in BPS' area to compete against BPS.

According to the application, BPS maintained that it is entitled to a rural interconnect exemption. Big River requested the commission direct the PSC staff to conduct an investigation into BPS, including its status as a rural telephone company.

Federal Telecom Activity

National Association of Regulatory Utility Commissioners (NARUC): Commissioner Robert Clayton is a member of the NARUC Telecommunications Committee and is assisted by a staff member of the commission on the Telecommunications Staff Subcommittee.

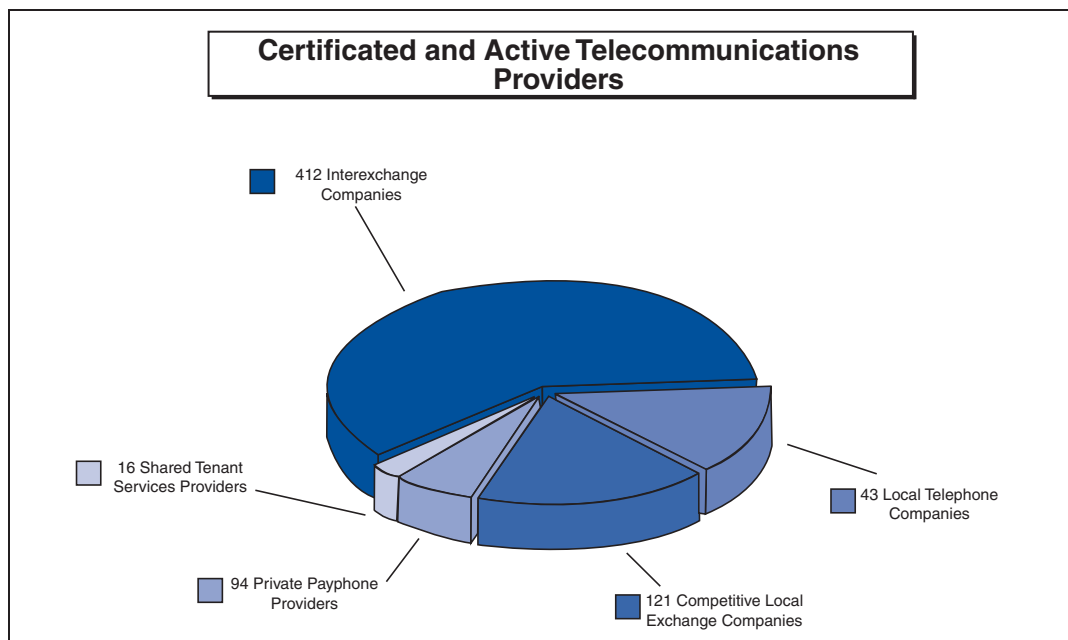
The purpose of NARUC's Telecommunications Committee is to provide and coordinate the resources needed to develop in-depth analyses of telecommunications issues, particularly the implications of various policy choices on the development of a modern, high quality and ubiquitous telecommunications infrastructure serving the needs of all consumers.

During the past year, the committee studied such areas as universal service reform, intercarrier compensation, wireless consumer standards and broadband deployment.

NARUC Task Force for Intercarrier Compensation: Commissioner Connie Murray served as a member of the NARUC Task Force for Intercarrier Compensation. PSC staff members also participated and conducted work with the task force.

Intercarrier compensation refers to the fees charged by one carrier to another carrier for the use of the carrier's network to originate and/or terminate calls. Since its formation in 2003, the task force has conducted several workshops and meetings seeking a consensus solution to the problems with the existing intercarrier compensation regime.

An industry solution, known as the Missoula Plan, was submitted to the FCC in July 2006 in CC Docket No. 01-92. The task force did not take a position on the Missoula Plan, but the Missouri PSC did file comments with the FCC outlining several concerns with the proposal. The issue is still pending before the



FCC and interested parties continue to file proposals related to intercarrier compensation.

Universal Service Joint

Board: In April 2007, Missouri PSC staff member Natelle Dietrich was appointed to the staff of the Universal Service Joint Board.

The Universal Service Board makes recommendations to the FCC on issues related to promoting universal telecommunications service throughout the United States. The board recently recommended, and the FCC implemented, a cap on the federal funding provided to competitive carriers. The board also issued three recommended decisions related to reforming the federal universal service support program.

The recommended decisions address such things as a reverse auction methodology to receive funding, eliminating identical support for competitive carriers and the creation of three funds – the mobility fund, the broadband fund and the provider of last resort fund.

Comments to FCC Proceedings: The Missouri PSC continues to actively participate in a number of telecommunications issues before the FCC.

During the past fiscal year, the commission filed comments with the FCC on a variety of issues. Comments were filed in proceedings primarily targeting federal universal service funding reform.

Specifically, the commission filed comments addressing such topics as the Joint Board Recommendation, identical support rule and reverse auctions. The commission also filed comments relating to forbearance petitions whereby the commission urged the FCC to adopt procedural rules for addressing such

petitions. Also, the PSC provided recommendations on how to facilitate state commission participation in forbearance proceedings.

Special Projects

Economic Analysis of Municipally owned or operated cable television and telecommunications facilities and services:

Sections 71.970 and 392.410 of Missouri statutes require the commission to annually analyze the impact of municipally owned and operated cable televisions and telecommunications services.

In 2007, 16 municipalities were providing either 911-related services (using their own facilities) or internet access services. Municipalities cite several reasons for initiating 911 or internet services such as the desire for economic development, or the lack of existing service or poor quality service. The requirement to provide this report was eliminated during the legislative session.

Video Report: The commission submitted a report to the General Assembly on August 28, 2008 regarding developments associated with implementation of the 2007 Video Services Providers Act. This act was implemented on August 28, 2007 and essentially streamlined the authorization process to offer video service in Missouri.

The report cites video service competition in 144 political subdivisions or approximately 13% of all political subdivisions in Missouri. By June 1, 2008, the commission had issued 438 video service authorizations to 23 providers. The report contains a number of recommendations for the General Assembly’s consideration.

QUICK FACT
 Commissioner Robert Clayton is a member of the North American Numbering Council, a federal advisory committee designed to advise the FCC on telephone numbering issues and to make recommendations that foster efficient and impartial telephone number use and administration.

Statewide average rates (Case No. TO-2006-0084): Prior to the implementation of HB 1779 and pursuant to Section 392.245(13), the commission was required to calculate the weighted statewide average rate of nonwireless basic local telecommunications services.

Such calculations were to be based on rates as of August 28, 2005, 2007 and 2011. Statewide average rates of nonwireless basic local telecommunications services as of August 28, 2007 are as follows:

- \$14.66 (overall)
- \$11.49 (residential)
- \$29.77 (business)

In comparison, corresponding rates as of August 28, 2005 were:

- \$13.77 (overall),
- \$11.62 (residential)
- \$27.91 (business).

PSC Staff Report on Audit of City Utilities of Springfield: In December 2007, the state auditor released a report of City Utilities which contained findings that the telecommunications activities of City Utilities were not in compliance with certain conditions established by order of the Public Service Commission.

Pursuant to instructions from the commission, the PSC staff responded to the findings with a report submitted on March 5, 2008.

In particular, the PSC staff made inquiries into allegations that City Utilities' telecommunications activities were being subsidized by City Utilities' electric, gas, water, and transit utilities, and that its telecommunications network was not operating as a stand-alone entity.

The PSC staff concluded that the audit report lacked the neces-

sary foundation to substantiate allegations of non-compliance.

Commissioners Report on Broadband Availability: Commissioners Robert Clayton and Steve Gaw released a report on Missouri broadband availability on September 18, 2007.

The report is an analysis and comparison of wireline broadband availability throughout the telephone exchange areas of Missouri. The report found that on a statewide basis, 78% of Missouri households have access to some form of wireline broadband internet.

However, the report confirmed that many areas of rural Missouri lag behind urban areas in terms of broadband availability and high-speed internet options. In particular, analysis suggests that 481,800 Missouri families, located primarily in rural areas and small towns, lack meaningful access to the internet through wireline broadband connectivity.

Mergers and Other Financial Transactions

Ellington Telephone Company's request for \$3 million loan (Case No. TF-2008-0298): The commission approved the request. The funding is targeted at making various capital improvements, financing operating needs, allowing the company to make an investment in a wireless venture and for general corporate purposes.

Kingdom Telephone Company financing case for \$5 million loan (Case No. IF-2008-0139): The commission approved the request. The financing is targeted at various capital improvements for the company.

Water and Sewer Department

The role of the commission is to ensure that consumers receive safe and adequate service from the utility in exchange for just and reasonable rates that allow the utility the opportunity to earn a fair rate of return on its investment.

The Water and Sewer Department assists the commission in this role by providing technical expertise in the operation of the water and sewer companies and analyzing applicable tariffs and tariff filings to ensure they are in compliance with appropriate state law, commission rule, and are fair for both the utility and consumer.

There are approximately 75 regulated water and sewer companies in Missouri.

Most of these companies are considered small or very small based upon those definitions as provided by the National Regulatory Research Institute (NRRI). This fact makes for a very challenging role to be played by the Water and Sewer Department.

One of the major challenges is

providing the utility with reasonable rates to make needed repairs and Missouri Department of Natural Resources (DNR) mandated upgrades while at the same time keeping them reasonable for consumers.

This is difficult because, for small or very small companies, the increased costs being felt throughout the industry necessarily are being spread over a much smaller customer base. Another major challenge is the fact that many of these systems are being operated by management that is not necessarily in business to be a utility. Many of these owners/managers control other businesses and the utility operations are secondary to those other businesses.

To help assist the small water and sewer companies, the commission approved a revision of its small company rate request rule. This rule is intended for companies that have fewer than 8,000 customers.

The rule streamlines the rate request process for the smallest companies and allows rates to potentially become effective sooner than the normal rate request process. It also allows the utilities to file their request without the need for outside assistance which helps



PSC staff member Jerry Scheible inspects a motor and blower assembly on a mechanical sewer treatment plant.

keep the cost of doing business as low as possible.

The main functions of the Water and Sewer Department are to assist small companies in their day-to-day operations, conduct inspections, assist customers, investigate customer complaints, work on tariff filings, review small and large company rate requests, and review applications for certificates of public convenience and necessity to ensure that a proposed utility is in the public interest.

The major role that the department plays in rate requests is to develop the appropriate rates that are required for the utility to collect the appropriate revenues that have been approved by the commission.

In fulfilling its duties, the Water and Sewer Department also works very closely with DNR whose responsibilities include ensuring that the utilities are complying with the applicable federal and state environmental and water quality laws and regulations.

The PSC and DNR share information about the companies they regulate under a Memorandum of Understanding. This agreement includes provisions regarding the agencies' cooperation and coordination on overlapping matters such as DNR's issuance of construction and

operating permits and the commission's utility service area certification process.

The Water and Sewer Department is also investigating the possibility of a partnership with the EIARA (Environmental Improvement and Energy Resources Authority) to help small water and sewer companies obtain favorable financing to allow the companies to make the appropriate repairs and environmental upgrades.

The department is also active in federal activities that impact the water and sewer industries in Missouri. Many of the issues that are impacting these industries in Missouri are obstacles in other states as well, therefore, the department participates in working groups with NRRI and NARUC.

On March 31, 2008, the Missouri-American Water Company filed water and sewer rate cases with the Public Service Commission. The company seeks to increase annual water operating revenues by approximately \$49.6 million and annual sewer operating revenues by approximately \$133,000.

Hearings in those rate cases were scheduled to begin in late October.

QUICK FACT

The commission currently has jurisdiction over approximately 75 regulated water and sewer companies in Missouri.

Regulated Sewer Companies

Customer Base	Number of Companies	Customers Served	% of Total Customers Served
2,001 & Up	1	2,165	16%
751 - 2,000	5	5,516	40%
501 - 750	2	1,226	9%
251 - 500	4	1,300	9%
151 - 250	10	1,867	13%
101 - 150	6	775	6%
51 - 100	11	767	6%
50 or less	7	226	1%
TOTALS	46	13,842	100

Regulated Water Companies

Customer Base	Number of Companies	Customers Served	% of Total Customers Served
8,001 & Above	1	498,202	94%
5,001 - 8,000	1	6,724	1%
3,501 - 5,000	1	4,613	1%
2,001 - 3,500	2	5,624	1%
751 - 2,000	4	5,741	1%
501 - 750	8	5,180	1%
251 - 500	6	1,198	0%
151 - 250	10	1,827	0%
101 - 150	6	769	0%
51 - 100	6	555	0%
50 or less	8	282	0%
TOTALS	53	530,715	100

Manufactured Housing and Modular Units Program

The Manufactured Housing and Modular Units Program Department of the Missouri Public Service Commission is governed by Sections 700.010-700.692 of the Revised Statutes of Missouri.

The department is responsible for overseeing the annual registration of dealers and manufacturers of manufactured homes and modular units as well as the installers of new manufactured homes. This department is also in charge of prescribing and enforcing uniform construction, safety and installation standards by conducting code and installation inspections

that include enforcing tie down and anchoring requirements.

During the past year, the department received approximately 120 consumer complaints and/or requests for inspections, a lower number than in the past. New on-site inspections which are performed prior to the completion of a home installation were a major contributor to the drop in complaints received. On-site inspections identify installation problems that can be repaired before the home installation is completed. This reduces repair costs and ensures the consumer has a properly installed home. The staff has been successful in resolving approximately 98% of complaints received

STATISTICS FOR FISCAL YEAR 2007

Registered Manufacturers:	182
Registered Dealers:	271
Registered Installers:	145
Homes Sold (new & used):	4,091
Consumer Complaint Inspections:	265
On-site Inspections (SB 1096)	232
Dealer Lots Inspected:	152
Modular Unit Seals Issued:	2,388
Modular Unit Plans Approved:	721
Installer Decals Issued (SB 1096)	1,313

Source: PSC Manufactured
Housing Department database

through its formal process by working with manufacturers, dealers, installers and homeowners.

The Manufactured Housing and Modular Units Program receives more than 240 inquiries a month from consumers, manufacturers, retail dealers, installers, finance companies and local building code officials. Currently, staff consists of four field inspectors, one field supervisor-inspector, a program director and two office staff.

The PSC has a toll-free hotline number for consumers who have questions or complaints regarding manufactured homes or modular units. The commission staff conducts **free** home inspections for consumers who file inspection

requests with the commission. For more information, please call the toll-free number **1-800-819-3180** or access the PSC web site at www.psc.mo.gov and click on Manufactured Housing at the top of the page.



PSC staff member Gene Winn does an inspection.

Oversight and Regulation

Structures not properly installed may result in very expensive repair costs that can take weeks to complete. Most of today's homes or units are multi-section structures and are installed on crawl space or basement foundations or on below frost grade footings. Many of these homes have hinged roofs and require very specialized and expensive equipment to install. Equipment includes such items as roof jacks, roller systems or cranes. Many multi-section units require several weeks to fully complete, from site preparation to final close up and interior finish.

Staff regularly works with local communities around the state to ensure both manufactured homes and modular units are built to the applicable building and safety codes and are set up and installed according to applicable state standards.

Manufactured Homes and Modular Unit Sales

Residential and commercial modular unit sales have more than doubled in the past few years. Modular units include residential homes, commercial, industrial and educational units. Approximately 1,995 new manufactured homes and modular units were sold in Missouri during the 2008 fiscal year ending June 30. An additional 2,096 used homes were sold.

Modular and manufactured homes fill a major housing void in many rural areas where site-built homes are difficult to construct in a

timely manner. In addition, commercial modular units are becoming a very popular and affordable alternative to site-built units. Modular unit classrooms are a major component of affordable classrooms in many school districts throughout the state.

PSC field staff continues to work with school districts throughout the state to ensure these units are installed and anchored properly so that schools have safe environments for all school children. Commercial modular units range from small single section units to large 16 to 20 section multi-family structures.

Other commercial units include very specialized units such as the Kidney Dialysis Unit in Chillicothe, Missouri. Many of these units can be delivered and fully operational within a very short period of time. Staff works closely with local building and code officials to ensure these structures meet the applicable commercial building code requirements under the International Building Codes (IBC).

Pursuant to a recent report published by the Governmental Accounting Office and the Federal Housing Institute, 5% of Missouri residents live in manufactured homes.

New Legislation

The commission worked with the manufactured housing industry during the 2008 legislative session to pass legislation establishing a Manufactured Housing Consumer Recovery Fund. The fund could be used by consumers who purchased a home from a dealer or manufacturer who fails to complete the installation of the home.

The bill also requires all dealers who sell new manufactured homes or modular units to be licensed with

the commission; requires all dealers to maintain an established place of business; and requires dealers of federal Housing and Urban Development (HUD) manufactured homes and modular units to maintain the same records at each sales location.

Legal Action

During the past year, the director of the Manufactured Housing and Modular Units Program filed complaints against dealers and unlicensed entities for alleged violations of state laws.

Complaints were filed against certain dealers for selling damaged homes that did not comply with the applicable building codes; improper installation and anchoring; operating without the required license; and failing to make corrections in a timely manner. Penalties totaling \$50,000 were assessed against dealers who sold damaged homes to consumers without proper disclosure. Staff continues to work to ensure manufactured and modular homes and commercial units are built and installed according to applicable building codes and safety standards, to help provide safe and affordable housing.

During the past year, the number of formal complaints decreased due to the Dispute Resolution Hearing Process. This process includes hearings at the home site with the homeowner, manufacturer, dealer, installer and the PSC staff. Corrective action is identified by the staff and the responsible party is required to make the applicable changes. These hearings have reduced the legal cost for the industry, the consumer and the PSC.

Modular Building Codes

During the past year, PSC staff worked with the industry to upgrade modular unit building codes. The 2006 International Residential Codes (IRC) for residential homes and the 2006 International Building Codes (IBC) for commercial units were adopted to help ensure these units are accepted by local building and code administrators in a timely manner. Many times local utility companies will not connect the utilities to a structure unless the Missouri Modular Seal is verified and attached to the structure.

QUICK FACT

Approximately 1,995 new manufactured homes and modular units were sold in the state during fiscal year 2008. An additional 2,096 used homes were sold.