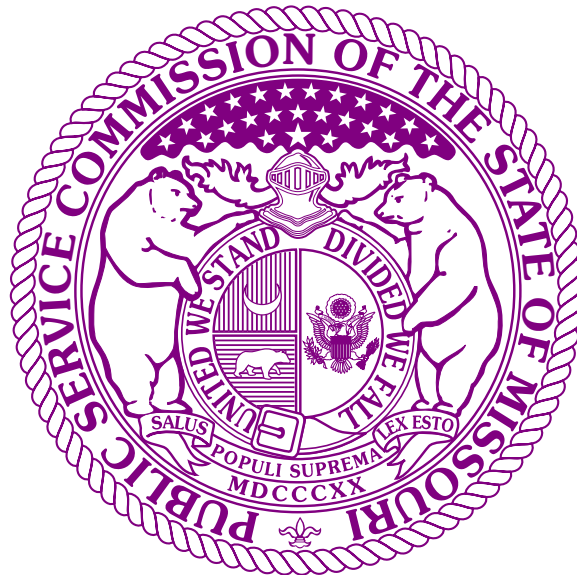

MISSOURI PUBLIC SERVICE COMMISSION

2006 ANNUAL REPORT



JEFF DAVIS, CHAIRMAN

CONNIE MURRAY, COMMISSIONER

STEVE GAW, COMMISSIONER

ROBERT M. CLAYTON III, COMMISSIONER

LINWARD "LIN" APPLING, COMMISSIONER

Electric ♦ Natural Gas ♦ Steam ♦ Water and Sewer
Telecommunications ♦ Manufactured Housing



Commissioners

JEFF DAVIS
Chairman

CONNIE MURRAY

STEVE GAW

ROBERT M. CLAYTON III

LINWARD "LIN" APPLING

Missouri Public Service Commission

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WESS A. HENDERSON
Executive Director

DANA K. JOYCE
Director, Administration and
Regulatory Policy

ROBERT SCHALLENBERG
Director, Utility Services

WARREN WOOD
Director, Utility Operations

COLLEEN M. DALE
Secretary/Chief Regulatory Law Judge

KEVIN A. THOMPSON
General Counsel

December 19, 2006

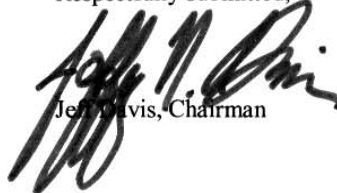
Governor Matt Blunt:

We are pleased to submit the Missouri Public Service Commission's annual report for the fiscal year July 1, 2005 through June 30, 2006. The Commission has not only been involved in several major utility rate cases, but has also addressed a number of important utility issues during the fiscal year. In addition, individual commissioners as well as PSC Staff have been very involved in and made significant contributions relating to federal utility issues. A few of the matters addressed during the fiscal year are listed below:

- The Commission approved an agreement resulting in the largest penalty ever assessed against a utility company under PSC jurisdiction as Cass County Telephone Company paid \$1 million to the public school fund. In addition, the telephone company refunded \$3.6 million to its customers.
- The Commission adopted an emergency amendment to its Cold Weather Rule providing more lenient payment terms for reconnection of service or to avoid disconnection for nonpayment for those customers who defaulted on a previous Cold Weather Rule payment agreement.
- The Commission responded to more than 10,000 complaints and/or inquiries. Over 560 cases were opened resulting in over 8,000 filings. In addition, the Commission received more than 1,700 tariff filings.
- The PSC Staff either began or completed rate audits of Laclede Gas Company, Kansas City Power & Light, Aquila, Inc., Missouri Gas Energy, The Empire District Electric Company, and Atmos Energy. In addition, approximately 23 financial audits were conducted on various water and sewer companies in the state.
- Prior to the heating season, natural gas companies appeared before the Commission giving detailed information on gas purchasing activities and what was being done to soften the impact of rising wholesale natural gas prices during the 2005-2006 winter heating season.
- The Commission adopted a number of telecommunications rules including: clear identification of charges on customer bills; procedures for entities seeking expanded local calling; and the Missouri Universal Service Fund.
- The Commission continues to actively participate in regional transmission organizations in order to protect Missouri consumers and economic development initiatives.

The coming fiscal year will present a number of challenges for our agency. We intend to meet those challenges with the same enthusiasm and dedication as we have in the past.

Respectfully submitted,

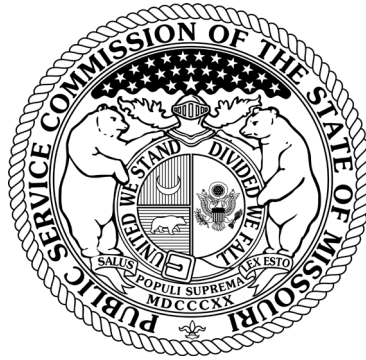


Jeff Davis, Chairman

PSC MISSION STATEMENT

We will:

- ensure that Missourians receive safe and reliable utility services at just, reasonable and affordable rates;
- support economic development through either traditional rate of return regulation or competition, as required by law;
- establish standards so that competition will maintain or improve the quality of services provided to Missourians;
- provide the public the information they need to make educated utility choices;
- provide an efficient regulatory process that is responsive to all parties, and perform our duties ethically and professionally.



MISSOURI PUBLIC SERVICE COMMISSION

JEFF DAVIS, CHAIRMAN

CONNIE MURRAY, COMMISSIONER

STEVE GAW, COMMISSIONER

ROBERT M. CLAYTON III, COMMISSIONER

LINWARD "LIN" APPLING, COMMISSIONER



Missouri Public Service Commission offices are located in the Governor Office Building, 200 Madison Street, in Jefferson City.

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Key PSC Personnel

Jeff Davis, Chairman	751-3233
Connie Murray, Commissioner	751-4132
Steve Gaw, Commissioner	751-3243
Robert M. Clayton III, Commissioner	751-4221
Linward "Lin" Appling, Commissioner	751-0946
Wess Henderson, Executive Director	751-7435

Administration Division

Dan Joyce, Director	751-2481
Robert Boone, Legislative Coordinator	522-8708
James Jackson, Manager - Human Resources Department	751-7508
Todd Craig, Manager - Information Services Department	526-8153
Dan Redel, Manager - Budget and Fiscal Services Department	751-2457
Gay Fred, Manager - Consumer Services Department	751-3160
Kevin Kelly, Public Information Administrator	751-9300
Gregg Ochoa, Public Information Coordinator	522-2760
Consumer Services Toll-Free Hotline	1-800-392-4211
EFIS Toll-Free Help Desk	1-866-365-0924

Adjudication Division

Colleen M. Dale, Secretary/Chief Regulatory Law Judge	751-4255
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General Counsel

Kevin Thompson, General Counsel	751-2690
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Utility Operations Division

Warren Wood, Director	751-2978
Dale Johansen, Manager - Water and Sewer Department	751-7074
John Van Eschen, Manager - Telecommunications Department	751-5525
Lena Mantle, Manager - Energy Department	751-7520
Ron Pleus, Manager - Manufactured Housing Department	751-7119
Manufactured Housing Toll-Free Hotline	1-800-819-3180

Utility Services Division

Robert Schallenberg, Director	751-7162
Ron Bible, Manager - Financial Analysis Department	751-8517
Joan Wandel, Manager - Auditing Department	751-4785
David Sommerer, Manager - Procurement Analysis Department	751-4356
Lisa Kremer, Manager - Engineering and Management Services Department	751-7441

PSC COMMISSIONERS

JEFF DAVIS

Chairman

Jeff Davis was appointed to the Missouri Public Service Commission on April 30, 2004 and was named Chairman of the Public Service Commission by Governor Blunt on January 10, 2005. Chairman Davis was re-appointed to a full six-year term in April 2006.

Chairman Davis serves as the Chair of the Missouri Energy Task Force, as a member of the Homeland Security Advisory Council, the Missouri Universal Service Board, the Financial Research Institute Advisory Board, the Missouri Oil and Gas Council, the Federal Energy Regulatory Commission (FERC) Joint Board on Economic Dispatch for the PJM-MISO Region and the National Association of Regulatory Utility Commissioners (NARUC) where he serves on the gas committee.

Prior to his appointment to the Commission, Davis served as General Counsel and Chief of Staff for Missouri Senate President Pro Tem Peter Kinder. While in that capacity, Chairman Davis provided legal counsel to the Committee on Gubernatorial Appointments and the Senate Administration Committee; managed the President Pro Tem's office; and supervised the President Pro Tem's legislative agenda, which included drafting and helping pass several pieces of legislation such as: the Senior Care and Protection Act of 2003; the Dram Shop Act of 2002; the Religious Freedom Restoration Act; and legislation authorizing Missouri's first sales tax holiday.

From July 1998 until December of 2000, Chairman Davis was Chief of Staff and General Counsel to Senate Minority Floor Leader Steve Ehlmann. Prior to that, he was a law clerk for the Honorable Paul J. Simon, Missouri Court of Appeals, E.D. and was a legal intern in Missouri Attorney General Jay Nixon's Labor Division.

Chairman Davis graduated cum laude with a bachelor's of science degree in political science from Southeast Missouri State University in 1994 and received his juris doctorate degree from Washington University in 1997. Chairman Davis was admitted to the Missouri Bar in October 1997 and is a member of the Missouri Bar Association.

Chairman Davis resides in Jefferson City with his wife Tiffany (Southeast '96) and daughters Micah and Mackenzie.



CONNIE MURRAY

Commissioner



Commissioner Connie Murray was appointed to a second term on the PSC by Governor Bob Holden on April 28, 2003. She was first appointed by Governor Mel Carnahan in May, 1997.

Commissioner Murray served in the Missouri House of Representatives from 1991 through 1996. Her committees included Budget and Judiciary & Ethics.

Commissioner Murray is a 2004 alumna of the Institute of Regulatory Law and Economics held at the Aspen Institute. She is a member of the NARUC Committee on Water and has served on a working group of the National Drinking Water Advisory Council. She serves on the Advisory Council for the Center for Public Utilities, New Mexico State University. She has served on the NARUC Telecommunications Committee and the NARUC Taskforce on Intercarrier Compensation. She is frequently invited to speak on telecommunications and other regulatory issues.

Commissioner Murray attended Temple University and earned her Bachelor of Arts degree from Loyola College in Baltimore, Maryland, where she graduated cum laude. She has a juris doctorate from the University of Maryland School of Law where she was Notes and Comments Editor of the Law Review.

STEVE GAW

Commissioner

Commissioner Steve Gaw was appointed to the Missouri Public Service Commission in March 2001 by Governor Bob Holden. Following Senate confirmation, Gaw began serving on the Commission on April 2, 2001. On November 3, 2003, Commissioner Gaw was named Chairman by Governor Bob Holden, and served as Chairman until January 2005.

Prior to his appointment, Commissioner Gaw was Speaker of the Missouri House and served as State Representative of the 22nd District representing Randolph County as well as parts of Howard, Chariton, and Boone Counties. Gaw was first elected to the Missouri House in 1992, became Speaker in 1996 and served until 2001.

While House Speaker, Gaw was instrumental in bringing new technology to the chamber, as the Missouri House became the first state legislative body to broadcast its proceedings live over the Internet.

As a Legislator and Speaker, Gaw focused on education, public safety, agricultural issues and economic development. His work on education earned him several awards including the prestigious Geyer Award, the Horace Mann Friend of Education for Legislation Award and the Distinguished Legislator Award from the Missouri Community College Association. He also passed stronger sentences for violent felony offenders particularly sex offenders, juvenile justice reform, school safety measures, a “No Call” list for telemarketers, and legislation lowering taxes on Missouri families including the elimination of the general sales tax on groceries.

Gaw graduated summa cum laude in 1978 from Truman State University with a bachelor’s degree in physics and he earned a law degree from the University of Missouri-Columbia in 1981. Gaw has served as the City Prosecutor of Moberly and practiced law with the firm of Schirmer, Suter, & Gaw, also in Moberly.

Gaw currently serves as President of the Organization of MISO States (OMS). He is a board member of the SPP Regional State Committee and is also a member of the NARUC Electric Committee.

Commissioner Gaw and his wife Fannie have a daughter, Skylar.



ROBERT M. CLAYTON III

Commissioner

Commissioner Robert M. Clayton III was appointed by Governor Bob Holden to a six-year term on the Public Service Commission, receiving Senate confirmation on May 8, 2003.

Prior to his appointment to the PSC, Commissioner Clayton was an attorney in private law practice in Hannibal as a partner in the general practice firm, Clayton & Curl L.L.C. Commissioner Clayton formerly served Marion and Shelby County constituents in the Missouri General Assembly as the state representative from the 10th District. He was first elected to the Missouri House in 1994 and served four consecutive terms.

As a state legislator, he chaired the House Ethics Committee and the Joint Committee on Legislative Research and was Vice-Chairman of the Committee on Criminal Law. He also served on additional House committees including, Appropriations-Transportation, Agriculture and the Judiciary. While in the General Assembly, Clayton served on the Executive Committees of the Council of State Governments and the Southern Legislative Conference.

Commissioner Clayton is an active member of the NARUC serving on its governing Board of Directors. He is the Chairman of the Committee on International Relations and is active in promoting the policy objectives associated with various USAID/NARUC Cooperative Agreements. Those objectives include working with developing nations in implementing an independent utility regulatory commission to encourage private investment in recently liberalized and evolving capitalist economies. He is the NARUC representative appointed to attend the Presidium of the Energy Regulators Regional Association (ERRA) of Eastern and Central Europe and he has worked with several member nations of the African Forum for Utility Regulation (AFUR) including the nations of Rwanda and Uganda. He has also offered presentations on energy regulation in Azerbaijan, Hungary and before the Organization of Caribbean Utility Regulators.

Commissioner Clayton was also appointed to chair the Program Advisory Committee for the World Forum on Energy Regulation III, held in October 2006, in Washington, DC. The third triennial conference of its kind (the prior events were held in Montreal, Canada, and Rome, Italy), the World Forum hosted energy regulators, investors and stakeholders from 84 countries. As Chair of the Program Advisory Committee, Commissioner Clayton's committee developed the comprehensive program agenda by coordinating topics of interest for all regulators, regardless of the maturity level of a nation's economy. The program highlighted 125 speakers with 28 different sessions of energy regulatory topics.

Commissioner Clayton also serves as a general member of the NARUC Telecommunications Committee and is involved in various organizations charged with the regulation and monitoring of telephone utilities. Commissioner Clayton serves as Chairman of the Missouri Universal Service Board and is a state commission member of the FCC appointed North American Numbering Council. He is also a member of the Federal Communications Bar Association and the Public Utility, Communications and Transportation Law Section of the American Bar Association.

Commissioner Clayton recently received the UMKC Law Foundation Decade Award for Achievement in his first ten years of work following law school. He also is a past recipient of the President's Award from the Missouri Bar Association and the Kansas City Metropolitan Bar Association. Commissioner Clayton also serves as a board member for the Mark Twain Home Foundation.

Clayton received his Bachelor of Arts in History from Southern Methodist University in 1991 and earned his Juris Doctor from the University of Missouri-Kansas City in 1994.

Commissioner Clayton and his wife Erin have two daughters, Olivia and Paige.



LINWARD “LIN” APPLING

Commissioner

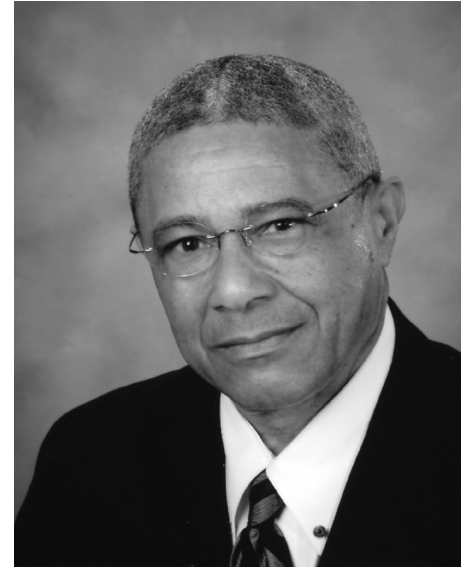
Lin Appling was born and raised in Roberta, Georgia to a family of 14. As a young man, inspired by Martin Luther King, Jr., Appling recognized his dream.

To pursue it, he joined the military, going on to serve in some of the most prestigious and elite units in the Army. After earning the U.S. Army Legion of Merit for meritorious service and the Bronze Star Medal for service in Vietnam, he retired as a Lieutenant Colonel. While in the Army, he received his Bachelor of Arts in Business and Social Science from Coker College, Hartsville, South Carolina and a Master of Arts in Political Science and Public Health Administration from Wichita State University, Wichita, Kansas.

Appling has since served Missouri State Government in several administrative positions. In January 1993, he was appointed by Governor Mel Carnahan to serve as his Deputy Chief of Staff for Constituent Services. In August 1993, he accepted the position of Director of Facilities Management with the Office of Administration and in March 1995, he was appointed by Secretary of State Bekki Cook as Executive Deputy Secretary of State. In December 1999, he returned to the Office of Administration as Special Assistant to the Commissioner and later returned as the Director of Facilities Management. On April 6, 2004, he was appointed by Governor Bob Holden as one of five Commissioners to the Public Service Commission. Appling strongly believes in the mission of the Public Service Commission - a job he takes seriously and works hard to achieve a balanced outcome for the consumers as well as the utilities.

He has been affiliated with the Capital City Boys & Girls Club since its inception in the early 90's. Appling truly feels that it is his mission to build passion within young people, adults, the community and this country.

Appling's lifelong dream has always been to help others reach their goals and his achievements are an example of what you can do if you know what you want, work hard, believe in yourself and don't quit!



BUDGET

Fiscal Year 2007**Public Service Commission**

Personal Service	\$ 9,795,084
Expense and Equipment	2,525,956
Refunds	10,000*
Total	<u>\$ 12,331,040</u>

Full-Time Employees (F.T.E.)	193
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**Deaf Relay Service and
Equipment Distribution Program**

\$ 5,000,000

F.T.E.	0
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Manufactured Housing Dept.

Personal Service	\$ 321,805
Expense and Equipment	145,089
Program Specific Distribution and Refunds	17,935*
Total	<u>\$ 484,829</u>

F.T.E.	7.5
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TOTAL BUDGET**\$ 17,815,869****F.T.E.****200.5**

Budget includes program specific distributions.

* estimated appropriation

Organizational Functions

Executive Director

Wess Henderson, Executive Director



As appointing authority, the Executive Director directs the management, administration, operations, and work product of the Missouri Public Service Commission, consisting of five distinct divisions, comprised of attorneys, accountants, engineers, economists and other professional staff; who support the Commission by providing legal and technical expertise. Responsible for leading the agency's strategic planning; technical and administrative policy and procedure development and implementation; and budgeting process. Ensures work product of professional and technical staff meets or exceeds substantive standards within prescribed deadlines. Serves as liaison between the Commissioners and staff, between the Commission and the Department of Economic Development and serves as a primary contact with external entities as appropriate.

Administration and Regulatory Policy Division

Dana K. Joyce, Director



The Administration Division is responsible for managing the Commission's human, fiscal and information resources. The division has agency-wide responsibilities for the annual budget, strategic planning, fiscal services and procurement, human resources, payroll, information and technology services and training. The division houses the Consumer Services Department, is the clearinghouse for all utility consumer inquiries, and investigates and responds to complaints to ensure compliance with Commission rules and utility tariffs. When a consumer has an issue that is not satisfactorily resolved after an initial contact with the utility, the consumer may call the PSC consumer hotline 1-800-392-4211 for assistance. The Regulatory Policy and Public Information Department, another unit of the division, develops and distributes press and consumer information on current PSC activities, develops educational materials, maintains the PSC Reports, and deals with media requests. The Legislative Coordinator, the agency's primary contact person with the General Assembly, is also assigned to this division.

Adjudication Division

Colleen M. Dale, Secretary/Chief Regulatory Law Judge



The Adjudication Division is the PSC's quasi-judicial division. A staff of regulatory law judges handles cases from their filing until their resolution. The assigned Judge presides over the hearings, rules on objections and motions, and drafts all orders, as directed by the Commission, for that particular case. The Adjudication Division's Data Center receives all incoming pleadings and issues all Commission orders. In addition, the Data Center maintains and preserves the official case files, tariffs and other official documents of the Commission.

General Counsel

Kevin M. Thompson, General Counsel



The General Counsel is authorized by statute to represent the Commission in all actions and proceedings, whether arising under the Public Service Commission Law or otherwise. Attorneys of the General Counsel's Office appear in state and federal trial and appellate courts on behalf of the Commission and represent the Commission's Staff in administrative matters before the Commission. The General Counsel also provides legal advice to the Commission and each Commissioner as requested, as well as to the Commission's Staff.

When authorized by the Commission, the General Counsel seeks civil penalties from persons or companies that have violated the Public Service Commission Law or the Commission's regulations or orders. The General Counsel's Office also appears for the Commission before various state and federal administrative tribunals, such as the Federal Communications Commission and the Federal Energy Regulatory Commission.

Utility Operations Division

Warren Wood, Director



The Utility Operations Division is comprised of four departments: Telecommunications; Energy; Water and Sewer; and Manufactured Housing. It supports the Commission in meeting its statutory responsibilities by providing technical expertise in safety; utility rates, tariffs, rules and regulations; economic analysis; engineering oversight and investigations; and construction inspections. The Manufactured Housing Department is governed by Sections 700.010-700.692 of the Revised Statutes of Missouri. This department is responsible for overseeing the annual registration of dealers and manufacturers of manufactured homes and

modular units; prescribing and enforcing uniform construction standards by conducting code inspections; and enforcing tie-down requirements. The division accomplishes its mission by making recommendations to the Commission in the form of expert testimony, formal recommendations, and presentations.

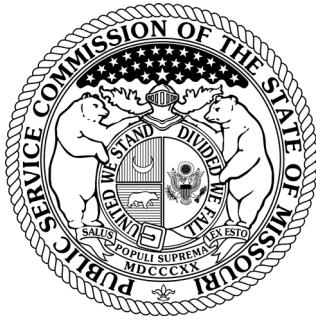
Utility Services Division

Robert Schallenberg, Director



The Utility Services Division consists of five departments that support the Commission by providing expertise in the areas of utility accounting, auditing, engineering, finance, management, and natural gas procurement. Division members perform audits, examinations, analysis, and/or reviews of the books and records of the utilities providing service in Missouri. These employees express their conclusions and findings in the form of expert testimony and recommendations filed with the Commission. The division is also responsible for investigating and responding to consumer complaints and making recommendations to the

Commission regarding their resolution.



Mission

The Missouri Public Service Commission (PSC) regulates investor-owned public utilities operating in Missouri. The PSC has the statutory responsibility for ensuring that customers receive adequate amounts of safely delivered and reasonably priced utility services at rates that will provide the companies' shareholders with the opportunity to earn a reasonable return on their investment. The PSC must balance a variety of often competing private interests to ensure the overall public interest.

Jurisdiction and Goals

The Missouri Public Service Commission was created in 1913 by the Public Service Commission Law, now Chapter 386 of the Missouri Revised Statutes. Today, the PSC regulates over 800 investor-owned electric, natural gas, steam, telephone, and water and sewer utilities. In addition, the PSC regulates the state's 47 rural electric cooperatives and 42 municipally-owned natural gas utilities for operational safety. The PSC also regulates the manufacturers and dealers of manufactured homes and modular units.

The PSC also oversees service territory issues involving investor-owned electric utilities, rural electric cooperatives and municipally-owned electric utilities as well as investor-owned water and sewer utilities and public water supply districts. Under federal law, the PSC acts as a mediator and arbitrator of local telephone service disputes regarding interconnection agreements.



PSC Commissioners meet in agenda sessions--open to the public--to discuss, consider evidence and vote on pending utility cases.

Virtually every Missouri citizen receives some form of utility service from an investor-owned public utility company. Utility services and infrastructure are essential to the economy of Missouri. They provide heating and cooling during extreme temperatures. They offer access to emergency services and vital information systems. They provide safe drinking water and assure the environmentally sound disposal of wastewater. Because utilities fulfill these essential needs, the PSC must assure the ratepaying public that quality services will be available on a nondiscriminatory basis at just and reasonable rates.

Commissioners

The PSC consists of five commissioners who are appointed by the Governor with the advice and consent of the Missouri Senate. The Governor designates one member as the Chairman who serves in that capacity at the pleasure of the Governor.

Commissioners are appointed to six-year terms. These terms are staggered so that no more than two terms expire in any given year.

The PSC is both quasi-judicial and quasi-legislative. The PSC is responsible for deciding cases brought before it and for the promulgation of administrative rules and their enforcement. Many of the PSC's duties are performed by conducting hearings in contested cases, which by statute must be transcribed by a court reporter. Hearings are conducted in a trial-like setting using evidentiary standards under the Missouri Administrative Procedures Act. The PSC must render decisions in a timely manner to afford all parties procedural and substantive due process, and comply with statutory time limits.

The PSC Staff

The Commission is assisted by a staff of professionals in the fields of accounting, consumer affairs, economics, engineering, finance, law and management. Duties range from helping individual consumers with complaints to investigating multi-million dollar utility rate requests.

The Staff participates as a party in all cases before the PSC. It conducts audits of the books and records of utilities and makes recommendations to the PSC as to what type of rate increase, if any, should be granted. PSC Staff recommendations, like those filed by other parties to a proceeding, are evaluated by the Commissioners in reaching a decision in a complaint case or rate case. The PSC has established standards for safety and quality of service to which companies must adhere. Routine and special investigations of utilities are conducted by the PSC Staff to ensure compliance.

Legislation

In 2006, the General Assembly passed and the Governor signed the following new legislation relating to utility regulation:

SB 558 - Removes the termination date for experimental tariffs put in place by the Public Service Commission and gas corporations for schools. The tariffs in question provide for the aggregate purchase of natural gas for schools in the state. Such tariffs shall remain in effect unless they are terminated by the commission. This was a consent bill that was signed by the Governor on June 9, 2006.

SB 559 - Considers any municipality, governmental unit, or public corporation created under the laws of any state or the United States, a person. This bill allows districts or municipalities in other states, or public corporations formed in other states, to participate in Joint Municipal Utility Commissions “based” in Missouri. This was a consent bill that was signed by the Governor on June 9, 2006.

SB 1066 - Provides telecommunication companies subject to price cap regulation the opportunity to request a waiver from the Public Service Commission

and the requirement that tariffs be filed to reduce rates for any service in which the current rate exceeds the maximum allowable price. The request may be made in the event that the CPI for the preceding twelve months is negative. All revenues attributable to such a waiver shall be used for the purposes approved by the Commission to benefit local ratepayers including, but not limited to, expanded local calling scopes.

Regulatory Policy and Public Information

In Fiscal Year 2006, the Public Information and Education Department issued 238 press releases on Commission-related activities. During the past fiscal year, the Public Information and Education Department expanded its catalog of consumer fact sheets designed to provide information to ratepayers. The department currently has a library of 40 different fact sheets. In its fifth year, the department’s quarterly “*Consumer Connection*” newsletter provides utility-related information pieces for consumers.

The department provides key support during local public hearings by facilitating an open question-and-answer session prior to the actual local public hearing. This allows consumers the opportunity to ask questions about a rate case before the Commission. The department produces detailed information sheets that are used at these local public hearings.

The Public Information and Education Department also operates a list service, which allows the media and consumers to receive press releases and other consumer information electronically as soon as they are issued.

Each year, the Public Information and Education Department coordinates the Public Service Commission booth at the Missouri State Fair in Sedalia. The booth gives consumers from across the state an opportunity to speak one-on-one with PSC Staff about any utility questions and/or problems.

Since 2001, the department has visited local schools, talking to elementary students about how to be safe around electricity.

Practice Before the Commission

The Adjudication Division is comprised of the Data Center and the Regulatory Law Judges. The Division Director is both the Secretary of the PSC and the Chief Regulatory Law Judge. The Secretary is statutorily responsible for the records of the PSC and is specifically called upon to oversee the issuance of all PSC orders.

The Data Center is responsible for maintaining a complete and accurate record of every case that comes before the PSC. This department receives thousands of documents per month, each one of which must be reviewed, distributed and maintained in the electronic permanent case file. The Data Center also distributes hundreds of notices and orders each month.

The Chief Judge acts as the supervisor of the other seven Regulatory Law Judges. The RLJ's receive training at the National Judicial College and at various utility seminars and conferences.

The RLJ assigned to a case prepares and issues procedural orders to provide notice and due process, so all parties have the opportunity for a full, fair and impartial hearing. The RLJ ensures the creation of a complete and competent record upon which the PSC may base its decision. Pursuant to the instructions and substantive guidance from the Commission, the RLJ writes the decision and remains responsible for the case through the effective date of the final order.

The Hearing Process

The Commission holds evidentiary hearings that are similar to a court proceeding, in which witnesses are sworn, testimony is given and a court reporter records the proceedings. As an administrative case, the rules of evidence are not adhered to strictly, but are used in determining whether testimony should be stricken or whether an objection should be sustained. In addition, counsel for parties make arguments and formal statements to the Commission and file briefs after the hearing. The Commission bases its decision on the record in the case.

The Commission holds hearings on all manner of disputes between utilities or between utilities and ratepayers. It also hears cases on rate changes, complaints brought by the Staff or the Public Counsel

and other matters related to the provision of utility service in Missouri. Depending on the nature of the dispute and the complexity of the issues, the hearing can be completely live, with witnesses called to testify; can involve pre-filed written testimony on which the witnesses are cross-examined at hearing; or the case may be submitted with all the facts agreed to, so that the Commission hears only arguments about the law. The Commission also holds local public hearings, giving members of the community an opportunity to express their opinions. Local public hearings are generally held in rate cases, rule proposals, service complaint cases or other cases in which input from the public will assist the Commission in making its decision.



Law Judge Morris Woodruff reviews testimony.

The Mediation Process

Some of the Judges have been trained as mediators. If parties request mediation, a judge other than the one assigned to the case will meet with the parties and facilitate negotiations in the hope that the case can be resolved by mutual agreement. In the past, mediation was provided by an outside mediator, but those tended to be fruitless since the mediator knew little or nothing about utility law. Process improvement led to the additional training of judges to be in-house mediators, which has met with greater success.

The Rate Making Process

Before a regulated utility can change a rate or service, it must file a tariff with the new rates with the Commission. For electric or natural gas utilities, the traditional process includes the tariff and testimony in support of the rate change. The Commission, in setting or altering rates, must consider all relevant factors, so the case usually encompasses all of the regulated aspects of the utility's business. When issues are complex, the Commission suspends the proposed tariffs for a specified period; existing rates remain in effect during that period. By law, the Commission has 11 months from the date the case is filed to make a decision on the proposal.

In response to the utility's rate case filing, the PSC Staff will independently investigate the company's books and records and file testimony in support of or against the proposed rate change. Intervenors, such as the Public Counsel, consumer groups, or industrial customers, become parties to the rate case and file testimony in support of or against the proposed rate change as well. Parties meet for pre-hearing conferences to discuss settlement of any or all issues in the case, to discuss the mechanics of the case (such as deadlines or presentation order) and to settle on a list of the issues to be determined in the case. If the parties do settle any or all issues, the Commission will review the agreement to ensure that it is reasonable and in the public interest.

After the hearing and legal briefing, the Commission will meet and determine which, if any, rates may change. The Commission will only authorize rate changes that are fair and reasonable. The company must be allowed the opportunity to make enough money to meet reasonable expenses, pay interest on debts, and provide a reasonable return to stockholders. The Commission issues its decision through a written report and order. That order is subject to appeal to a court by any of the participants in the case, except the Public Service Commission Staff.

Other Rate Procedures

Many telecommunications providers in Missouri are 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.

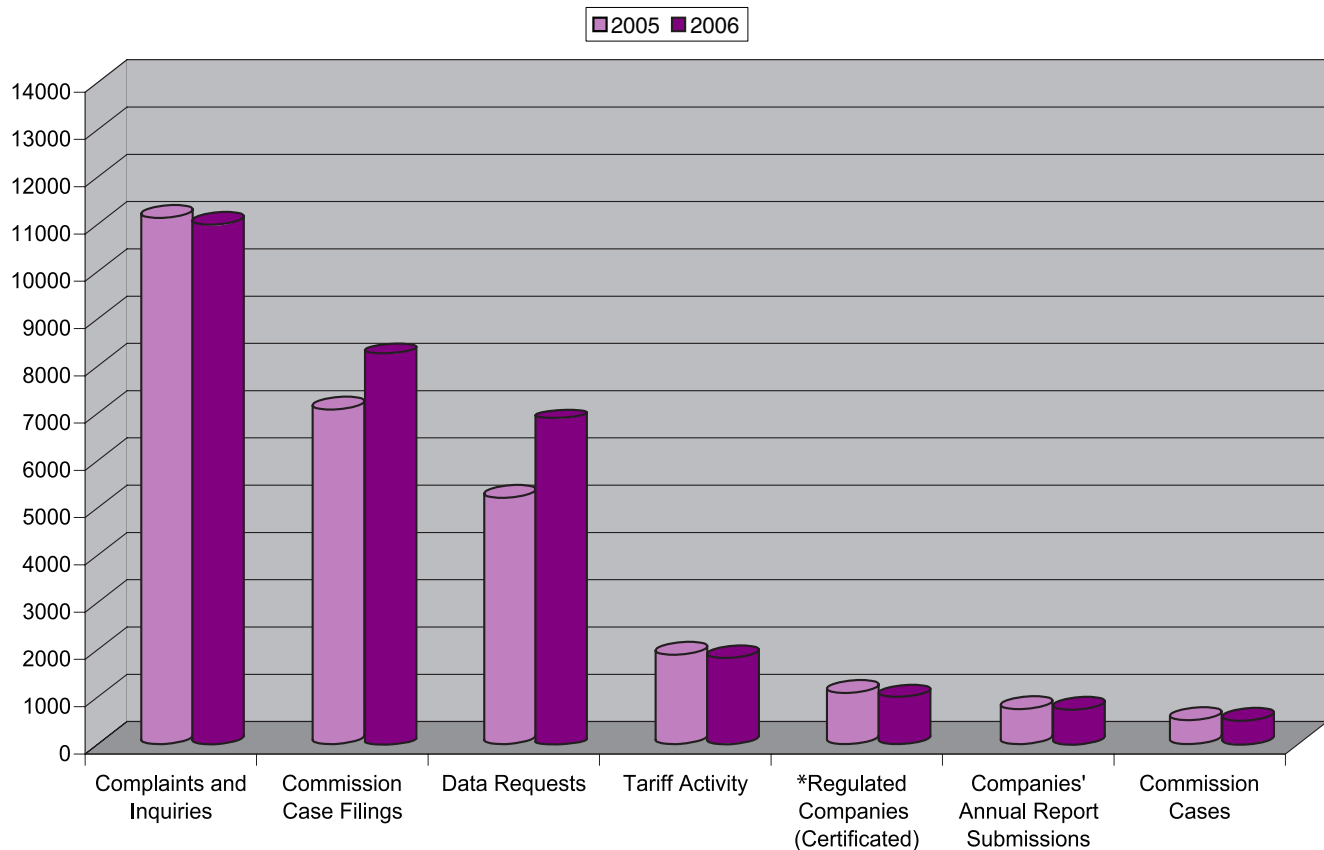
Special rules apply for water and sewer companies with fewer than 8,000 customers in Missouri, which can seek rate changes informally (larger companies must use the rate case procedure). The PSC does not regulate the rates of municipal utilities, utility cooperatives, public water supply or sewer districts,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

Utility Issues

Missouri PSC Authorized Number of Employees vs. Workload (2005-2006) Figures Quoted as of 09-13-2006

FY2005 Staffing = 217 FTE

FY2006 Staffing = 200.5 FTE



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

NATURAL GAS

Commission Warns Consumers Of High Natural Gas Prices

On August 26, 2005, the Public Service Commission issued a media alert expressing its concern over high wholesale natural gas prices and the effect that those prices will have on the heating bills of Missourians.

Natural gas prices at that time were higher than they ever had been for that time of the year. September futures prices were over \$9.75 per 1,000 cubic feet of gas, an increase of over \$2.50 from early July 2005. In addition, futures prices for December, January and February were over \$10.00.

While the Public Service Commission does not control the price that wholesale suppliers charge local natural gas companies for natural gas, the Commission continued to express its concern over those prices and the impact that they have on natural gas bills.

As part of its media alert, the Commission listed several ways that consumers can reduce their energy usage by winterizing their homes.

Emergency Changes Made To Cold Weather Rule

The Public Service Commission ordered an emergency amendment to its Cold Weather Rule on December 13, 2005, in light of high wholesale natural gas prices. The emergency amendment applied to all local natural gas companies and expired on March 31, 2006.

PUBLIC SERVICE COMMISSION

The emergency amendment provided for more lenient payment terms for reconnection of service or to avoid disconnection of service for nonpayment for those customers who defaulted on a previous Cold Weather Rule payment agreement.

In addition, the emergency amendment provided that:

- ✓ If a customer complied with his/her Cold Weather Rule payment plan, late payment and interest charges would be deferred;
- ✓ Any customer, including those who may have arrears, could immediately enroll in a budget billing plan;
- ✓ A customer entering into a Cold Weather Rule payment plan and who complied with the terms of the plan, would be treated, on a forward going basis, as a customer who had never defaulted on a Cold Weather Rule payment plan;
- ✓ Any customer who called the natural gas company and indicated that he/she was having difficulty paying his/her bill, would be informed of all their options under the emergency amendment; and
- ✓ Natural gas companies were allowed to collect expenses associated with the emergency amendment.

In May, the Commission proposed permanent changes to the Cold Weather Rule to assist Missouri consumers with high heating bills. The proposed changes incorporated many of the changes made to the rule on an emergency basis in December of 2005.

The Cold Weather Rule establishes requirements for providing utility service during the heating season.

Commission Receives Report On Natural Gas Purchasing

More than 95% of Missouri consumers who received natural gas from a Missouri Public Service Commission regulated utility were being served by a company that hedged 50% or more of its normal winter supplies against exposure to market prices during the winter of 2005-2006. However, those numbers did not reflect the significant disparities in hedging percentages and the mechanisms used to hedge natural gas supplies. Those were some of the findings in a report filed by a working group named by the Public Service Commission to receive detailed information from local natural gas companies on

what they did to soften the impact of rising wholesale natural gas prices during the 2005-2006 winter.

According to the report, on or before November 1, 2005, AmerenUE and Aquila had hedged a high percentage, 80% or more, of their expected heating season needs. Laclede, Atmos and Missouri Gas Energy hedged in the 50% to 60% range. Southern Missouri Gas, Missouri Gas Utility and Fidelity Natural Gas did little or no hedging by November 1, 2005.

The report also recommended the Commission consider several changes to its natural gas volatility rule in light of changing conditions in natural gas markets.

Wholesale Natural Gas Prices Drop, Reductions Ordered

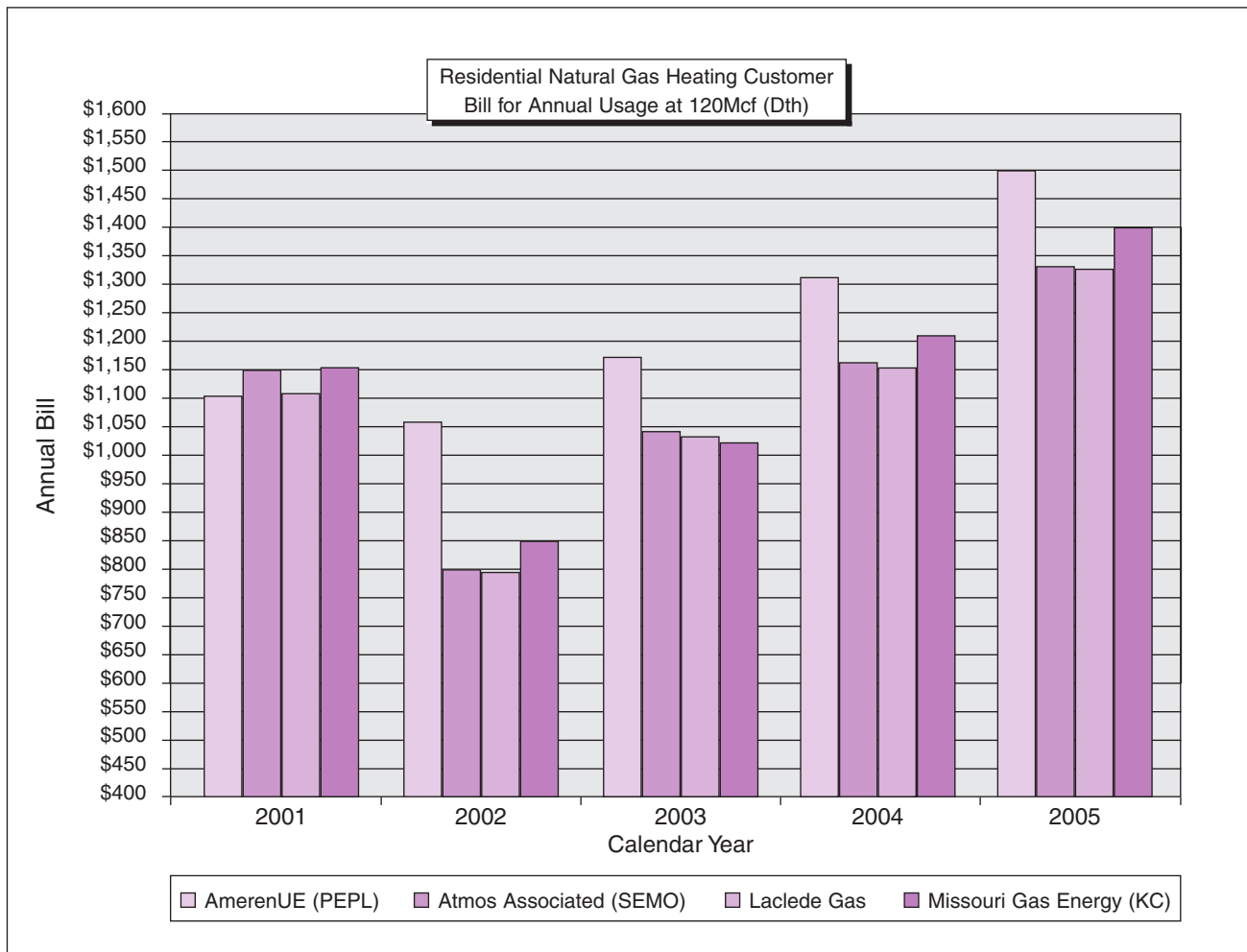
In January and February of 2006, wholesale natural gas prices dropped and natural gas companies under Commission jurisdiction made filings with the Commission which sought to reduce the natural gas rates of its customers to reflect wholesale supplier changes.

In order that customers received the immediate benefits of those reductions, the Commission ordered that those reductions take effect much quicker than the customary 10 day review process. Commissioners and PSC Staff worked diligently to review those filings and ensure that those reductions were passed on to consumers as quickly as possible.

Laclede Gas Company's Rate Case

On February 18, 2005, Laclede Gas Company filed revised rate schedules designed to increase Laclede's annual revenues by approximately \$34 million exclusive of amounts currently being recovered by Laclede through its Infrastructure Replacement Surcharge (ISRS). A typical residential customer's bill would have increased by about \$4.02 per month if the company's request were granted in full.

Laclede stated that the proposed increases were needed to cover increased costs related to operating and maintenance expenses; costs associated with the additional investment in gas distribution facilities not covered by the ISRS filings; and the purchase of gas inventories required to serve its customers. Laclede's filing also reflected the Company's perception of the impact of revising certain ratemaking practices that



previously reduced the level of financial resources available to carry out Laclede's public service obligations.

On September 29, 2005, the Commission approved an agreement reached by parties in this case which cut Laclede's rate request by approximately 75%, resulting in an increase of approximately \$8.5 million. For a residential customer using 961 therms of natural gas a year, the increase was approximately \$1.05 a month.

The agreement approved by the Commission included annual funding of approximately \$1 million for an experimental weatherization/low-income program.

Missouri Gas Energy's Rate Case

On May 2, 2006, Missouri Gas Energy (MGE) filed a rate request seeking to increase annual revenues by approximately \$41.7 million. A typical residential customer's bill would increase by about \$6.52 per month if MGE were granted 100% of its requested

increase. MGE stated that the proposed increase was needed to cover increased costs of providing service to customers.

The Commission held a number of local public hearings in MGE's service area in the fall of 2006 to receive customer comment on the rate request and to hear any service related problems. Formal hearings in this case are scheduled for January 2007.

Atmos Energy's Rate Case

On April 7, 2006, Atmos Energy (Atmos) filed a rate case seeking to increase annual natural gas revenues by approximately \$3.4 million. A typical residential customer's bill would increase by about \$4.68 per month if the Atmos' request is granted in full.

Atmos stated that the proposed increases were needed to cover increased operating costs and investments to maintain service reliability and safety to its customers. Atmos also stated that the increase

PUBLIC SERVICE COMMISSION

in rates is related to an approximate \$22 million investment in its gas delivery system and a rate structure that will enable Atmos Energy to continue to provide safe and adequate service to its customers. Atmos wants to consolidate its tariffs from three companies into one system.

The Commission held five local public hearings in Atmos' service area in late September to receive customer comment on the rate request. Local public hearings also give customers of the company an opportunity to bring any service related problems to the Commission's attention.

PSC Staff Complaint Against Missouri Pipeline Company and Missouri Gas Company

In April of 2006, the Staff of the Missouri Public Service Commission filed a complaint alleging Missouri Pipeline Company (MPC) and Missouri Gas Company (MGC) rates are excessive and should be cut. In that filing, Staff sought to reduce current rates by approximately \$3.8 million.

The rates for transporting natural gas by MPC and/

or MGC are passed on to consumers of AmerenUE in the service areas of Wentzville, Rolla, Salem and Owensville; all of Laclede Gas Company customers; the municipal natural gas systems of St. Robert, Cuba, St. James and Waynesville; and Fort Leonard Wood.

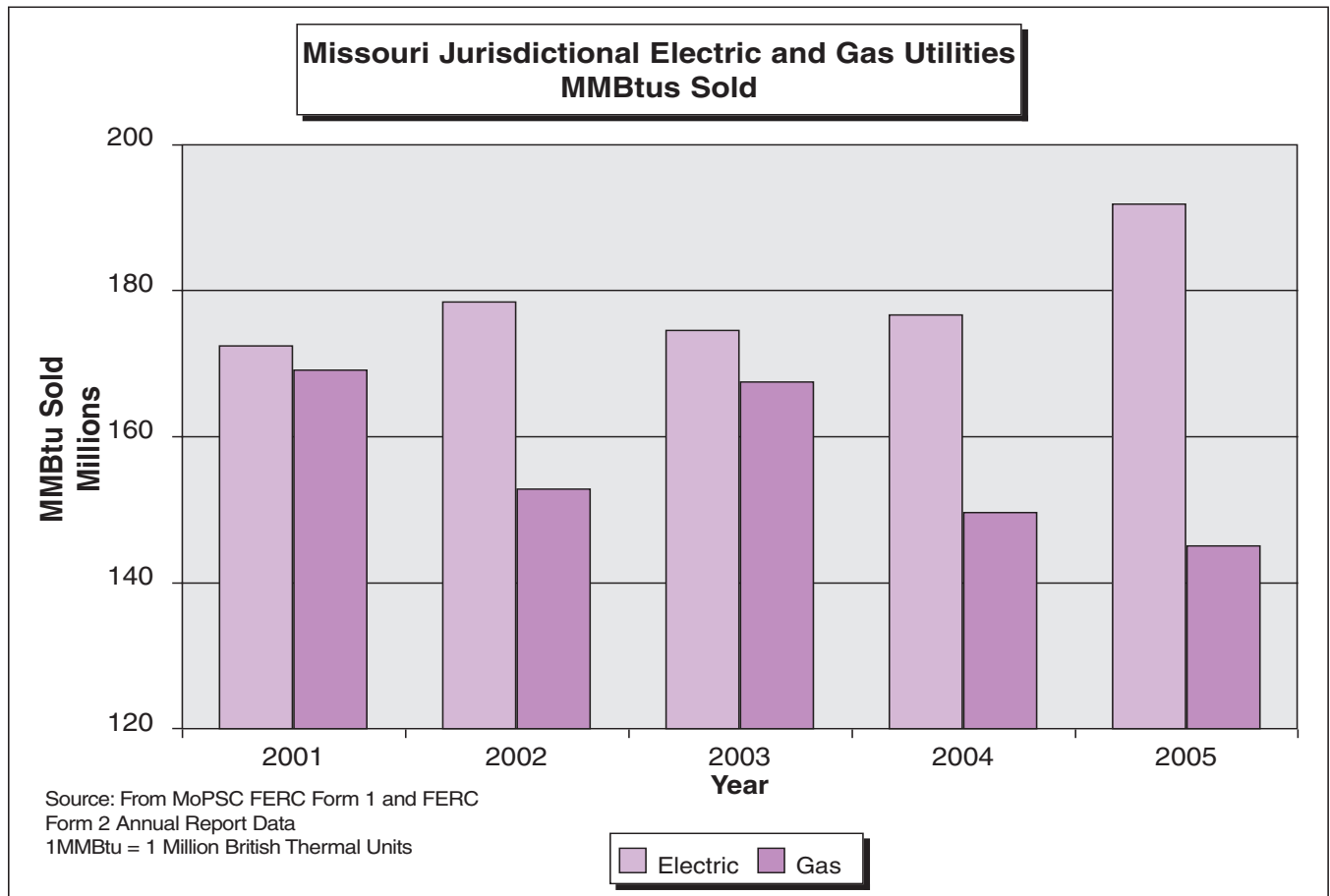
The Staff complaint also addressed operational issues, alleging that affiliated companies have asserted control over MPC and MGC property and operations, and that these affiliates should therefore be under Commission jurisdiction. Staff seeks Commission approval for the General Counsel to go to circuit court to seek monetary penalties for these alleged violations.

This case is currently pending before the Commission.

PSC Staff Files Complaint Against Laclede Over Estimated Billing

In February 2006, the Staff of the Public Service Commission filed a complaint against the Laclede Gas Company alleging the Company violated Commission rules regarding estimating customer natural gas bills.

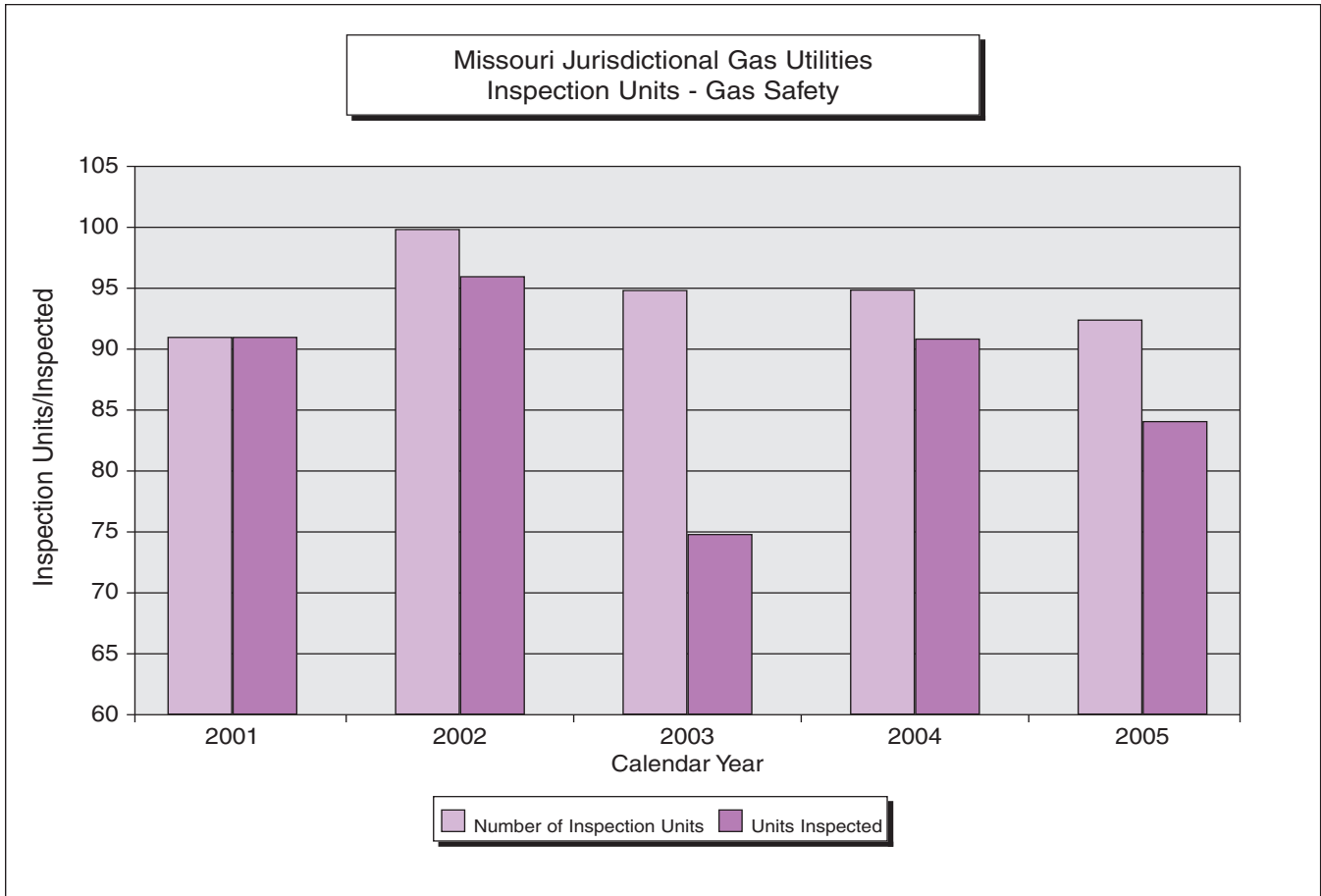
The complaint alleges Laclede Gas Company failed



to provide in a timely manner the required notification that estimated bills may not reflect actual usage and that the customer may read and report usage on a regular basis. Staff alleged that Laclede had also failed to attempt to secure an actual reading at least annually.

The Commission was to hold hearings in this case in early November 2006.

The Empire District Electric Company, the PSC Staff and the Office of the Public Counsel which authorizes EDG to acquire the natural gas system of Aquila, Inc. d/b/a Aquila Networks –MPS and Aquila Networks L&P. Aquila Inc. provided natural gas service to approximately 48,500 customers in Missouri.



Mergers

In February 2006, the Commission approved an agreement reached by Laclede Gas Company, the PSC Staff and the Office of the Public Counsel which authorizes Laclede to acquire Fidelity Natural Gas Company. Fidelity Natural Gas Company provided natural gas service to approximately 1,300 customers in Sullivan, Missouri.

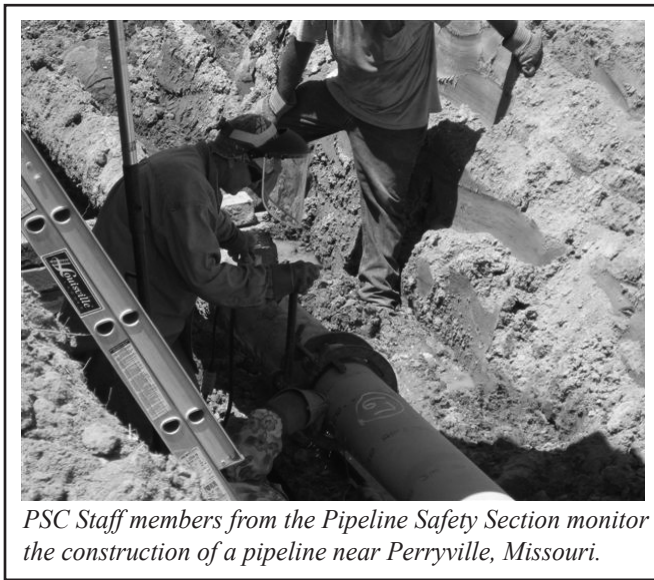
In April 2006, the Commission approved an agreement reached by The Empire District Gas Company (EDG), a wholly owned subsidiary of

NATURAL GAS SAFETY

Gas Safety/Engineering Activities

The Commission’s pipeline safety program is carried out by the Gas Safety/Engineering Staff of the Utility Operations Division’s Energy Department. The 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 intrastate transmission pipelines, seven investor-owned natural gas distribution utilities, 42 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 over 90 separate units for inspections, which include approximately 900 miles of transmission pipelines, 26,000 miles of mains, and approximately 1.5 million service lines.



PSC Staff members from the Pipeline Safety Section monitor the construction of a pipeline near Perryville, Missouri.

Missouri Association of Natural Gas Operators

The Missouri Association of Natural Gas Operators (MANGO) 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.

MANGO works with the PSC to review existing regulations, clarify interpretations and provide support in developing new regulations. The goal is to work together to address operations, maintenance, and emergency response issues, as well as potential hazards (such as directional drilling, defective materials, and other issues) and to foster continuing dialogue to operate Missouri natural gas systems as safely as possible.

The PSC and MANGO hold quarterly meetings to stay current on issues/trends in the industry and

other issues affecting the operators' operations. In addition, the PSC and MANGO sponsor an annual pipeline safety seminar to help train and educate operators on a wide variety of pipeline and pipeline safety issues, including installation, operations, maintenance, emergency response, and products used in the industry.

FEDERAL NATURAL GAS ACTIVITIES

Decisions by the Federal Energy Regulatory Commission (FERC) directly impact Missouri ratepayers since Missouri's natural gas utilities and some electric utilities must use FERC-regulated interstate pipelines for delivery of their natural gas supplies. The PSC believes its involvement in FERC and related judicial proceedings is necessary to ensure that Missouri natural gas consumers receive reliable service at reasonable rates.

There are 10 interstate pipelines directly serving Missouri, with an additional 4-6 upstream pipelines used by Missouri utilities. The PSC actively participates in company-specific and generic proceedings, focusing on those having the greatest impact to Missouri and/or those where representation of Missouri interests is limited or absent. The three pipelines delivering a majority of the state's natural gas are: Southern Star Central Gas Pipeline Inc. (SSC), Centerpoint Energy-Mississippi River (MRT), and Panhandle Eastern Pipe Line Company, LP (Panhandle). SSC serves western Missouri, including the Kansas City, St. Joseph, Springfield and Joplin areas and has a small lateral terminating in St. Louis. MRT serves St. Louis and portions of southeast Missouri. Panhandle serves a number of systems across the central part of the state.

Kansas Ad Valorem Tax Refunds

Since 1989, the PSC has aggressively sought refunds of Kansas ad valorem taxes unlawfully collected from SSC and Panhandle consumers between 1983 and 1993. As a result of those efforts, Missouri ratepayers have received \$63 million in refunds — \$13 million during 1994-95, \$7.3 million during 1998-99, \$1.5 million during 2000-01, \$40.8 million during 2003-04, and \$0.4 million during 2004-05. All significant FERC dockets relative to these refunds are now completed. In February 2006,

the PSC reached a settlement agreement that resulted in a refund of approximately \$39,000 for Missouri consumers. The PSC continues to pursue certain unpaid refunds amounting to \$0.7 million, which FERC and other parties have deemed uncollectible.

Southern Star Central Gas Pipeline Inc. (SSC)

The PSC filed a protest to SSC's annual filing to set its fuel rate and Lost-and-Unaccounted-for-Gas (LUG) rate (RM06-129). Although SSC sought to reduce its rates for its transmission services, it sought to increase the rate for storage services reflecting an increasing trend of higher lost gas from storage. Several local gas distribution companies in Missouri acquire gas storage services from SSC. The outcome of the protest is still pending.

Centerpoint Energy-Mississippi River (MRT)

The PSC filed a protest to MRT's annual filing to set its fuel rate and LUG rate (RP05-691). The PSC's protest was based on MRT's failure to justify the LUG amount, and recommended to the FERC that, due to ongoing problems like this, MRT should initiate a fixed fuel and LUG rate. MRT responded to the PSC protest by providing enough information to allay the concerns and the case was settled in April 2006.

Panhandle Eastern Pipeline Company (PEPL)

The PSC filed a protest to PEPL's annual filing to set its fuel rate and LUG rate (RP05-700). The PSC's protest was based on PEPL's failure to adequately support the field-zone fuel rate. Based on a response by PEPL to the PSC's protest, the FERC ruled in favor of PEPL and dismissed the PSC protest. The PSC filed for a rehearing of the dismissal stating that (1) FERC failed to consider the issue presented by the MoPSC of an inaccurately calculated trendline, (2) FERC had not provided adequate support for its decision in light of the inaccurate trendline, and (3) requested a tariff change to clarify the methodology of calculating the trendline in the future. The request for rehearing was denied by the FERC in April 2006.

Missouri Interstate Gas (MIG)

The PSC filed a protest of the cost and revenue study filed by MIG to justify continuing its rates in May 2005 (RP06-274). The protest requested

discovery and technical conference procedures, and requested MIG be required to reduce its maximum tariff rates effective April 2006, with revised interim rates being subject to refund and the final outcome of this proceeding. This docket is still active at FERC.

At the end of June 2006, MIG along with two affiliated interstate pipelines, Missouri Gas Pipeline (MGC) and Missouri Pipeline Company (MPC), requested FERC to recognize the three pipelines as one interstate pipeline regulated by FERC (CP06-407-000, CP06-408-000 and CP06-409-000). Currently, the two affiliated pipelines are regulated by the PSC. The PSC filed in July 2006 to intervene in this proceeding. These dockets are pending at FERC and should have resolution in 2006.

The PSC also filed in the Cole County Circuit Court for a preliminary and permanent injunction against MIG, MGC and MPC's FERC applications. In response to the PSC filing in the Cole County Circuit Court, MIG, MGC and MPC filed at the Federal Court of the Western District asserting federal jurisdiction. These dockets are pending and should also have resolution in 2006.

Laclede Pipeline Company (LPC)

The PSC filed a protest to LPC's filing with the FERC to establish a common carrier tariff detailing services and rates with FERC for its liquefied petroleum gas (LPG) service on its pipeline connecting its propane injection and storage to propane supply line in Illinois. The PSC sought rehearing on discriminatory pricing and over-recovery issues in the tariff, as well as the necessity of establishing such an interstate tariff at all. A court appeal has also been filed regarding these issues. This FERC docket and appellant court case are both pending.

Other Proceedings

Although focused predominantly on electric industry issues, the Federal Natural Gas Group assisted in analyzing the impact and the implementation of various aspects of the 2005 Federal Energy Policy Act (EPA), including the establishment of five new standards in Section 111 (d) of the Public Utility Regulatory Policies Act of 1978 ("PURPA") to encourage efficient use of energy, the development of renewable energy, and bringing distributed generation onto the electric grid; the development of long-term

firm transmission rights in organized energy markets; electricity transmission congestion studies and possible designations of National Interest Electric Transmission Corridors; and the preparation of a report to assess demand response resources including those available from all consumer classes, by appropriate region.

PROCUREMENT ANALYSIS

Natural Gas ACA Activities

There are seven natural gas local distribution companies serving Missouri – AmerenUE, Atmos Energy Corporation, Empire District Gas Company (previously Aquila), 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. 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 (PGA) filings the Company estimates its gas costs for the upcoming year. In the ACA, the estimate is reconciled with the actual cost of gas. In this function, the Procurement Analysis Department Staff reviews the gas purchases of the 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 gas supply, transportation, and storage capabilities. For this 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 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 2005/2006 winter and 2006/2007 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.

ELECTRIC

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 have benefited from low electric rates while receiving safe and reliable service.

The United States Energy Information Administration, a non-partisan office in the federal Department of Energy, annually ranks states according to their average rates in cents per kilowatt-hour. In 2005, Missouri electric rates for residential, commercial and industrial customers were better than the national average (please see tables on this page).

PSC Staff Issues Storm Report

AmerenUE responded in accordance with its emergency plan response to severe thunderstorms that hit AmerenUE's service territory on August 13, 2005, according to a report issued by the PSC Staff in October of 2005.

Staff made a number of recommendations for improvement including better education and communication between AmerenUE and city and county officials regarding the restoration of power. Staff also pointed out that the special needs of skilled care nursing facilities need to be addressed and mutual assistance agreements need to be maintained and evaluated by AmerenUE to determine the appropriate utilization of this resource.

In addition, Staff noted that more work needs to be done by the company on its automated calling restoration algorithm in order to provide a realistic estimate of outage time to the customer.

The PSC Staff report also recommended that AmerenUE continue its plan to eliminate the tree trimming backlog by 2008.

AmerenUE Vegetation Management field personnel estimated that 80 to 85 percent of the tree damage from the August 2005 storms was from trees located off AmerenUE easements.

RESIDENTIAL

State Name	Avg. Revenue (cents/kWh)	State Rank
Hawaii	20.66	50
New York	15.71	49
Vermont	13.63	48
California	12.00	41
U.S. Average	9.42	
Iowa	9.36	34
Mississippi	8.80	28
Illinois	8.34	21
Kansas	7.97	15
Arkansas	7.96	14
Missouri	7.08	7
Kentucky	6.41	3
Idaho	6.28	2
West Virginia	6.21	1

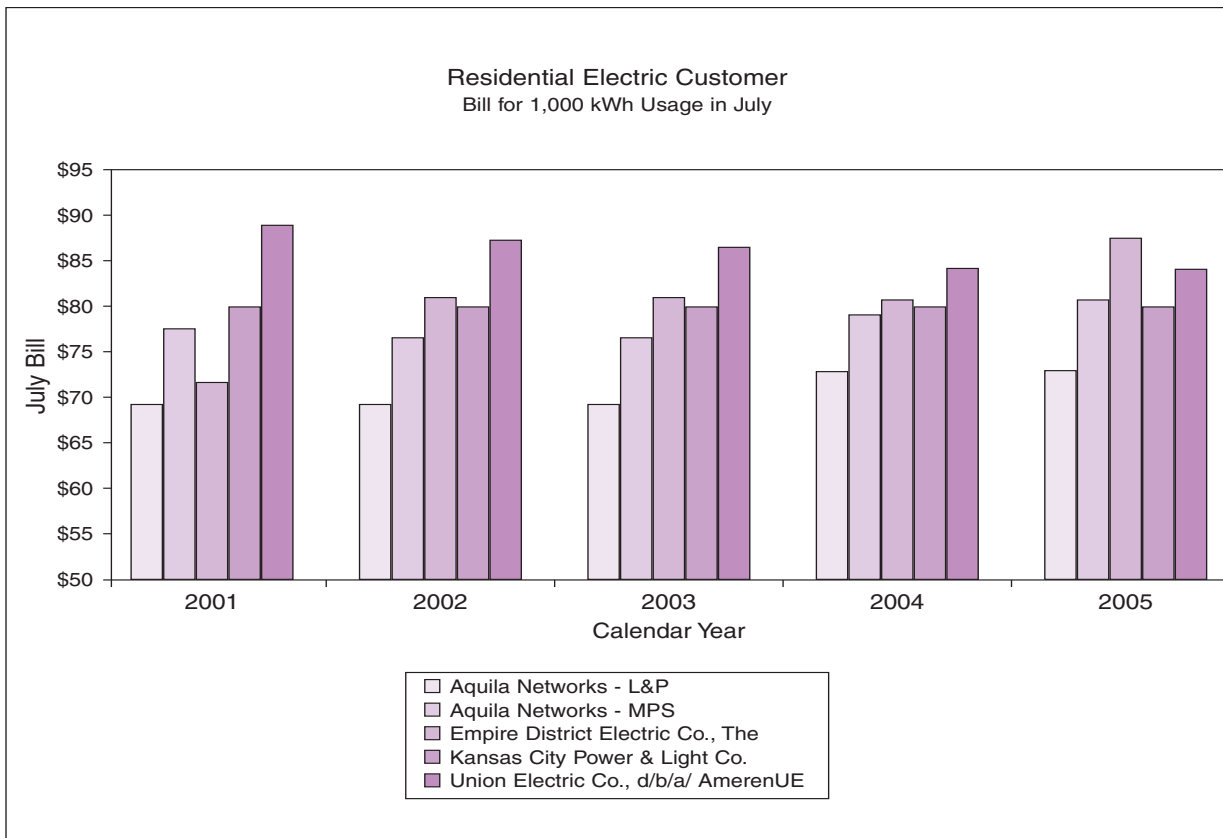
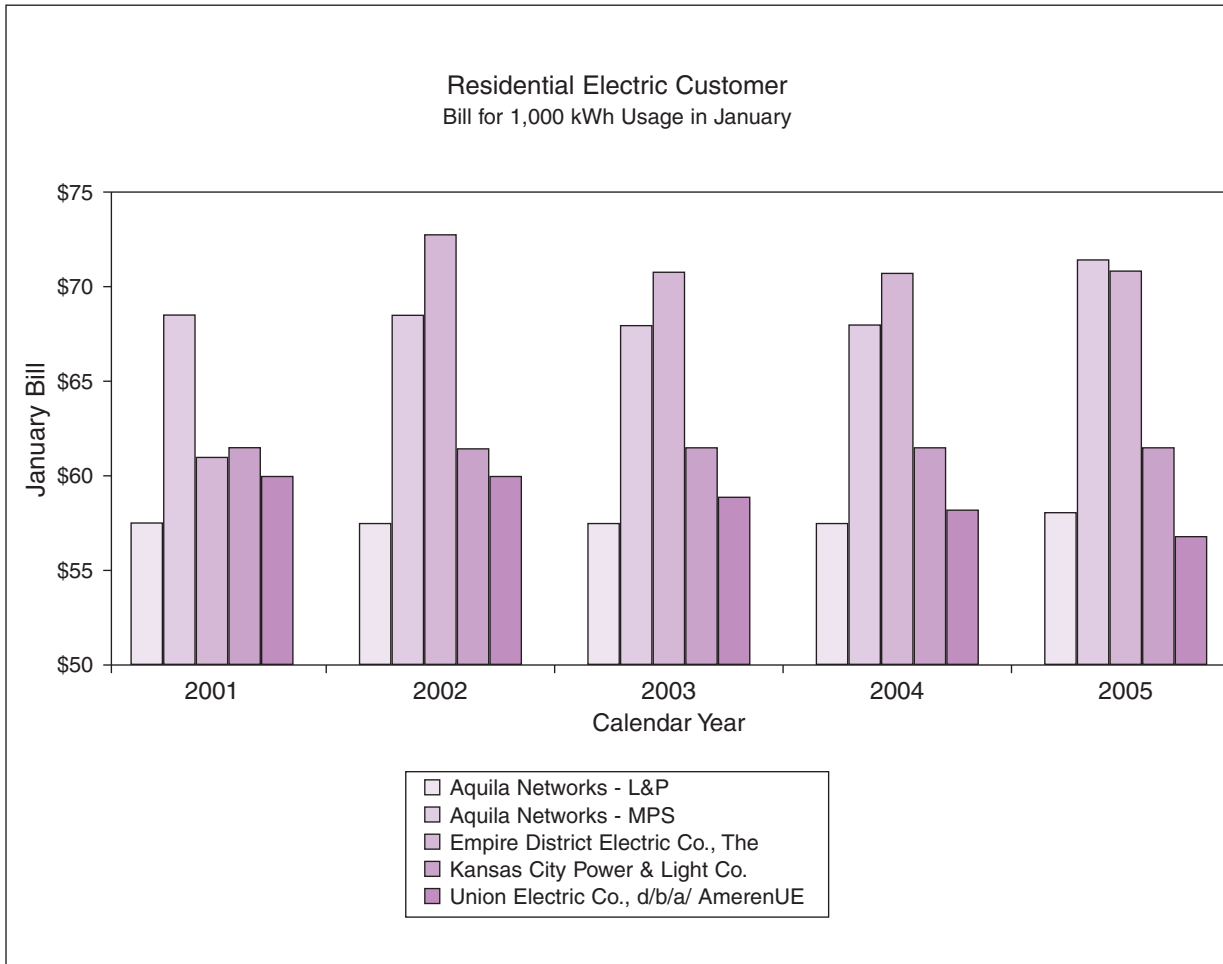
COMMERCIAL

State Name	Avg. Revenue (cents/kWh)	State Rank
Hawaii	18.99	50
New York	13.22	49
Massachusetts	12.82	48
California	11.86	46
U.S. Average	8.68	
Illinois	8.05	31
Oklahoma	7.02	19
Iowa	6.95	17
Kansas	6.66	15
Arkansas	6.18	10
Nebraska	5.95	5
Kentucky	5.92	4
Missouri	5.88	3
West Virginia	5.53	2
Idaho	5.39	1

INDUSTRIAL

State Name	Avg. Revenue (cents/kWh)	State Rank
Hawaii	15.76	50
New Hampshire	11.64	49
Rhode Island	10.02	48
California	8.60	43
U.S. Average	5.57	
Oklahoma	5.12	26
Kansas	4.92	22
Arkansas	4.65	18
Missouri	4.59	15
Iowa	4.57	14
Illinois	4.52	13
Nebraska	4.33	9
West Virginia	3.85	3
Kentucky	3.60	2
Maine	3.47	1

Source: US Energy Information Administration - 2004 data
Table 5.6.B, *Electric Power Monthly*, March 2005



Long-Term Energy Plans Approved For KCP&L and Empire District Electric

In July 2005, the Commission approved a long-term energy plan presented by Kansas City Power & Light, the Office of the Public Counsel, the PSC Staff and industrial users. The plan's design enables KCP&L to continue to provide safe and adequate service, while striking a reasonable and appropriate balance between the interests of customers and shareholders.

The plan includes:

- An 800-900 Megawatt coal-fired power plant (Iatan 2) near Weston, Missouri;
- Environmental upgrades to Iatan 1 and LaCygne 1;
- New wind generation;
- Various Efficiency and Affordability Programs for Customers; and
- Transmission and distribution system upgrades.

In August, the Commission approved a long-term energy plan presented by The Empire District Electric Company, the Office of the Public Counsel, the PSC Staff, Explorer Pipeline Company, Praxair, Inc. and the Missouri Department of Natural Resources. That plan includes:

- Empire's participation in an 800-900 Megawatt coal-fired power plant (Iatan 2);
- Environmental upgrades at Iatan 1;
- Environmental upgrades at Asbury, Missouri plant;
- A 155 Megawatt gas-fired peaking generating unit to be located at the Riverton generating station in Riverton, Kansas; and
- Various efficiency and affordability programs for customers.

Aquila Participation in Iatan 2 Approved

The Commission approved an agreement between Aquila, Inc., the Office of the Public Counsel, the PSC Staff and the Sedalia Industrial Energy Users' Association which enables Aquila to put in place construction financing related to its participation in Iatan 2 and environmental upgrades to Iatan 1.

The agreement allows Aquila to encumber its Aquila Networks-MPS division's assets as security for a five-year loan to be used solely for Aquila's participation in the construction of Iatan 2 and environmental upgrades at Iatan 1.

Resource Plan Filings

The electric utilities waiver from the Commission's Chapter 22 Electric Resource Planning rules ended on December 5, 2005 when AmerenUE filed documentation of its planning process. The Staff, Office of the Public Counsel and other intervenors have reviewed the filing and are currently negotiating with AmerenUE regarding areas that the parties disagree on whether or not AmerenUE has met the requirements of the rule. If the parties cannot come to an agreement, the Commission may hold a hearing to determine compliance with the resource planning rule.

Senate Bill 179

Senate Bill 179 (RSMo 386.266) was signed into law by Governor Matt Blunt on July 14, 2005, and took effect on January 1, 2006. This statute provides the Public Service Commission with the authority to implement rules for electric utility fuel and purchase power cost recovery periodic rate adjustments, between rate cases. The Commission Staff held a series of collaborative meetings to develop the rules to implement the fuel and purchase power mechanisms and a draft rule was published in the Missouri Register by the Secretary of State in July 2006. Public hearings were set for the end of August 2006 and the beginning of September concluding with a public hearing on September 7, 2006 in Jefferson City. Written comments were also accepted until September 7. The Commission will then determine what the final rule is based on the comments filed by all parties by November 15, 2006.

Electric Utility Participation in Regional Transmission Organizations

AmerenUE continues its participation in the Midwest ISO Regional Transmission Organization (RTO), which started up its day-ahead and real-time energy markets in April 2005. Kansas City Power & Light Company and The Empire District Electric Company applied for approval from the Commission to join the Southwest Power Pool RTO. The Commission approved the Stipulation and Agreement on June 13, 2006.

RATE INCREASES

Aquila

Aquila, Inc. d/b/a Aquila Networks – MPS and Aquila Networks – L&P filed on May 24, 2005, for a rate increase of approximately \$69.2 million a year for its Aquila Networks – MPS customers and \$9.6 million for its Aquila Networks – L&P customers. Aquila also requested a rate increase of \$5.0 million a year for its steam customers.

The Commission approved a Stipulation and Agreement on February 23, 2006. As a result of the Commission’s approval of the agreement, electric rates for Aquila Networks-MPS customers increased by approximately \$38.5 million and by approximately \$6.3 million for Aquila Networks-L&P customers. The interim energy charge (IEC) that had been included on all customer bills was also terminated as a part of the agreement. The rates went into effect on March 1, 2006.

The Commission also approved a Stipulation and Agreement that raised the steam rates by \$4.5 million. This agreement included a fuel adjustment mechanism which is subject to true-ups and prudence audits. It went into effect on March 6, 2006.

The agreement also called for Aquila to provide annual funding for two energy efficiency programs and a low-income weatherization program.

RATE INCREASE REQUESTS

Kansas City Power & Light Company

In accordance with its regulatory plan approved by the Commission on July 28, 2005, KCP&L filed an electric rate case with the Public Service Commission on February 1, 2006. In this case, KCP&L is seeking to increase annual electric revenues by approximately \$55.8 million (11.5%). According to KCP&L, the requested increase would add approximately \$7 to a typical Missouri residential customer’s average monthly bill. The Company stated that increase was necessary to implement the regulatory plan that includes the construction of a coal plant and wind turbines.

The Empire District Electric Company

On February 1, 2006, The Empire District Electric Company filed an electric rate case with the Public Service Commission. Empire is seeking to increase

annual electric revenues by approximately \$29.5 million (9.63%). For the average residential customer using 1,000 kilowatt-hours of electricity, the proposed increase would be approximately \$11.11 a month. Empire states that the “proposed rate increase is driven primarily by higher costs of the fuel used by Empire in the generation of electricity. Other costs associated with providing safe and reliable electric service to Empire’s customers have also increased since Empire’s last rate adjustment.”

Staff Investigates AmerenUE’s Electric Rates

In May 2006, the Public Service Commission ordered the Staff of the PSC to formally investigate the reasonableness of AmerenUE’s electric rates. Staff is authorized to file an earnings complaint if it concludes the evidence would support such a complaint.

On July 7, 2006, AmerenUE filed an electric rate case with the Public Service Commission seeking to increase electric revenues by approximately \$360.7 million a year. AmerenUE is also seeking to increase natural gas revenues by approximately \$10.8 million a year. Hearings in this rate case are scheduled for March 2007.



*Damage from a severe thunderstorm on August 13, 2005.
Photo courtesy of AmerenUE.*

PSC Approves Aquila's Certificate For South Harper Plant

On May 23, 2006, the Commission granted Aquila, Inc.-with conditions-a certificate of public convenience and necessity for its South Harper Facility and Peculiar Substation in Cass County.

The Commission evaluated several factors in making its decision, including the availability of transmission and fuel, improved reliability of service, shortfall in generating capacity, growth in demand for electricity and Aquila's need for peaking capacity.

The Commission also looked at Cass County's land use plan and the needs of the public as a whole, including nearby landowners, Aquila's ratepaying customers and the general public. Other factors considered included the proximity of the South Harper Facility to other generating sites.

PSC Approves AmerenUE Purchase

In March 2006, the Public Service Commission approved a request filed by Union Electric Company d/b/a AmerenUE to acquire the lease of a 640-megawatt facility in Audrain County near Vandalia, Missouri.

The NRG facility consists of eight natural gas fired combustion turbine generator units with a combined nameplate capacity of 640 megawatts. According to AmerenUE, the company needed the additional capacity that the NRG Audrain Facility would supply to meet a prudent level of reserves for the summer of 2006.

FEDERAL ACTIVITY IN ELECTRIC Implementation of EPC Act 2005

This past year the Federal Energy Regulatory Commission (FERC) has been extremely active in its implementation of the Energy Policy Act of 2005. The Missouri Public Service Commission established an internal Staff working team that followed all of the FERC's proposals for implementation. The major FERC proposals included rules for: 1) FERC regulated Electric Reliability Organization; 2) Promotion of transmission expansion through pricing; 3) Long-term, firm transmission rights; 4) Reform of Open Access Transmission Rules; 5) New merger policy; and (6) New Public Utility Regulatory Policy (PURPA) Act standards. The Staff will be

working with interested parties in all of these areas to determine how Missouri can meet each of the requirements.

Participation on Joint Boards

FERC requested Missouri participation on two Joint Boards charged with evaluating the efficiency of economic dispatch in various regions of the country. Chairman Jeff Davis served on the Midwest ISO – PJM (Upper Midwest Region) Joint Board; and Commissioner Steve Gaw served on the Southern (Lower Midwest, Southwest and South Region) Joint Board. Both Joint Boards produced reports that FERC would compile and submit to Congress.

Midwest Independent System Operator (Midwest ISO)

The Midwest ISO has emphasized the need for additional demand response resources for meeting the reliability needs of the power system, and will be working on how best to integrate such resources into its various electricity markets. In this regard, the Midwest ISO is proposing to move both regulation services (involving automatic generation control to balance generation and load on an instantaneous basis) and operating reserves on a footprint-wide basis, and is working on developing market structures for both.

In addition, the Midwest ISO submitted its proposal to the Federal Energy Regulatory Commission on cost allocation for new transmission facilities and upgrades to existing facilities that are needed to maintain the reliability of the power system.

Commission Participation in Regional Transmission Organizations

This year, Missouri Commissioner Steve Gaw served as President of the Organization of Midwest ISO States (OMS) and is on the Board of Directors of both the SPP Regional State Committee (RSC) and the OMS. The OMS has focused on the question of resource adequacy within the Midwest ISO footprint. There are two new regional electric reliability organizations in the Midwest ISO: 1) Reliability First, which replaced MAIN and ECAR; and 2) Midwest Reliability Organization, which replaced MAPP. Both regional reliability organizations are proposing reliability standards for generation reserves.

PUBLIC SERVICE COMMISSION

The Commission's Chief Regulatory Economist, Mike Proctor, continued in his role as chairman of the OMS working group with oversight for the allocation of Financial Transmission Rights, and as co-chair of the OMS working group with oversight for the allocation of costs for new transmission facilities and network upgrades. Both working groups have been very active since the first of the year. They produced new proposals for allocating Financial Transmission Rights (including long-term rights), and criteria for measuring benefits and allocating costs of transmission expansions that are aimed at lowering the costs of wholesale electricity prices by reducing transmission congestion. In addition, Dr. Proctor chairs the SPP RSC's Cost Allocation Working Group, which

developed the proposal for funding and allocation of costs for transmission upgrades that the SPP RSC proposed and the FERC approved. This past year, the CAWG has evaluated how to improve incentives for participants to fund economic upgrades to the transmission system and will be presenting its results to the SPP RSC and the SPP Regional Transmission Working Group for implementation. This coming year, the CAWG will be evaluating how to properly measure benefits from economically driven transmission upgrades, as well as considering more efficient ways for SPP to evaluate the need for and cost of transmission upgrades associated with new generation resources.

TELECOMMUNICATIONS

Senate Bill 237 became effective August 28, 2005, repealing and enacting several statutory sections related to telecommunications companies and services. This new law generally provides greater pricing flexibility to telecommunications companies.

Specifically, this new law allows customer-specific pricing for incumbent local exchange carriers, competitive local exchange carriers and interexchange carriers for any business services provided in an exchange in which basic local telecommunications service offered to business customers by the incumbent company has been declared competitive under section 392.245 RSMo. Incumbent and competitive local exchange companies can also offer packages of services without being subject to price regulation as long as each service in a package is available apart from the package and is subject to price regulation.

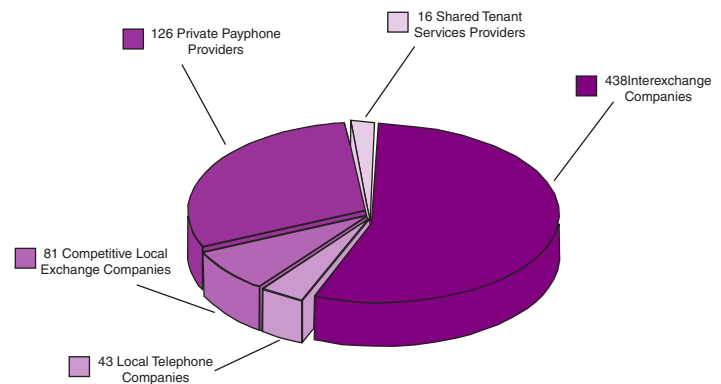
A “package of services” includes more than one telecommunications service, or one or more telecommunications service combined with one or more non-telecommunications service. Price decreases can occur on one day’s notice.

The bill also streamlined the criteria for allowing small incumbent local exchange telecommunications companies to be regulated under the price cap statute. A carrier provides written notice to the Commission that two or more commercial mobile service providers are providing wireless two-way voice communications services in any part of the small incumbent’s service area.

The bill also streamlined the criteria for obtaining competitive classification, which means a carrier is no longer limited by price cap regulation for establishing the rates for services in a competitive area.

Two tracks, a 30-day track and a 60-day track, are used for obtaining competitive classification. Under the 30-day track, business or residential services within an exchange shall be classified as competitive within the exchange when two non-affiliated entities in addition to the incumbent local exchange company are providing basic local telecommunications services, in whole or in part using their own facilities, to business or residential customers, respectively. One of those non-affiliated entities can be a wireless

Certificated/Active Telecommunications Providers



provider. The non-affiliated entities cannot be providing resold or prepaid service and cannot be providers of local voice service requiring the use of a third party, unaffiliated broadband network or dial-up Internet network for the origination of local voice service.

Under the 60-day track, an incumbent local exchange company may petition the Commission for competitive classification within an exchange, based upon competition from any entity providing local voice service in whole or part using its own facilities, or the facilities of a third party, including unaffiliated third-party Internet service providers.

Four incumbent basic local exchange telecommunications companies (Embarq, AT&T, Spectra and CenturyTel) have applied for and been granted competitive status in certain exchanges.

Competitive status has been granted for residential and/or business services in a total of 108 exchanges out of 698 exchanges in Missouri. Residential and/or business services have been declared competitive in 13 Embarq exchanges, 82 AT&T exchanges, 5 Spectra exchanges and 8 CenturyTel exchanges.

The Commission is to review the status of competition at least every two years or each time an incumbent local exchange telecommunications company increases rates for basic local telecommunications services in an exchange classified as competitive.

Price Cap Elections

In Case No. IO-2006-0112, the Commission issued an order acknowledging Alltel's election to be price cap regulated under Section 392.245, effective October 14, 2005. Alltel later transferred its local telephone operations and became Windstream Missouri. Windstream Missouri joins AT&T Missouri, Spectra, CenturyTel and Embarq as companies under price cap regulation.

Expanded Calling Petitions

The Missouri Commission addressed several requests for changes in local calling scopes.

On January 10, 2006, the Commission approved an agreement affecting Greenwood's metropolitan calling area plan service. Greenwood will remain a Tier 3 exchange; however, MCA service is to be mandatory for all Greenwood customers. Greenwood MCA subscribers will save approximately \$6.14 (residential) and \$13.80 (business) per month. The proposal took effect on June 29, 2006.

On February 23, 2006 the Commission approved an agreement expanding the St. Louis MCA plan to include the AT&T exchanges of Beaufort, St. Clair, Union and Washington. These exchanges will become Tier 5 exchanges in the St. Louis MCA. On May 18, 2006 the Commission approved an agreement expanding the St. Louis MCA to include the Century Tel exchanges of Wright City, Foley, Holstein, Warrenton, and Marthasville. The additional service area, to be known as MCA Tier 6, will become operational on March 1, 2007. The monthly rates for MCA service are to be \$35.50 for residential customers and \$95.00 for business customers.

While not a petition for expanded calling, Tariff File No. JI-2005-1119 was approved by the Commission on August 1, 2005, which provided for expanded toll-free calling among all exchanges of Northeast Missouri Rural Telephone Company.

Concurrent with the expanded calling, Northeast increased prices for basic local telephone access line service to \$10.00 per month for residential customers and \$15.00 per month for business customers. Northeast is a telephone cooperative comprising 13 telephone exchanges and serving approximately 8,803 access lines in northeast Missouri.

Formal Complaints

Cass County Telephone Company:

On April 8, 2005, the PSC Staff filed a formal complaint against Cass County Telephone Company. The Staff complaint alleged that a company official caused false entries to be made on the company books and records and made false statements when testifying before the Commission.

The Commission approved a Stipulation and Agreement which resolved the case. Cass County Telephone Company owners ultimately agreed to pay \$1 million to the Public School Fund. In addition, the company agreed to pay \$3.6 million to qualifying customers, partly as a credit on consumer bills and partly as a cash payment.

New Florence Telephone Company:

On October 24, 2005, the Staff filed a formal complaint against New Florence Telephone Company. The complaint alleges that officials made false entries in the company's books and records.

On July 27, 2006, the Commission approved an agreement in which New Florence Telephone Company would issue a credit of \$50 per access line to qualifying New Florence Telephone Company customers. The company also agreed to make a payment to the Public School Fund in the amount of \$100,000. A pending application has been filed with the Commission that, if approved, will change the ownership of New Florence Telephone Company.

Overall Quality of Service Results

The following information is based on the 2006 quarterly quality of service results submitted by all Missouri ILECS.

- 95% of requests for basic local service were installed within five days.
- 97% of commitments to install service by a certain date were met.
- 99.9 percent of all calls being attempted are completed without a problem.
- On any average day approximately 1.8% of consumers experience a service problem.
- 66% of trouble reports pertain to an out-of-service condition.
- 90% of out-of-service conditions are restored within 24 hours.
- 92% of commitments to address a trouble report were met.

Rulemakings

Enhanced Records Rule:

The Commission approved rules that establish procedures for exchanging traffic and intercompany billing records for certain interexchange traffic. The purpose of this rulemaking is to help ensure records and information are shared between companies in the transmission of certain interexchange traffic. The rules took effect on July 31, 2005 and are contained in Chapter 29 of the Commission's rules.

Clear Identification of Charges on Customer Bills:

This rulemaking requires clear identification and placement of charges on customer bills; requires clear, full and meaningful disclosure of all monthly charges and usage sensitive rates applicable to services a customer orders or is considering ordering; and states that a party cannot misrepresent a charge as governmentally mandated or allowed by disguising the charge or giving it a name or label that implies the charge is a governmentally mandated or allowed charge. The rulemaking affected the following Commission rule: 4 CSR 240-33.045 and became effective on October 30, 2005.

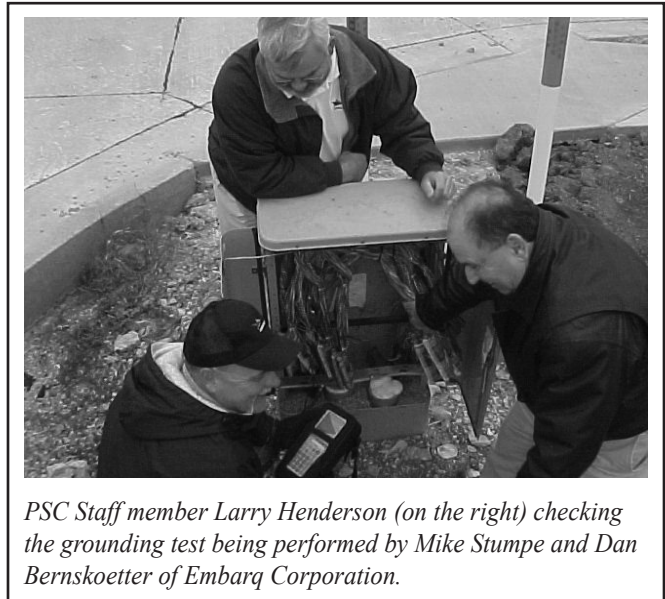
Applications for Expanded Local Calling:

This rulemaking implements a process for subscribers or governing bodies of a municipality or school district to submit applications for expanded local calling area plans within an identified community of interest. The rulemaking affected the following Commission rule: 4 CSR 240-2.061 and became effective on October 30, 2005.

Missouri Universal Service Fund:

The FCC established additional guidelines for the federal Lifeline program and directed states with low income funds to incorporate these guidelines by June 2005.

Through an emergency rulemaking and a permanent rulemaking, the Commission expanded the definition of a low income customer to include the National School Lunch Program's free lunch program and Temporary Assistance for Needy Families. The low income definition and the disabled definition were also expanded to include dependents of a customer residing in the customer's household as means to qualify for low income or disabled assistance. The



PSC Staff member Larry Henderson (on the right) checking the grounding test being performed by Mike Stumpe and Dan Bernskoetter of Embarq Corporation.

rules were also amended to include reporting and verification requirements established by the FCC.

Eligible Telecommunications Carrier Rule:

The rulemaking establishes criteria for carriers to be designated as eligible telecommunications carriers authorized to receive federal universal service funds (USF). The rule also establishes criteria for carriers that receive designation as eligible telecommunications carriers to provide the Commission with information and documentation for annual certification so the carriers continue to receive USF funds.

The Commission has several pending requests from wireless carriers for designation as an eligible telecommunications carrier, however, to date, the Commission has not granted approval to any wireless carriers' requests.

Proposed/Pending Telecommunications Rulemakings:

Two rulemakings are pending. One rulemaking concerns the types of tariff filings that can be submitted on one day's notice to the Commission. This rulemaking has been approved and is scheduled to be effective by January 2007.

The second pending rulemaking concerns telephone number pooling requirements and conservation efforts. Telephone number pooling is a conservation measure whereby telephone numbers are distributed to telecommunications companies in blocks of 1,000 telephone numbers rather than blocks of 10,000 telephone numbers for assignment

to customers. The Missouri Commission was granted authority by the Federal Communications Commission to implement telephone number pooling in Missouri. This authority ensures telephone numbers are being used wisely and efficiently.

Universal Service Funds

On March 17, 2005, the Commission issued an order authorizing the Missouri Universal Service Fund Administrator to begin assessing telecommunications companies a USF assessment percentage of .18 percent of the companies' net jurisdictional revenues. This assessment appeared as a surcharge on customer bills beginning May 1, 2005, with telecommunications companies making their first payments to the fund beginning June 22, 2005. There are approximately 53,000 customers enrolled in the low income or disabled programs.

The Missouri Universal Service Board consists of the five commissioners and the Office of the Public Counsel. The Board meets periodically to address and review issues related to the Missouri Universal Service Fund. Various Commission Staff members also serve as Board staff members assisting Board members in preparing for the meetings.

The Missouri Commission also has some involvement in the administration of the federal universal service fund. The FCC requires state commissions to certify by October 1 of each year that each eligible telecommunications carrier (ETC) receiving federal high cost support is using the funds as intended by the Telecommunications Act for the provision, maintenance and upgrade of facilities and services for which the support was intended.

Pursuant to Missouri Public Service Commission procedures, companies are required to submit to the Telecommunications Department Staff, by August 15th of each year, spreadsheets comparing expenses to USF receipts. Staff reviews this information and makes a recommendation to the Commission as to what companies to certify for the following funding year.

SPECIAL PROJECTS

Determining Missouri's statewide average rate (Case No. TO-2006-0084): Section 392.245(13) RSMo, a result of the passage of SB 237, requires the Commission to determine a statewide weighted average basic local service rate as of August 28, 2005.

The PSC Staff calculated a statewide residential and business average rate of \$13.77 based on information supplied by 98 companies providing basic local telecommunications service. The residential statewide weighted average basic local rate was \$11.62 based on 2,218,543 residential lines. The business statewide weighted average rate was \$27.91 based on 336,450 lines. The statute requires the Commission to recalculate the weighted statewide average rate two years and five years from August 28, 2005.

Economic Impact of Municipalities Providing and/or Owning Cable and Telecommunications Services and/or Facilities:

Pursuant to Section 71.970.2, RSMo, the Telecommunications Department Staff conducts an annual survey of 640 municipalities to determine the economic impact of municipally owned or provided cable television and/or telecommunications services.

The 2005 survey revealed four municipalities, Newburg, Kahoka, Unionville and Poplar Bluff, provide cable television to their communities through either municipally owned or controlled facilities.

The survey also revealed one municipality (Springfield) provides telecommunications services (not basic local telecommunications) and ten municipalities, Carthage, Chillicothe, Grant City, Macon, Marshall, Paris, Poplar Bluff, Sikeston, Springfield and Vandalia, provide some form of Internet access services over municipally owned or operated facilities to their residents and/or local businesses.

These services vary over a wide range of speeds and prices, and use wireline and wireless technologies. Cities indicate they provide these services because either there is no such service currently being provided or because the quality of the existing service is poor.

Evidence suggests when private, commercial providers enter the market, the municipalities exit.

811 Workshop: In March 2005, the FCC issued its Sixth Report and Order designating 811 as the national abbreviated dialing code for “call before you dig” systems.

The FCC allowed two years from the date of publication for implementation of 811 and delegated, to state commissions the authority to address technical and operational issues associated with the implementation.

PSC Staff had several conversations with the Missouri One Call Center about implementation of 811. An 811 implementation workshop was held on October 28, 2005 to identify and address outstanding issues. Several action items and follow-up dates in 2006 were established. Staff, Missouri One Call and the industry worked through the issues and plan to have 811 operational in April 2007.

Mergers/Financial Transactions/Name Changes ***Embarq and the Sprint/Nextel transfer of control:***

On March 7, 2006, the Commission approved Sprint Nextel Corporation’s application to transfer control of Sprint Missouri, Inc., Sprint Long Distance, Inc. and Sprint Payphone Services from Sprint Nextel Corporation to a separate affiliate.

The former Sprint local telephone company was ultimately renamed Embarq. Sprint’s wireless operations, Sprint Communications Company L.P. and relay operations will remain under the Sprint Nextel Corporation.

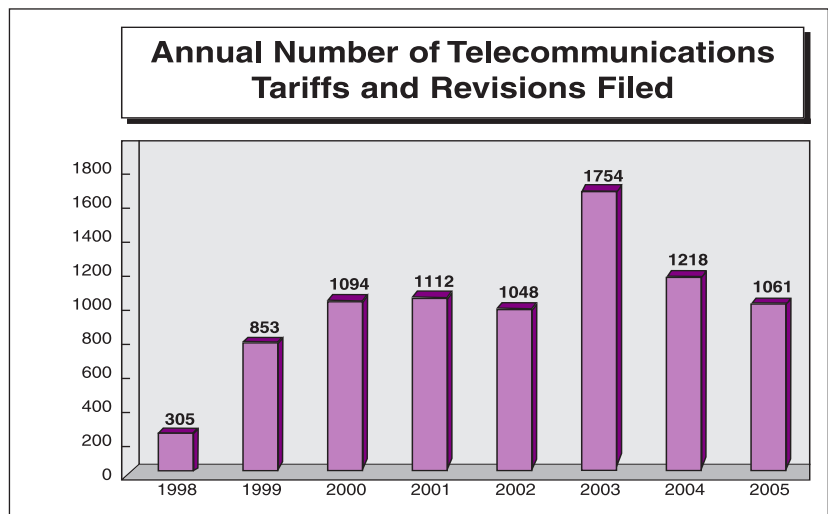
Windstream and Alltel transfer of control:

On April 25, 2006, the PSC approved the Alltel Missouri, Inc. and Alltel Communications, Inc. application seeking approval for the transfer of control of Alltel Missouri and the transfer of the resale interexchange service customer base of Alltel Communications to other entities. The former Alltel local telephone company became Windstream.

Southwestern Bell’s acquisition of AT&T:

In the fall of 2005, the FCC approved Southwestern Bell’s acquisition of AT&T.

In December 2005, three SBC companies sought Missouri PSC approval to change their names to



AT&T (SBC Missouri became AT&T Missouri and SBC Long Distance became AT&T Long Distance). AT&T Communications Southwestern, the long distance company, did not change its name. The two TCG companies previously owned by AT&T also did not change their names as a result of the acquisition.

Verizon/MCI merger:

The FCC approved the merger of Verizon and MCI. In December 2005, MCI Communications Services, Inc. filed proposed adoption notices and tariff title pages reflecting its new fictitious name, Verizon Business Services.

Sale of Cass County Telephone Company to FairPoint:

The PSC approved the sale of Cass County Telephone Company to FairPoint Communications. Cass County Telephone Company was an incumbent local telephone company operating in western Missouri.

FairPoint is based in Charlotte, North Carolina and provides local telephone service in 17 states. FairPoint is considered to be the 17th largest local telephone company in the United States based on access lines. The transfer took effect July 26, 2006.

Relay Missouri

In April 2006, the Commission issued a Request for Proposal for Relay Missouri service. The Commission ultimately extended Sprint’s existing Relay Missouri contract for a two year time period through June 30, 2008.

The PSC Staff coordinates the Relay Missouri Advisory Committee’s (RMAC) activities and

communicates their suggestions and concerns to the Commission. The RMAC consists of six members from the deaf, hard-of-hearing, late deafened, speech-impaired and hearing communities as well as representatives of the Public Service Commission, the Deaf and Hard-of-Hearing, the Missouri Telecommunications Industry Association, the Relay Missouri services vendor (currently Sprint TRS), the Office of the Public Counsel and the PSC Staff.

On June 28, 2005, the Commission issued an order increasing the Relay Missouri surcharge to \$0.13 per local telephone access line per month. The new surcharge was implemented on September 1, 2005.

Relay Fund Statistics:

Usage for traditional relay service, including CapTel service, was 3,060,659 minutes during the July 1, 2005 through June 30, 2006 time period. Relay Missouri surcharge revenue, including interest earned, was \$4,580,746. The June 2006 closing balance of the Relay Missouri fund was \$2,110,372.

Equipment Distribution Program:

The Missouri Assistive Telecommunications Equipment Program is funded through the Relay Missouri fund and is administered by the Missouri Assistive Technology Advisory Council (Council).

This program distributes telecommunications equipment to eligible subscribers who are unable to use traditional telecommunications equipment due to a disability. During the past year, the Council and the Commission combined efforts to ensure that captioned telephone service is used by qualified persons.

Captioned telephone service is an enhanced speech-to-text service providing real time captioning of telephone conversations for users with special captioned telephone equipment. As of June 2006, approximately 310 individuals had captioned telephone service equipment.

During the past year 36 captioned telephones were issued, 16 captioned telephones were discontinued and 33 captioned telephones were returned.

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 committees studied such issues as universal service programs, truth-in-billing, intercarrier compensation, eligible telecommunications carrier designations, mergers and acquisitions and naked DSL.

NARUC Task Force for Intercarrier Compensation

Commissioner Connie Murray is a member of the NARUC Task Force for Intercarrier Compensation. Missouri Commission Staff members also participated and conducted work with the Task Force. Intercarrier compensation refers to the fees charged by one carrier to another carrier to pay for the use of a carrier's network to originate and/or terminate calls. Since its formation in 2003, the Task Force has conducted numerous 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 has not taken a position on the Missoula Plan.

North American Numbering Council (NANC)

Commissioner Robert Clayton is a member of the North American Numbering Council. NANC is a federal advisory committee designed to advise the Federal Communications Commission on telephone numbering issues and to make recommendations that foster efficient and impartial telephone number use and administration. NANC is composed of representatives of telecommunications carriers, regulators, cable providers, VoIP providers, industry

associations, vendors and consumer advocates. NANC meetings are generally held six times a year.

Customer Proprietary Network Information

In April 2006, the FCC sought comment on what additional steps, if any, it should take to further protect the privacy of customer proprietary network information (“CPNI”) that is collected and held by telecommunications carriers. Comment was sought in response to issues raised by the Electronic Privacy Information Center (“EPIC”). In its petition to the FCC, EPIC provided information indicating on-line data brokers and private investigators advertise their ability to obtain CPNI without the holder’s or owner’s consent. EPIC also stated these entities further advertise that such information can be procured in a short period of time. The MoPSC filed comments agreeing with EPIC that current security protocols protecting CPNI are insufficient. The MoPSC commented that, for the more effective protection of CPNI, customer telephone records and associated information should only be released through the explicit authorization of, and with the complete understanding of, the consumer.

Universal Service Fund

In August 2005, the FCC sought comment on four proposals to modify high cost universal service support. The MoPSC filed comments where the majority supported the following concepts:

- Block grants promoting cooperative federalism where the FCC establishes support guidelines to be implemented by states.
- A forward-looking cost methodology.
- National or statewide averaged costs and revenues to more directly target support to high cost areas.
- A benchmark rate that must be achieved before receiving USF support.
- A cap that limits the support per line to a percentage of any additional costs above the benchmark.
- A freeze on support during any transition period.
- A plan that combines all study areas of a single company within a state to one study area.
- A plan that targets support to rural areas instead of rural companies.

The FCC issued a notice of proposed rulemaking seeking comment on the overall management, administration and oversight of universal service fund. The

MoPSC filed comments on the high cost portion of the fund suggesting the FCC needs to modify its procedures and rules to prevent fraud, abuse and waste. The comments cited examples from the Cass County indictments and guilty pleas of misuse of USF and the Alma financing case as examples of areas of the USF rules that may need to be modified.

Telecommunications Relay Services

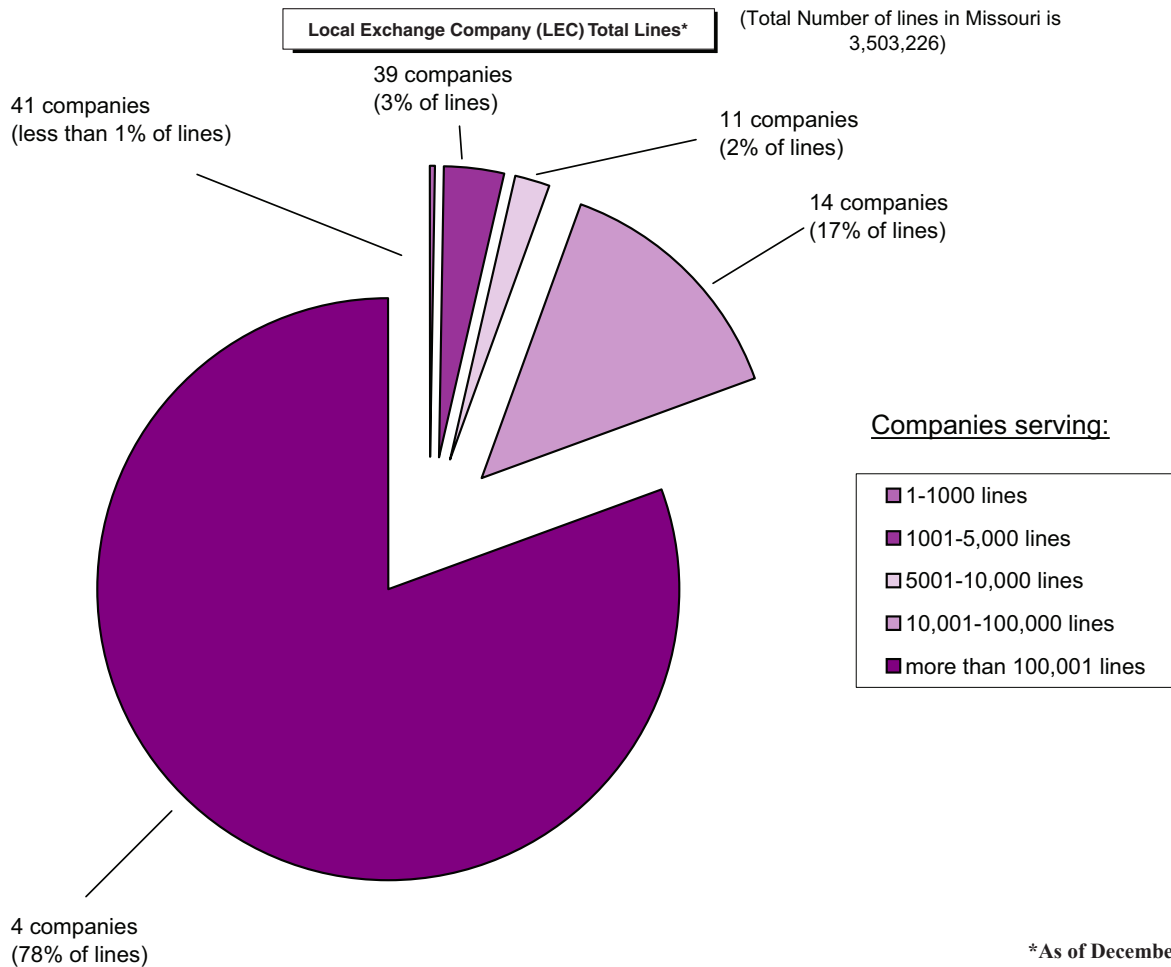
In February 2006, the MoPSC filed comments with the FCC in response to a Notice of Proposed Rulemaking seeking comment on the issue of access to emergency services for Internet-based forms of Telecommunications Relay Services (TRS), namely Video Relay Service (VRS) and Internet Protocol (IP) Relay. The MoPSC identified practical issues related to reimbursing TRS and VRS providers and suggested that such issues need to be addressed before the FCC gives any serious consideration to allocating such costs to intrastate jurisdictions. The MoPSC stated that it is not appropriate for the Commission to shift costs associated with services it has previously determined to be interstate services to intrastate jurisdictions.

On May 8, 2006, the FCC released a Further Notice of Proposed Rulemaking (FNPRM) “address[ing] the misuse of the two Internet-based forms of telecommunications relay service (TRS), Internet Protocol Relay Service (IPR) and Video Relay Service (VRS)”. The MoPSC contacted its Relay Advisory Committee for input on the issue. Tracy Mishler, committee chair, responded to the request. Relay providers such as Sprint Nextel Corporation, AT&T, Inc. and Sorenson Communications, Inc. filed initial comments in response to the FNPRM suggesting relay providers already have procedures in place to handle IP Relay misuse and fraud. The comments provided by the industry and Ms. Mishler also suggest solutions put forth in the FNPRM may not be effective, may be intrusive or may be inconsistent with the intent of the Americans with Disabilities Act. The MoPSC filed reply comments attaching Ms. Mishler’s response and suggesting the FCC direct the Relay industry to further explore this issue and develop minimum standards to be reviewed and approved by the FCC.

Telephone Numbers - Number Conservation Efforts/Exhaust Dates

The Telecommunications Department Staff continues to investigate code usage, reclaim unused telephone numbers, and implement number conservation. Through the Commission’s existing conservation efforts, the lives of the area codes have been extended as follows:

Area Code	Estimated Exhaust Date
314	2Q 2013
417	2Q 2009
573	1Q 2010
636	2Q 2023
660	1Q 2015
816	1Q 2014



*As of December 31, 2005.

Water and Sewer Department

Department Personnel

The Water & Sewer Department (W/S Dept) consists of seven professional/technical positions and is split into two sections, Rates and Engineering. Although the W/S Dept is split into the Rates and Engineering Sections, staff members work closely together as a team and it is not unusual for them to share responsibilities. As with most departments within the Commission's organizational structure, the W/S Dept's management personnel carry out not only their administrative duties, but are also involved in a great deal of the technical and analytical case work that falls within the scope of the W/S Dept's responsibilities. As a group, the W/S Dept's staff members have nearly 160 years of regulatory and/or water and sewer utility work experience, with much of that experience having been gained by their work in the W/S Dept.

Department Responsibilities, Objectives and Work Functions

By law, the Commission is responsible for regulating the rates, fees and operating practices of the privately owned water and sewer corporations that operate in Missouri. The W/S Dept helps the Commission fulfill its responsibilities by providing technical expertise on matters relating to water and sewer system operations and the tariffed rates, charges and services of regulated water and sewer companies. The general objectives of the W/S Dept are twofold. The first objective is to ensure that the regulated water and sewer companies provide safe and adequate service to their customers at rates that are deemed just and reasonable. The second objective is to ensure that the companies provide service according to applicable Commission rules and procedures and the provisions of their Commission-approved tariffs. Specific aspects of the W/S Dept's work include:

- Evaluating company tariff filings to determine whether proposed new/revised tariff provisions comply with applicable Commission rules, policies and state laws;

- Reviewing existing company tariffs to determine whether the provisions of the tariffs continue to comply with applicable Commission rules, policies and state laws, as they change over time;

- Participating in the review of all requests for rate increases from the perspective of evaluating the appropriateness and the design of proposed rates and charges, the adequacy of system operations and the appropriateness of and/or need for system plant additions that have been or will be placed in service;

- Participating in the review of all applications for new/expanded certificated service areas from the perspective of evaluating the need for the service proposed, the reasonableness and design of the proposed rates and charges, the proposed system design, the plans for system operations and the overall project feasibility;

- Participating in the review of financing applications to determine the appropriateness of and/or need for projects being financed, as necessary;

- Conducting regularly scheduled field inspections to determine whether company facilities and overall system operations comply with applicable Commission rules, company tariff provisions and proper operational procedures;

- Interacting with company owners/operators regarding operational and technical matters;

- Investigating customer complaints and responding to customer inquiries concerning matters related to rates, charges, system operations and quality of service;

- Providing training sessions and/or materials to industry personnel and Commission staff personnel regarding the small company rate increase procedure, rate design and other ratemaking matters; and

- Providing expert testimony before the Commission on water and sewer cases pending before it, and providing technical advice to the Commission in its rulemaking actions on water and sewer matters.

Interaction With The Department Of Natural Resources

Of the utilities regulated by the Commission, water and sewer utilities are unique in that another state agency, the Department of Natural Resources (DNR), also has significant jurisdiction over the utilities. Specifically, the DNR's jurisdiction covers the area of the water and sewer utilities' compliance with applicable federal and state environmental and water quality laws and regulations. While the Commission's rules provide for general oversight regarding water quality and sewage treatment standards, the Commission generally relies upon the DNR to determine whether the companies are complying with the applicable federal and state environmental and water quality laws and regulations.

Because of the overlapping jurisdiction between the Commission and the DNR, the staffs of the agencies attempt to work cooperatively in achieving the agencies' respective missions. For some time, the two agencies have shared information regarding companies for which the agencies share regulatory responsibilities, under the provisions of a Memorandum of Understanding (MOU) between the agencies. In addition, the agencies' MOU includes provisions regarding the agencies' cooperation and coordination on overlapping matters such as the DNR's issuance of construction and operating permits and the Commission's utility service area certification process. As a result, the agencies' respective review and approval processes for new water system construction, permitting and certification are more coordinated than in the past. It is anticipated that such efforts will eventually extend to the permitting and certification of all water and wastewater systems for which the agencies share jurisdiction.

Small Company Rate Case Working Group

As part of the Commission's on-going project regarding "case efficiency", W/S Dept Staff members continue to participate in a Small Company Rate Case Working Group that was organized to review and suggest improvements to the small company rate increase procedure. In addition to W/S Dept Staff, members of this Working Group include representatives of small water and sewer companies (companies serving 8,000 or fewer customers),

attorneys that regularly participate in cases before the Commission, representatives of the Office of the Public Counsel, Staff members from the Commission's Auditing, Management Services and Telecommunications Departments, and an attorney from the Commission's General Counsel's Office.

The Working Group's efforts resulted in the following agreed-upon projects related to the small company rate increase procedure being completed: (1) development of a "How To" booklet for the procedure; (2) modifications to the Staff's "activity timeline" for the procedure; and (3) modifications to the Staff's "overview" of the procedure. Additionally, the agreed-upon project of rewriting the Commission's rules regarding the procedure is still ongoing. Further, the Working Group is still active and it is anticipated that other topics related to the small company rate increase procedure will be addressed in the future.

The Commission's Regulated Water & Sewer Companies

The Commission currently has jurisdiction over 53 active sewer companies and 63 active water companies, which operate in various locations throughout the state, and many of which have multiple service areas and systems. The tables set out on the following page show the distribution of the number of companies based upon the number of customers served, using the most recently available customer numbers. As is shown in these tables, the vast majority of the Commission's jurisdictional sewer and water utilities are very small, which presents unique situations with which the Commission and the W/S Dept. Staff must deal.

Regulated Sewer Companies

Customer Base	Number of Companies	Customers Served	% of Total Customers Served
2,001 & Up	0	0	N/A
751 - 2,000	6	7,408	51.45
501 - 750	2	1,277	8.87
251 - 500	5	1,641	12.09
151 - 250	12	2,259	15.69
101 - 150	6	741	5.15
51 - 100	11	743	5.16
50 or less	11	229	1.59
TOTALS	53	14,398	100.0

NOTE: Active companies as of 06/30/06; Customer numbers based on most recently available information.

Regulated Water Companies

Customer Base	Number of Companies	Customers Served	% of Total Customers Served
8,001 & Above	1	474,045	93.17
5,001 - 8,000	2	12,574	2.47
3,501 - 5,000	0	0	0.00
2,001 - 3,500	2	5,359	1.05
751 - 2,000	6	7,043	1.38
501 - 750	5	3,089	0.61
251 - 500	8	2,872	0.56
151 - 250	10	1,889	0.37
101 - 150	8	1,029	0.20
51 - 100	10	678	0.13
50 or less	11	227	0.04
TOTALS	63	508,805	100.0

NOTE: Active companies as of 06/30/06; Customer numbers based on most recently available information.

Manufactured Housing and Modular Unit 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 and prescribing and enforcing uniform construction, safety and installation standards by conducting code and installation inspections, which includes enforcing tie down and anchoring requirements.

The department receives approximately 200 consumer complaints or consumer inspection requests annually. Staff is successful in resolving approximately 98% of these complaints through its formal process of working with manufacturers, dealers, installers and homeowners.

The Manufactured Housing and Modular Units Program receives in excess of 240 phone calls a month from consumers, manufacturers, retail dealers, installers, finance companies and local building code officials. Currently, the Staff consists of four field inspectors, one field supervisor/inspector, a program manager and two office staff.

The PSC has a toll-free hotline for consumers who have questions and/or complaints regarding manufactured homes or modular units. The Commission staff conducts **free** home inspections for consumers who file inspection requests with the Commission. The toll-free number is **1-800-819-3180** or visit our web site at www.psc.mo.gov and click on the house icon at the top of the page.

Oversight and Regulation

Structures not properly installed may result in very expensive repair costs and those repairs 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

STATISTICS FOR FISCAL YEAR 2006

Registered Manufacturers:	172
Registered Dealers:	279
Registered Installers:	151
Homes Sold (new & used):	5,313
Consumer Complaint Inspections:	303
On-site Inspections (SB 1096)	422
Dealer Lots Inspected:	197
Modular Unit Seals Issued:	2,672
Modular Unit Plans Approved:	1,045
Installer Decals Issued (SB 1096)	2,127

Source: PSC Manufactured Housing Department database

from site preparation to final close up and interior finish. Staff also 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 & 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. Manufactured home sales have increased in recent months after several years of decline. Approximately 3,034 new manufactured homes and modular units were sold in the state during FY 2006. An additional 2,279 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.

New Legislation

The Commission is continuing to work with the industry regarding the implementation of SB 1096 passed during the 2004 legislative session. This bill included federal mandates from the 2000 Federal Manufactured Housing Improvement Act. These mandates require the Missouri PSC to: 1) license entities who install or set up new manufactured homes; 2) inspect a percentage of all new homes installed; and 3) establish a dispute resolution process under the Federal Housing and Urban Development (HUD) guidelines. The Commission fully implemented the legislation on July 1, 2005. Training and certification of new manufactured home installers began in February 2005 and continues as needed. Currently, 151 individuals are licensed with the Commission to install new manufactured homes. The Missouri Manufactured Housing Association has been extremely helpful to the Commission in providing resources for the installer training and certification and reducing the implementation and ongoing costs to the Commission.

Legal Action

During the past year, the Director of the Manufactured Housing and Modular Units Program filed several complaints against dealers and unlicensed entities for various alleged violations of state laws. Complaints were filed against certain dealers for improper installation and anchoring; operating without the required license; and failing to make corrections in a timely manner. Staff continues to work to ensure homes and commercial units are built and installed according to applicable building codes and safety standards, thereby providing safe and affordable housing.

During the past year, the number of formal complaints has been reduced as a result of using the Dispute Resolution Hearing Process. This process includes on site hearings, which are conducted at the home site with the homeowner, manufacturer, dealer, installers and the Commission 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 Commission.

Fiscal Year 2006

The Staff plans to work with the industry, during the next year, to make any necessary changes or enhancements to the manufactured housing laws and regulations and to revise and upgrade modular unit building codes to ensure these units are accepted by local building and code administrators.

FEMA Homes in Southeast Missouri

The Staff assisted with the installation of approximately 140 FEMA HUD homes in Southeast Missouri during the past year. A couple of the homes were also installed in Dunklin and New Madrid counties. FEMA moved these homes into the area to provide housing for individuals who lost their homes as a result of the devastating storms that went through this area during the past spring. The majority of these homes were located in and around the Caruthersville area. Other communities affected included Deering, Braggadocio and Hayti. The Staff worked with FEMA, SEMA and local community officials to ensure the homes were set up and anchored properly. Although these homes were originally assigned as temporary housing, many will become permanent homes for the residents in this area. The Staff is also continuing to work with the Caruthersville School District regarding the installation of modular unit classrooms which will be used during the current school year as many of the school buildings were destroyed by the spring storms.



PSC Manufactured Housing Inspector Ronnie Mann examines roof damage on a manufactured home.

SERVICE QUALITY

Engineering and Management Services Department

The Engineering and Management Services Department (EMSD, staff or Department) has technical responsibilities in two separate areas.

The Management Analysts' mission is to develop, enhance and support utility management to provide quality services to customers and effective cost control of critical resources such as capital, technology and human resources.

The Engineering staff's role is to conduct depreciation studies and provide specialized engineering analysis and assistance for all types of regulated utilities.

Major Projects During 2006

Management Analysts participated in a variety of cases and audit projects during 2006. The staff completed a detailed customer service review of Aquila, Inc. and reviewed the Company's Implementation Plan, which presented the Company's planned actions in response to 52 recommendations contained in the audit report.

In addition, staff initiated a comprehensive customer service review of Missouri Gas Energy Company (MGE). MGE serves approximately 500,000 natural gas customers in Missouri. During the course of this review, EMSD staff traveled to the Company's Kansas City office to conduct on-site work which included the performance of field observations and interviews with Company personnel. Areas analyzed include the Company's billing, credit and collections, service disconnection and reconnection processes, diversion, call center operations, service order processes, meter reading and payment remittance processes.

EMSD staff participated in Atmos Energy Corporation's rate case (GR-2006-0387) during this period. Staff addressed the Company's call center responsiveness and presented concerns with the Company's performance. Staff's participation centered on the Company's response with respect to two specific call center indicators: Average Speed of Answer (ASA) and Abandoned Call Rate (ACR).

EMSD staff participated in Kansas City Power and Light's rate case (ER-2006-0314), responding to Company testimony regarding rate of return adjustments for efficient and effective operations.

EMSD staff also participated in an investigation into allegations by an anonymous party regarding Laclede Gas Company. Information requests were issued to the Company and on-site work was conducted involving interviews of Company personnel. A final report along with Laclede's response have been submitted to the Commission.

In June 2006, the Commission ordered EMSD staff to conduct a management audit of Aquila, Inc. Staff's investigation will examine the impacts on Missouri consumers resulting from Aquila's past decisions regarding incentive and executive compensation, employee bonus payments, pension and other post-employee benefits funding controls, the South Harper generating facility as well as other allegations made regarding management activities.

The staff continued to receive and review quality of service reports from a variety of companies as a result of merger and rate cases. These reports contain information regarding company customer service including data on call center indicators such as average speed of answer (ASA) and abandoned call rate (ACR). Staff presently monitors the call center performance of the state's large gas and electric companies as well as Missouri-American Water Company.

The Department continued to participate in reviews of numerous small water and sewer companies to assist them in providing sound customer service. The audit program is designed to assist such companies in a variety of areas including customer billing, credit and collections, complaint handling, business office operations and others.

Staff also participated in the Telecommunications Department's review of Universal Service Fund (USF) certification. The Department's audit work was similar to reviews conducted on the small water and sewer companies described above.

The Engineering staff of the Department performed depreciation analysis for several large and small companies during this fiscal year. The purpose of depreciation in a regulatory environment is to recover the original cost of capital assets from customers

and allocate the costs over the useful life of the assets. Annual depreciation expense, distributed over the life of each asset, results in the full recovery of the original cost of capital assets. The Engineers' objective is to propose depreciation rates that are fair and appropriate for each company as well as its customers. Depreciation comprises a significant component of the cost used to develop utility rates paid by consumers.

During 2006, the Engineering staff performed depreciation analysis of several large and small companies and conducted comprehensive depreciation studies in the context of rate cases filed by Atmos Energy Corporation, Missouri Gas Energy, Aquila, Inc., Kansas City Power and Light Company and AmerenUE.

The Engineering staff was also involved in the investigation of the reservoir failure of AmerenUE's Taum Sauk dam which occurred in December 2005. Staff participated in on-site visits, requested and reviewed data from AmerenUE, participated in joint review meetings with federal and state agencies and prepared a report which detailed its findings.

Engineering staff also provided assistance in the performance of natural gas Actual Cost Adjustment (ACA) reviews performed by the Procurement Analysis Department as well as performed depreciation analysis on a number of small water and sewer companies including rate and certificate cases.

Consumer Services Department

The Consumer Services Department serves as the central repository for consumer complaints and inquiries received by the Commission.

Consumer complaints may be filed with the Commission by mail, facsimile, e-mail or the Commission's consumer toll-free hotline (1-800-392-4211.) Complaints may also be submitted on-line through the Commission's website. Consumer Services specialists receive, investigate and respond to billing and service issues involving gas, electric, water, sewer, and telecommunications companies regulated by the Commission. The investigation of complaints may involve consulting with the



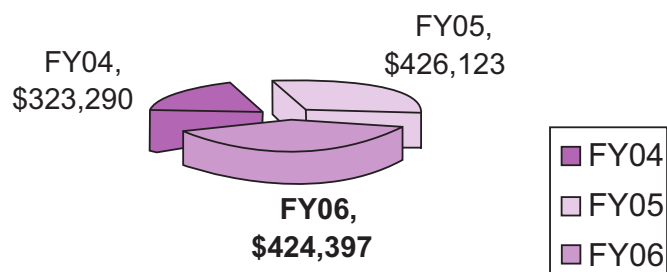
Contessa Poole-King, Consumer Services Specialist, answers questions about billing and service quality issues.

Commission's technical staff, utility representatives and researching utility tariffs as well as the Commission rules and regulations. Through the handling of consumer complaints, specialists work to enforce Commission rules and utility tariffs.

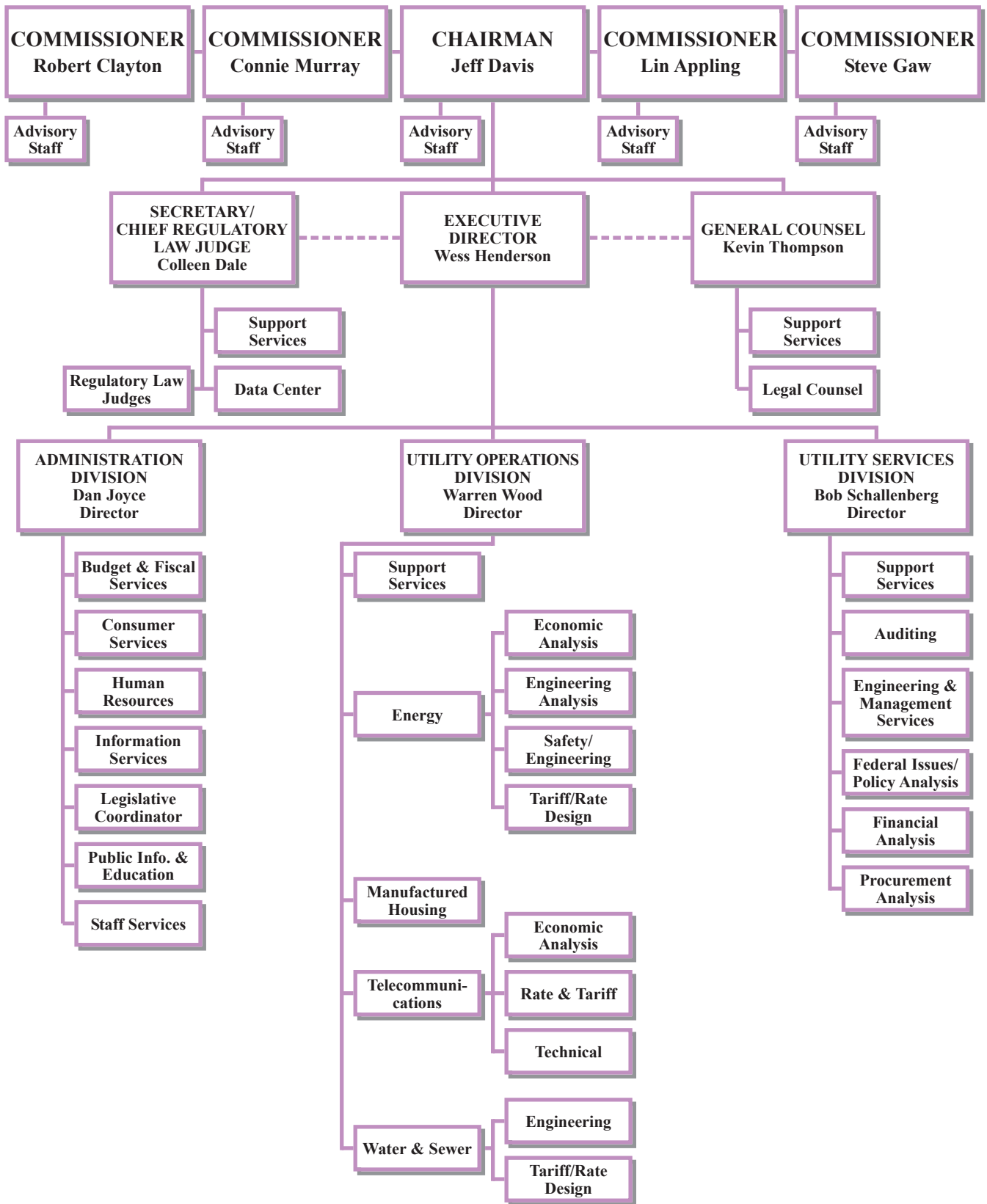
Specialists also interact with other PSC Staff regarding consumer service issues in proposed rule-makings on the state and federal level. This interaction also involves participating in customer service focused reviews of utility operations and participating in formal cases before the Commission regarding issues that impact customer services.

Consumer Service specialists also refer consumers to other agencies that may provide the needed assistance.

Consumer Savings



PUBLIC SERVICE COMMISSION



YEAR IN REVIEW

2005

July 25 -- With temperatures expected to reach 100 or above in Missouri, Commission issues hot weather alert urging customers to take the necessary steps in order to stay cool during the extremely hot weather.

July 28 -- Long-term energy plan for Kansas City Power & Light Company approved.

August 2 -- Long-term energy plan approved for The Empire District Electric Company.

August 4 -- PSC approves transfer of Silverleaf Resorts, Inc. water and sewer system assets to Algonquin Water Resources of Missouri, LLC.

August 9 -- PSC approves agreement which will enable Aquila, Inc. to put in place construction financing related to its participation in Iatan 2 and environmental upgrades to Iatan 1 power plants.

August 17 -- PSC holds Senate Bill 179 rulemaking roundtable for interested stakeholders.

August 26 -- PSC hosts broadband over power lines roundtable.

August 26 -- PSC issues consumer alert on the potential for significantly higher wholesale natural gas prices this winter.

September 22 -- PSC grants Sprint Missouri, Inc. request for competitive classification in its Ferrelview, Platte City and Weston exchanges for residential services and in its Ferrelview, Platte City, St. Robert and Waynesville exchanges for business services.

September 26 -- PSC grants SBC Missouri request for competitive classification in 26 exchanges for residential services and 45 exchanges for business services.

September 27 -- PSC opens case to review the purchasing practices of local natural gas companies.

September 30 -- PSC approves agreement authorizing Laclede Gas Company to increase annual natural gas revenues by approximately \$8.5 million. When Laclede filed its rate request on February 18, 2005, it sought an increase of approximately \$34 million.

October 4 -- PSC grants CenturyTel of Missouri, LLC request for competitive classification for residential services in its Dardenne, O'Fallon, St. Peters and Wentzville exchanges and for business services in its Bourbon, Columbia, Cuba, O'Fallon, St. James, St. Peters and Wentzville exchanges.

October 4 -- PSC grants Spectra Communications Group, L.L.C. d/b/a CenturyTel request for competitive classification for residential services in its Ewing, LaBelle, Lewistown, Macon and Savannah exchanges and for business services in its Ewing, LaBelle, Lewistown and Macon exchanges.

October 25 -- PSC issues decision granting competitive classification for residential services in 51 SBC Missouri exchanges and competitive classification for business services in 30 SBC Missouri exchanges.

November 1 -- PSC Staff issues report on restoration efforts from severe thunderstorms that hit AmerenUE's service territory on August 13, 2005.

December 13 -- PSC orders emergency amendment to its Cold Weather Rule.

2006

January 3 -- PSC promotes two division directors. Dan Joyce becomes the director of the Division of Administration and Regulatory Policy and Kevin Thompson was appointed to replace Dan Joyce as General Counsel.

January 31 -- PSC approves agreement authorizing The Empire District Electric Company to increase water revenues by approximately \$469,100. In a June

PSC Year in Review (continued)

2005 filing, the company sought a rate increase of approximately \$522,800.

February 1 -- Kansas City Power & Light Company files a \$55.8 million electric rate increase case with the Missouri Public Service Commission.

February 1 -- The Empire District Electric Company files a \$29.5 million electric rate increase case with the Missouri Public Service Commission.

February 21 -- PSC approves agreement authorizing the sale of Fidelity Natural Gas, Inc. to Laclede Gas Company.

February 23 -- PSC approves agreement authorizing Aquila Networks-L&P and Aquila Networks-MPS to increase electric rates. The agreement authorizes an electric rate increase of approximately \$38.5 million in the Aquila Networks-MPS service area and approximately \$6.3 million in the Aquila Networks-L&P service area. When the rate request was filed on May 24, 2005, the company sought an electric rate increase of approximately \$69.23 million for its Aquila Networks-MPS service area and \$9.4 million in its Aquila Networks-L&P service area.

February 28 -- PSC grants CenturyTel of Missouri, LLC request for competitive classification for residential services in its Ava, Columbia, Crane, Marshfield and Seymour exchanges.

February 28 -- PSC grants Spectra Communications Group, L.L.C. d/b/a CenturyTel request for competitive classification for residential services in its Everton and Mt. Vernon exchanges.

February 28 -- PSC approves Union Electric Company d/b/a AmerenUE request to acquire the lease of a 640-megawatt facility in Audrain County near Vandalia, Missouri.

March 2 -- PSC receives report on natural gas purchasing practices by local natural gas distribution companies.

February 28 -- Commission approves agreement authorizing Aquila-L&P to increase steam revenues by approximately \$4.5 million. Company sought a \$5 million increase in its May 24, 2005 filing.

March 7 -- PSC approves agreement which authorizes the transfer of Sprint Missouri, Inc., Sprint Long Distance, Inc. and Sprint Payphones Services, Inc. from Sprint Nextel to Embarq.

April 12 -- PSC issues safety warning to consumers who buy new manufactured homes to make sure they are installed properly. The warning was issued in the wake of tornadoes that destroyed hundreds of homes in Northeast Arkansas, Southeast Missouri and Western Tennessee.

April 18 -- PSC approves sale of Aquila, Inc. (Aquila Networks-MPS and Aquila Networks-L&P) natural gas systems to The Empire District Gas Company.

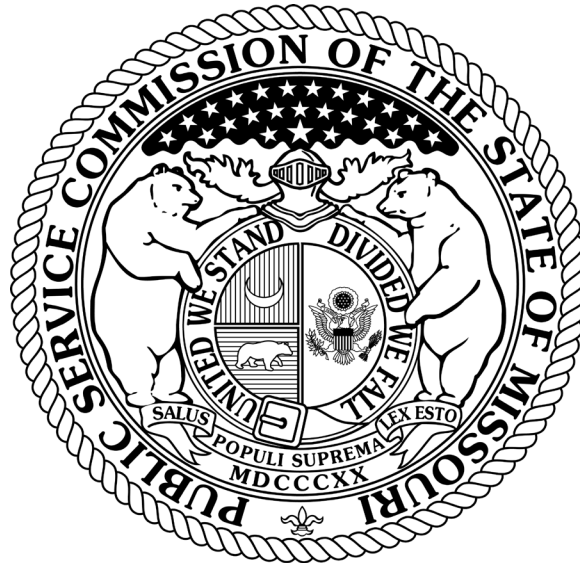
April 20 -- PSC grants Sprint Missouri, Inc. request for competitive classification for residential services in its Jefferson City exchange.

May 2 -- Missouri Gas Energy files a \$41.7 million natural gas rate case with the Public Service Commission.

May 23 -- PSC approves, with conditions, Aquila, Inc.'s request for a certificate of public convenience and necessity for its already-built South Harper Facility and Peculiar Substation in Cass County.

May 30 -- PSC approves agreements where Cass County Telephone Company will pay customers \$3.6 million to settle overearnings complaint. Telephone company also agrees to pay an additional \$1 million penalty. PSC also approves sale of assets of telephone company to FairPoint Communications.

Statistical Information



Statistical Information

RATE CASE DECISIONS DURING FISCAL YEAR 2006

NATURAL GAS

Date of Order	Case No.	Company	Rate Request	PSC Decision
9/30/05	GR-2005-0284	Laclede Gas Company	\$ 34,000,000	\$ 8,500,000

ELECTRIC

Date of Order	Case No.	Company	Rate Request	PSC Decision
2/23/06	ER-2005-0436	Aquila Networks - L&P	\$ 9,400,000	\$ 6,300,000 (1)
2/23/06	ER-2005-0436	Aquila Networks - MPS	69,200,000	38,500,000 (1)

STEAM

Date of Order	Case No.	Company	Rate Request	PSC Decision
2/28/06	HR-2005-0450	Aquila Networks - L&P	\$ 5,000,000	\$ 4,500,000

(1) The stipulation and agreement provides that the presently existing Interim Energy Charge will end when the new rates go into effect.

WATER & SEWER RATE INCREASES

Requests/Cases Resolved, Pending and/or Submitted

Tracking/Case Number	Company	Status of Request	Increase Granted
2002 00682 (SR-2005-0116)	Mill Creek Sewer Company	Increase Granted Effective 10/12/05	\$22,300
QW-2005-0003 (WR-2006-0091)	Stockton Hills Water Company	Increase Granted Effective 09/30/05	\$5,415
QW-2005-0004 (WR-2006-0212)	Middlefork Water Company	Increase Granted Effective 12/17/05	\$30,000
QS-2005-0005 (SR-2006-0285)	KMB Utility Corporation	Increase Granted Effective 02/22/06	\$775
QW-2005-0006 (WR-2006-0286)	KMB Utility Corporation	Increase Granted Effective 04/21/06	\$9,221
QW-2005-0007 (WR-2006-0131)	Evergreen Lake Water Company	Increase Granted Effective 10/27/05	\$4,540
QS-2005-0008	Aqua Missouri (Development)	Request Pending	N/A
QW-2005-0009	Aqua Missouri (RU)	Request Pending	N/A
QS-2005-0010	Aqua Missouri (CU)	Request Pending	N/A
QW-2005-0011	Aqua Missouri (CU)	Request Pending	N/A
QW-2005-0012 (WR-2006-0215)	Empire District Electric Company	Increase Granted Effective 02/04/06	\$469,138

NOTES:

1. The first block of numbers (i.e. - 2005) in the Tracking Number or Case Number reflects the fiscal year in which the subject small company rate increase request or rate case was submitted to the Commission.
2. EFIS Tracking Numbers used in lieu of Tariff Tracking Numbers for small company rate increase requests submitted after 04/17/02. QW = small water company requests QS = small sewer company requests
3. An entry of "Request Pending" or "Case Pending" in the Status column indicates that a final disposition of the subject small company rate increase request or rate case had not been reached as of 06/30/06.
4. An entry of "Request Rejected" in the Status column indicates the subject request did not meet the minimum submission requirements of the small company rate increase procedure.
5. An entry of "Request Closed" in the Status column indicates that the Staff and the involved company could not reach an agreement regarding the amount of increase needed or that an increase was not needed at all.
6. An entry of "Request Withdrawn" in the Status column indicates that the involved company decided not to continue to pursue its request to completion.
7. Dollar amounts in the Increase column are rounded to the nearest \$5 amount.
8. N/A = Not Applicable.

WATER & SEWER RATE INCREASES, cont'd.

Requests/Cases Resolved, Pending and/or Submitted

Tracking/Case Number	Company	Status of Request	Increase Granted
QS-2006-0001 (SR-2006-0249)	Hickory Hills Water & Sewer Company	Increase Granted Effective 06/30/06	\$2,413
QW-2006-0002 (WR-2006-0250)	Hickory Hills Water & Sewer Company	Decrease Ordered Effective 06/30/06	(\$840)
QS-2006-0003	Central Jefferson County Utility Company	Request Pending	N/A
QS-2006-0004	Taneycomo Highlands	Request Pending	N/A
WR-2006-0425 SR-2006-0426	Algonquin Water Resources of Missouri	Cases Pending	N/A
QW-2006-0005	Franklin County Water Company	Request Pending	N/A
QW-2006-0006	Moore Bend Water Company	Request Pending	N/A
QS-2007-0001 QW-2007-0002	Gladlo Water & Sewer Company Gladlo Water & Sewer Company	Request Pending Request Pending	N/A
QW-2007-0003	IH Utilities	Request Pending	N/A
QS-2007-0004	West 16th Sewer Company	Request Pending	N/A
QS-2007-0005	WPC Sewer Company	Request Pending	N/A

NOTES:

1. The first block of numbers (i.e. - 2005) in the Tracking Number or Case Number reflects the fiscal year in which the subject small company rate increase request or rate case was submitted to the Commission.
2. EFIS Tracking Numbers used in lieu of Tariff Tracking Numbers for small company rate increase requests submitted after 04/17/02. QW = small water company requests QS = small sewer company requests
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7. Dollar amounts in the Increase column are rounded to the nearest \$5 amount.
8. N/A = Not Applicable.

Natural Gas Utilities Statistics

Calendar Year 2005 (Missouri Jurisdictional)

Name of Company	Mcfs Sold	Operating Revenues (\$)	Residential Customers	Total Customers
Aquila Networks - L&P (1)	584,194	6,724,909	5,222	6,006
Aquila Networks - MPS (2)	3,826,007	49,588,827	36,620	41,375
Atmos Energy Corp. [Associated] (3)	4,149,276	46,668,322	39,116	44,681
Atmos Energy Corp. [UC/Greeley] (4)	1,699,845	17,399,857	13,079	14,884
Fidelity Natural Gas, Inc.	239,101	718,021	1,096	1,340
Laclede Gas Company	70,815,691	813,360,898	589,082	629,572
Missouri Gas Energy (5)	51,204,823	654,145,164	442,222	509,716
Missouri Gas Utility, Inc.	60,611	698,654	693	735
Southern Missouri Gas Co., L.P. (6)	699,200	9,657,518	6,689	7,425
Union Electric Company (7)	11,928,805	161,459,983	109,465	122,396
Totals:	145,207,553	\$ 1,760,422,153	1,243,284	1,378,130

Source: MoPSC FERC Form 2 - 2005 Annual Reports (Missouri Jurisdictional)

Intrastate Pipelines	Mcfs Delivered	Operating Revenues (\$)	Transportation Customers
Missouri Gas Company (8)	1,795,274	\$ 3,815,179	10
Missouri Pipeline Company (8)	11,543,117	5,811,537	11
TOTALS:	13,338,391	\$ 9,626,716	21

(1) Aquila Inc. d/b/a Aquila Networks, Aquila Networks - L&P

(2) Aquila Inc. d/b/a Aquila Networks, Aquila Networks - MPS

(3) Associated, a division of Atmos Energy Corp.

(4) United Cities and Greeley, a division of Atmos Energy Corp.

(5) A division of Southern Union Co.

(6) Southern Missouri Gas Co., L.P., Tartan Energy Co., L.C.

(7) Union Electric Co. d/b/a AmerenUE Gas Districts

(8) A subsidiary of Gateway Pipeline Company, Inc.

Electric Utilities Statistics

Calendar Year 2005 (Missouri Jurisdictional)

Name of Company	MWhs Sold 2005	Operating Revenues 2005	Residential Customers	Total Customers
Aquila Networks - L&P (1)	1,910,537	\$ 99,390,452	57,575	65,216
Aquila Networks - MPS (2)	5,642,983	364,169,401	202,425	232,866
The Empire District Electric Co.	4,043,708	287,348,630	118,139	140,807
Kansas City Power & Light Co.	8,626,630	486,860,946	236,612	268,788
Union Electric Company (3)	36,273,451	2,088,027,442	1,010,860	1,158,996
TOTALS:	56,497,309	3,325,796,871	1,625,611	1,866,673

Source: MoPSC FERC Form 1 2005 Annual Reports (Missouri Jurisdictional)

(1) Aquila, Inc. d/b/a Aquila Networks, Aquila Networks-L&P

(2) Aquila Inc. d/b/a Aquila Networks, Aquila Networks-MPS

(3) Union Electric Company d/b/a AmerenUE

Steam Utilities Statistics

Calendar Year 2005 (Missouri Jurisdictional)

Name of Company	MMBtus Sold 2005	Operating Revenues 2005	Residential Customers	Total Customers
Aquila Networks - L&P (1)	1,855,745	\$ 7,696,029	0	7
Trigen-Kansas City District Energy Corp.	825,448	7,630,074	0	56
TOTALS:	2,681,193	15,326,103	0	63

Source: 2005 Annual Reports

(1) Aquila, Inc. d/b/a Aquila Networks, Aquila L&P.

Water Company Statistics*

Calendar Year 2005 (Missouri Jurisdictional)

<u>Name of Company</u>	<u>Customers</u>	<u>Name of Company</u>	<u>Customers</u>
Missouri-American Water Company	474,045	Stockton Hills Water Company	156
Raytown Water Company	6,719	Woodland Manor Water Company	155
Empire District Electric Company	5,855	Suburban Water Company	150
Tri-States Utility Company	3,186	Swiss Villa Utilities Inc.	139
U. S. Water Company	2,173	Riverfork Water Company	139
Ozark Shores Water Company	1,518	Missouri Utilities Company	134
Terre Du Lac Utilities Corporation	1,223	White River Valley Water Company	132
AquaSource/R.U.	1,125	Lakeland Heights Water Company	118
Meadows Water Company	1,090	Rogue Creek Utilities	114
Rex Deffenderfer Enterprises	1,028	Kimberling City Water Company	103
Algonquin Water Resources	909	Moore Bend Water Company	96
I. H. Utilities	714	Midland Water Company	92
Central Jefferson County Utility	681	Evergreen Lake Water Company	83
Noel Water Company	648	Frimel Water Company**	75
Taney County Utilities Corp.	528	Gladlo Water & Sewer Company	64
KMB Utility Corporation	518	Whispering Hills Water Company	56
Highway H Utilities	461	Oakbrier Water Company	55
AquaSource/C.U.	450	Roy L Utilities	53
Roark Water & Sewer Company	442	Argyle Estates Water System	52
Osage Water Company	402	Franklin County Service Company	52
Lake Region Water & Sewer Company***	356	Hickory Hills Water & Sewer Co.	48
	325	Spokane Highlands Water Company	47
Foxtire Utility Company	298	Bear Creek Water & Sewer Company	37
Loma Linda Development Company	288		25
S.K.&M. Water & Sewer Company	249	Village Greens Water Company	22
Port Perry Service Company	216	Valley Woods Water Company	21
Public Funding Corp. - City of Ozark	200	Lake Northwoods Utility Company	12
Emerald Pointe Utility Company	199	Environmental Utilities	10
Hillcrest Utilities Company	188	Southtown Utilities Company	3
Willows Utility Company	187	Kimberling Investments, Inc.	2
Gascony Water Company	175	Middle Fork Water Company	0
Franklin County Water Company	164	Calvey Brook Water Company	
Peaceful Valley Service Company			

* Active companies as of 06/30/06, except as noted. Customer numbers based on most recent available (except for two entries related to companies that provide wholesale service).

** Sold or Sale Pending subsequent to 06/30/06

*** Customer count includes individual condo units & motel units

Sewer Company Statistics*

Calendar Year 2005 (Missouri Jurisdictional)

<u>Name of Company</u>	<u>Customers</u>	<u>Name of Company</u>	<u>Customers</u>
AquaSource/C.U.	1,981	West 16th Street Sewer Company	137
Terre Du Lac Utilities Corporation	1,163	Missouri Utilities Company	133
Lake Region Water & Sewer Co. * *	1,162	M.P.B. Inc.	130
Missouri-American Water Company	1,139	Rogue Creek Utilities	101
House Springs Sewer Company	1,029	Savannah Heights Industrial Treatment	101
Meramec Sewer Company	934	North Oak Sewer	75
Central Jefferson County Utility	681	Mill Creek Sewer Company	74
Timber Creek Sewer Company	596	S. T. Ventures	72
Roark Water & Sewer Company	422	Taney County Utilities Corporation	72
Algonquin Water Resources	391	Central Rivers Wastewater Utility	71
Osage Water Company	346	Highway H Utilities	67
P.C.B. Inc.	304	WPC Sewer Company	67
Meadows Water Company	278	Franklin County Service Company	65
Lincoln County Utilities***	230	Gladlo Water & Sewer Company	64
Village Water & Sewer	210	Cannon Home Association	61
Emerald Pointe Utility Company	200	Roy L Utilities	53
Hillcrest Utilities Company	198	Hickory Hills Water & Sewer Co.	47
L. W. Sewer Corporation	193	TBJ Sewer Systems	45
Willows Utility Company	188	Warren County Sewer Company	34
KMB Utility Corporation	188	Bear Creek Water & Sewer Company	24
Foxfire Utility Company	181	Lake Northwoods Utility Company	21
Stoddard County Sewer Company	174	Taneycomo Highlands	19
S.K.&M. Water & Sewer Company	172	AquaSource Development Company	15
Peaceful Valley Service Company	164	Valley Woods Water Company	14
Port Perry Service Company	161	Southtown Utilities Company	10
Swiss Villa Utilities	139	Calvey Brook Sewer Co.	0
		EnviroWater, LLC	0

* Active companies as of 06/30/06. Customer numbers based on most recent available data.

** Customer count includes individual condo units and motel units

*** Sold or Sale Pending subsequent to 06/30/06

Contacting the PSC

Missouri Public Service Commission offices are located in Kansas City, Jefferson City and St. Louis. The PSC is open from 8:00-12:00 noon and 1:00-5:00 p.m., Monday through Friday, except on state holidays.

Jefferson City: Missouri Public Service Commission
Governor Office Building
200 Madison Street
(Mailing Address: P.O. Box 360)
Jefferson City, MO 65102
**Toll-free Consumer Hotline for
Complaints: (800) 392-4211**
**Manufactured Housing/Modular Unit
Complaints: (800) 819-3180**
Other Business: (573) 751-3234
Fax: (573) 751-1847

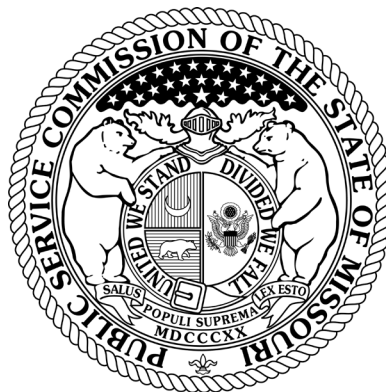
St. Louis: Missouri Public Service Commission
9900 Page Avenue
Suite 103
Overland, MO 63132
Telephone No.: (314) 877-2778
Fax: (314) 877-2787

Kansas City: Missouri Public Service Commission
Fletcher Daniels Building
615 E. 13th Street, Room G8
Kansas City, MO 64106
Telephone No.: (816) 889-3943
Fax: (816) 889-3957

Web site address: <http://www.psc.mo.gov>

PSC Commissioners Past and Present

<u>Commissioner</u>	<u>Length of Service</u>	<u>Commissioner</u>	<u>Length of Service</u>
John M. Atkinson	1913-1916	Tyre W. Burton	1952-1965
William F. Woerner	1913-1914	Frank Collier	1953-1954
John Kennish	1913-1917; 1920	M.J. McQueen	1954-1956
Frank A. Wrightman	1913-1915	D.D. McDonald	1955-1961
Howard B. Shaw	1913-1917	William Barton	1956-1965
Edwin J. Bean	1914-1925	Frank J. Iuen	1959-1963
Eugene McQuillin	1915-1917	Frank W. May	1961-1967
William G. Busby	1916-1921	Donal D. Guffey	1963-1968
David E. Blair	1917-1920	William R. Clark	1965-1975
Noah W. Simpson	1917-1923	Charles J. Fain	1965-1977
Edward Flad	1917-1921	Howard Elliot, Jr.	1967-1970
John A. Kurtz	1920-1923	Marvin E. Jones	1967-1973
Hugh McIndoe	1921-1923	Willard D. Reine	1968-1975
A.J. O'Reilly	1921-1925	James F. Mauze	1971-1975
Richard H. Musser	1923-1925	A. Robert Pierce, Jr.	1973-1977
Thomas J. Brown	1923-1928	James P. Mulvaney	1975-1977
D.E. Calfee	1925-1929	Stephen B. Jones	1975-1979
Almon Ing	1925-1933	Hugh A. Sprague	1975-1979
S.M. Hutchinson	1925-1931	Charles J. Fraas	1977-1983
J.H. Porter	1925-1933	Leah Brock McCartney	1977-1983
James P. Painter	1928-1929	Alberta Slavin	1977-1981
Milton R. Stahl	1929-1933	Stephanie Bryant	1979-1981
J. Fred Hull	1929-1934	Larry W. Dority	1979-1983
George H. English	1931-1936	John C. Shapleigh	1981-1984
J.C. Collet	1933-1935	Charlotte Musgrave	1981-1988
William Stoecker	1933-1936	Allan G. Mueller	1983-1996
W.M. Anderson	1933-1938	Connie Hendren	1983-1989
Harry E. McPherson	1934-1935	James M. Fischer	1984-1989
Sam O. Hargus	1935-1937	William D. Steinmeier	1984-1992
John S. Boyer	1935-1941	David Rauch	1989-1993
Albert D. Nortoni	1936-1938	Kenneth McClure	1990-1997
John A. Ferguson	1936-1944	Ruby Letsch-Roderique	1990-1991
J.D. James	1937-1942	Patricia Perkins	1991-1995
Marion S. Francis	1938-1941	Duncan Kincheloe	1992-1997
Scott Wilson	1938-1941	Harold Crumpton	1993-2000
Paul Van Osdol	1941-1943	M. Dianne Drainer	1995-2001
Frederick Stueck	1941-1943	Karl Zobrist	1996-1997
Kyle Williams	1941-1952	Robert Schemenauer	1998-2001
Charles L. Henson	1942-1959	Sheila Lumpe	1997-2003
Albert Miller	1943-1944	Kelvin Simmons	2000-2003
Richard Arens	1944-1945	Bryan Forbis	2001-2003
Agnes Mae Wilson	1943-1949	Connie Murray	1997-present
E.L. McClintock	1945-1967	Steve Gaw	2001-present
Morris E. Osburn	1945-1952	Robert Clayton III	2003-present
John P. Randolph	1949-1951	Jeff Davis	2004-present
Henry McKay Cary	1950-1955	Linward "Lin" Appling	2004-present
Maurice Covert	1952-1953		



Missouri Public Service Commission
PO Box 360 Jefferson City, Missouri 65102
Consumer Hotline: 1-800-392-4211
Website: <http://www.psc.mo.gov>
