

TELEINFOSYSTEMS, INC.

MEMO

DATE: March 11, 2004
TO: RMS Users
FROM: Bill Warinner
RE: RMS v2.18 Update

We have modified RMS with a change recently brought to our attention by RMS Users. RMS Version 2.18 contains a correction to a formula error in the calculation of the Modified Big Three Expense ratio used to allocate General Purpose Computers to the Part 69 rate elements, including Billing and Collection, in accordance with the MAG rules change effective July 1, 2002. TIS does not expect any significant change in interstate revenue requirements as a result of this formula change, but existing input files should be reprocessed to determine any impacts from these changes.

The components used to calculate Operating and Nonoperating Fixed charges have been changed to exclude Accounts 4360 – Other Deferred Credits, 1410 - Noncurrent Asset Post Retirement, 1439 - Equal Access Equipment and 1500 - Other Jurisdictional Assets - Net. TIS does not expect any significant change in interstate revenue requirements as a result of this formula change, but existing input files should be reprocessed to determine any impacts from these changes.

The Part 69 SCH1 Pool Reporting Summary now includes the Federal USF Contribution separate from the Common Line Expenses and Other Taxes. This was performed at the request of NECA.

In addition, RMS v2.18 contains updated Part 36 and Part 69 TRP schedules to comply with the latest TRP schedules published by the FCC.

A detailed analysis of the modifications/enhancements to RMS v2.18 is attached to this memo.

RMS v2.18 does not require an updated version of the RMS input file. Any existing v2.1 input file may continue to be used.

RMS v2.18 and prior versions may, under certain circumstances, result in a negative Federal Tax calculation. As this would be an incorrect result, please contact Bill Warinner or Andy Denzer for assistance if that occurs.

The RMS v2.18 program is available for immediate download from the website of WGA at <http://www.wgacpa.com>. Further questions can be directed to Bill Warinner or Andy Denzer at 913-599-3236.

RMS v2.18 Program Modifications

Changes to Part 36

Calculation of Operating and Nonoperating Fixed Charges

The components used to calculate Operating and Nonoperating Fixed charges have been changed to exclude Accounts 4310 – Other L/T Liabilities – Post Retirement Benefits, 4360 – Other Deferred Credits, 1410 - Noncurrent Asset Post Retirement, 1439 - Equal Access Equipment and 1500 - Other Jurisdictional Assets - Net. The formulas in Cell E677 and E678 have been modified to include cells H-R 464, 465, 466, 467, 469 and 470.

Part 36 TRP

The RMS Part 36 TRP has been updated to match the 2002 FCC TRP schedules. The 2003 FCC TRP forms do not contain any changes from 2002. The changes include the addition of significant detail related to expenses and plant, including Plant Specific and Customer Operations expense and Central Office and Cable and Wire Facilities plant. RMS also contains a correction we have made to the formulas provided by the FCC in DA-02-1308A3.xls. This correction eliminates the double counting of Line 321 Operator Systems in the calculation of Line 370 Total Plant In Service.

Changes to Part 69

Modified Big Three Expense Ratio

The Modified Big Three Expense ratio on Schedule A-3, Line 1 is to be calculated excluding expenses that are apportioned on the basis of allocators that include General Support Facilities investment. The ratio was previously calculated including Customer Service Categories: Presubscription, Interexchange Carrier Service Order Processing, Interexchange Carrier Payment and Collection, Interexchange Carrier Billing Inquiry, and Cat 3-All Other Customer Service. Each of these categories was apportioned on the basis of allocators that include General Support Facilities investment. RMS has been modified to remove these categories from the calculation of the Modified Big Three Expense ratio. This change will result in a minor increase in the General Purpose Computers allocated to the Billing and Collection rate element and an equivalent decrease in the allocation to access elements.

SCH1 Pool Reporting Summary

The Part 69 SCH1 Pool Reporting Summary now includes the Federal USF Contribution separate from the Common Line Expenses and Other Taxes. This complies with the modified NECA reporting components.

Part 69 TRP

The RMS Part 69 TRP has been updated to match the 2002 FCC TRP schedules. The 2003 FCC TRP forms do not contain any changes from 2002. The changes include the addition of significant detail related to expenses and plant, including Plant Specific and Customer Operations expense and Central Office and Cable and Wire Facilities plant. RMS also contains corrections we have made to the formulas provided by the FCC in DA-02-1308A3.xls. These corrections include eliminating the double counting of Line 321 Operator Systems in the calculation of Line 370 Total Plant In Service and eliminating the subtraction of Line 270

Part 69 TRP (Continued)

Adjustment for FIT, which includes Operating Fixed Charges, from Line 300 Total Expenses & Taxes. Also, we've included formulas to calculate Line 420 Return and Line 430 Rate of Return.

Federal and State Income Taxes in the TRP may be calculated two ways based on the Part 69 TRP user input. The user may elect to use the amounts calculated for Revenue Requirements or an effective tax rate method based on the general ledger amounts from the RMS input. Cell J2 of the Part 69 TRP is a user input. If a Y is input, then the taxes calculated to determine cost study revenue requirements are used for TRP reporting and Rate of Return calculations. If an N is input, then the effective tax rate for the total company is calculated by dividing the RMS Input Line 503 and 504 Federal and State Taxes – General Ledger - by the total company Net Taxable Income (Schedule 12, Line 27). That effective tax rate is applied to Approximate State and Federal Taxable Income from Revenues input into the TRP Lines 100-150 less TRP Expenses, Taxes and Income Adjustments.

The TRP schedules can be used for historical or prospective purposes depending on the input period used. In order to properly use the TRP, the appropriate revenue items should be input on Lines 100-150 of the Part 69 TRP schedules. To immediately see the resulting calculations, press the F9 key to force the sheet to recalculate. The revenue detail will remain in RMS as long as RMS is open. The revenue detail will be printed with the remainder of the TRP form, but cannot be saved and will be lost when RMS is closed.

Please note that the detail of Customer Operations is not meant to add up to the total of Line 200 Customer Operations because the FCC is only requesting certain, not all, detail categories. RMS includes Information Origination/Termination expenses in Plant Specific Expenses even though we almost always expect it to be zero. The FCC-TRP includes columns for Part 64 Adjustments, and Rate Elements for Inside Wire, Equal Access and Host/Remote which cannot be automatically populated since RMS does not contain those rate elements. The Part 64 Adjustments column of the Part 36 TRP form can be manually populated and the Total Company column will be appropriately grossed up to reflect those adjustments.

Changes to the Input File

There were no changes to the RMS Input file as a result of the v2.18 revisions. The current version of the RMS input file remains v2.11.