



June 3, 1994

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Mr. David Rauch
Executive Secretary
Missouri Public Service Commission
301 West High Street, Suite 530
Jefferson City, Missouri 65101

Re: Case No. ~~7810-27~~

Dear Mr. Rauch:

Enclosed for filing with the Commission in the above-referenced case is the original and fourteen copies of Southwestern Bell Telephone Company's Reply Comments to Commission Staff's and Public Counsel's Comments on Scope.

Please stamp "Filed" on the extra copy and return to me in the enclosed self-addressed, stamped envelope.

Thank you for bringing this matter to the attention of the Commission.

Very truly yours,



Ann E. Neuleman

Enclosures

CC: Parties of Record

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BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED
JUN 6 1994
MISSOURI
PUBLIC SERVICE COMMISSION

In the matter of the Investigation)
into Southwestern Bell Telephone) Case No. TO-94-184
Company's Affiliate Transactions)

REPLY COMMENTS TO COMMISSION STAFF'S AND PUBLIC COUNSEL'S
COMMENTS ON SCORE

Although Southwestern Bell Telephone Company (Southwestern Bell) disagrees with the Commission Staff's conclusion that the FCC/State Joint Audit Report is of limited use in resolving the matters suggested by the Commission to be reviewed in this docket,¹ the Company supports Staff's proposal to close the instant docket. If, after closing this docket, the Commission still believes that there should be an affiliate transaction inquiry, then Southwestern Bell supports Staff's alternative proposal to establish an informal

¹Staff's apparent problem with the FCC/State Joint Audit is that it focused on "whether SWBT's accounting practices are in accord with FCC rules without expressing any opinion as to whether the FCC rules are sufficient to prevent possible affiliate transaction abuses." As Southwestern Bell pointed out in its Motion to Dismiss and Alternative Comments as to Score, this docket is not the proper forum to look at potential changes to the FCC's rules. The remedy in such an instance is to petition the FCC. Also, if the intent is to adopt different affiliate transaction rules and policies for the Missouri intrastate jurisdiction, then such a focus is likewise improper. Both the applicable Missouri statute and the Commission's own rules require the Commission to follow the interstate accounting rules as nearly as may be. §392.210(2), RSMo Supp 1993; 4 CSR 240-10.010(3)(A); 4 CSR 240-10.040(1) & (2). Moreover, Staff is wrong when it suggests that the FCC/State Joint Audit report reflected a limited review of Southwestern Bell's affiliate transactions. In fact, the FCC/State Joint Audit examined approximately 70% of the total billings by affiliates to Southwestern Bell and 69% of the total amount billed by Southwestern Bell to affiliates. This is far from a small sampling, and was instead a comprehensive review that should not be repeated.

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investigation and education process on the issue of affiliate transactions applicable to all regulated utilities.

Southwestern Bell similarly recognized in its comments on the scope of this docket that a formal docket is not the appropriate vehicle to address the Commission's apparent goal to develop a more reasonable and workable process to review affiliate transactions in future complaint or rate cases. Further, as noted in Southwestern Bell's Application for Rehearing in TC-93-224, affiliate transactions are not unique to Southwestern Bell. Many other companies under the Commission's jurisdiction have affiliate relationships. Focusing solely on Southwestern Bell, especially in light of the recent audits which have already taken place, is unnecessary, redundant and certainly will not result in a consistent policy for all regulated utilities.¹ Therefore, while Southwestern Bell believes an affiliate transaction investigation is unnecessary, if the Commission decides otherwise, then Southwestern Bell supports Staff's suggestion that the instant docket be closed and that an informal educational process focusing on affiliate transactions in general be established.

Public Counsel's comments by and large reiterate the

¹Southwestern Bell takes particular issue with Staff's suggestion that there should be any further investigation of its transactions with Southwestern Bell Yellow Pages and Southwestern Bell Printing. In Case No. TC-93-224, the Staff spent over 5,000 hours of audit time reviewing such transactions over a ten year period. In light of the comprehensive investigation into those entities which just occurred, Southwestern Bell believes that at the very least the Commission should exempt them from another duplicative and burdensome Staff investigation. (Southwestern Bell Comments, p. 7 and fn. 9)

suggestions made by Technical Associates, Inc. (TAI) in Case No. TC-93-224. Southwestern Bell responded to TAI's recommendations and the Commission similarly considered them in the TC-93-224 case. As previously addressed by Southwestern Bell, TAI's recommendations were based on difficulties caused by TAI and TAI's approach rather than actual problems needing corrective action. Moreover, as noted in Southwestern Bell's comments on scope, some of the problems identified in TC-93-224 by TAI have already been addressed and apparently corrected to TAI's satisfaction. The only remaining issues concern modifications to the FCC rules on accounting for affiliate transactions. This docket is not the proper forum in which to adopt such changes.

Accordingly, Southwestern Bell submits the instant docket should be dismissed and, if the Commission desires to further examine affiliate transactions by regulated utilities in this state, it should instead conduct an industry-wide informal educational study of affiliate transactions.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing document were served to all parties on the Service List by first-class postage prepaid, U.S. Mail.

Dated at St. Louis, Missouri, the 3rd day of June, 1994.



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