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**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service
Commission held at its office
in Jefferson City on the 3rd
day of April, 1996.

In the matter of the investigation into Southwestern
Bell Telephone Company's affiliate transactions.

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) Case No. TO-94-184
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)

**ORDER ADDRESSING PROPOSED RULE
AND ESTABLISHING DOCKETS**

In its Report And Order in TC-93-224, the Commission established this docket for the purpose of investigating Southwestern Bell Telephone Company's (SWB's) affiliate transactions. The docket was established to ensure that SWB's affiliate transactions are subject to proper review in any future general rate proceeding. Based upon the positions of the parties, the Commission issued an order on November 4, 1994, ordering the parties to file a stipulation of all procedures agreed to concerning the review of the affiliate transactions of SWB, a pleading indicating the issues not agreed to, and a procedural schedule for resolving the unresolved issues.

On April 11, 1995, the Commission issued an order approving a stipulation and agreement which established pre-audit procedures which will allow parties access to information concerning SWB's affiliate transactions. The parties also agreed to a pre-audit conference to be held in June 1997. The parties stated that they still disagreed as to the standards to be applied to affiliate transactions. SWB supported utilization of the Federal Communications Commission (FCC) standards. The position of the Commission Staff (Staff) and the Office of the Public Counsel (OPC) was that additional safeguards beyond those established by the FCC are necessary.

In its April 11, 1995, order, the Commission indicated that this case would be held in abeyance until January 5, 1996. At that time the Commission ordered the parties to either file a proposed rule or a proposed procedural schedule.

On January 5, 1996, Staff filed a pleading which included a proposed rule for affiliate transactions. The rule proposes that its terms and provisions apply to all regulated utilities, not just SWB or other telecommunications companies. On January 29, 1996, SWB filed a response to Staff's proposed rule. A telephone conference was held on February 15, 1996, at which the parties reiterated their basic positions regarding an affiliate transactions rule. On February 28, 1996, Laclede Gas Company (Laclede), Union Electric Company (UE), The Empire District Electric Company (Empire), Missouri Gas Energy (MGE), Associated Natural Gas Company (Associated), Missouri Public Service (MPS), St. Joseph Light & Power Company (SJLP), United Cities Gas Company (United Cities), and Kansas City Power & Light Company (KCPL) filed a letter opposing a generic rule before they had an opportunity to analyze the rule and participate in discussions concerning its provisions.

As predicted, the U.S. Congress has enacted major telecommunications legislation which is designed to bring competition to basic local exchange service. This new legislation also contains provisions for unbundling and pricing for interconnection with local exchange carriers (LECs). The potential for increased activity between an LEC and an affiliate will increase, but so will the competition for LEC services. Even with the new activity, the majority of services which SWB purchases from or supplies to an affiliate, though, will not be subject to competition. Services such as those provided by Southwestern Bell Corporation (SWB) to SWB are not services that SWB would realistically obtain from other suppliers.

The Commission has reviewed the proposed rule and SWB's response, as well as the letter from the other utilities. The Commission still believes that standards regarding affiliate transactions between regulated utilities and their sister companies are necessary. Those standards will allow the Commission, other parties, and the utility to address affiliate transaction issues based upon compliance with those standards in any proceeding where the transactions become an issue. The parties are to be commended for the progress they made in this case in addressing an audit trail. The question of standards, though, has not been resolved nor has the question of whether a rule would apply to all regulated utilities, telecommunications utilities, or just SWB.

The Commission is also concerned that any standards developed provide reasonable requirements without the negative effects such as those raised by SWB in its response to Staff's proposed rule. Any standards should be cost-effective and should be as objective as possible. Staff's rule provides standards which appear stricter than those found in current FCC rules. The FCC has proposed changes to its rules which Staff has indicated are improvements, but the FCC rulemaking process has not been completed. There are also provisions of the Telecommunications Act of 1996 which deal with affiliate transactions.

Based upon its review of this docket, Staff's proposed rule and the state of flux in the telecommunications industry, the Commission is not prepared to publish a proposed rule at this time. The Commission, though, believes a proposed rule should be published for public comment as soon as possible. To that end and to ensure that regulated industries have input into the rulemaking process, the Commission will establish two cases in which responses will be requested. One docket will be for responses by the telecommunications industry concerning Staff's proposed rule, and the second docket will be for the gas, electric, water and sewer industries to comment on Staff's proposed rule.

The Commission is establishing a separate docket for the telecommunications industry because it believes that an affiliate transactions rule should apply to all carriers, not just SWB. The separate docket for the gas, electric, water and sewer industries is being established to allow those interested an opportunity to address Staff's proposal. The telecommunications rule will obviously move on a faster track than the energy case because of the groundwork of this case.

Staff's rule will be utilized as the starting point for discussions. The Commission is not convinced that the provisions of Staff's proposal are the most reasonable or the best standards that could be adopted. The proposed rule, though, does provide a good starting point. One item in Staff's proposal that the Commission questions is the "Evidentiary Standard." The Commission will be interested in reviewing the comments on this section as well as the others.

The Commission believes that the purpose of this case has been completed but will leave the case open to receive a report from the parties on the pre-audit conference scheduled for June 1997. The stipulation approved in this case in April 1995 provides for the pre-audit conference to analyze the process agreed to by the parties. The Commission is very interested in this procedure and how it works and will order the parties to report on the conference. Completion of that process and the development of standards should enable regulated companies, especially SWB, and parties in Commission cases to address affiliate transaction issues with more certainty and a more focused approach.

IT IS THEREFORE ORDERED:

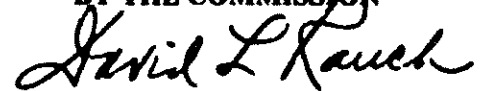
1. That Case No. TO-95-328 is hereby established. The style of the case shall be: "In the matter of the development of an affiliate transaction rule for telecommunications companies."

2. That Case No. OO-96-329 is hereby established. The style of the case shall be: "In the matter of the development of an affiliate transaction rule for gas, electric, water and sewer companies."

3. That the parties shall file a report concerning the pre-audit conference scheduled for June 1997. The report shall be filed within thirty (30) days of the conclusion of the conference.

4. That this order shall become effective on the date hereof.

BY THE COMMISSION



David L. Rauch
Executive Secretary

(S E A L)

Zobrist, Chm., McClure, Kincheloe,
Crumpton and Drainer, CC., concur.

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Chairman

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Commissioner

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STATE OF MISSOURI

OFFICE OF THE PUBLIC SERVICE COMMISSION

I have compared the preceding copy with the original on file in this office and
I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission, at Jefferson City,
Missouri, this 3 day of APRIL, 1996.

David L. Rauch

David L. Rauch
Executive Secretary