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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 2nd
day of November, 1993.

In the matter of the application of Northeast
Missouri Rural Telephone Company of Green City,
Missouri, for authority to secure an additional
loan from the United States of America through
the Rural Electrification Administration, and in
connection therewith to execute a mortgage note,
telephone loan and contract amendment.

CASE NO. TF-82-172

ORDER APPROVING FINANCING

On January 29, 1982, the Commission authorized Northeast Missouri Rural Telephone Company of Green City, Missouri (Northeast) to execute a telephone loan contract amendment and mortgage note for the purpose of borrowing \$1,960,000 from the United States of America through the Rural Electrification Administration (REA). Subsequent to the Commission's authorization, Northeast sought and obtained advances from the REA totaling approximately \$1,365,820, and on October 7, 1993, Northeast filed a Supplemental Application in this case requesting authority to borrow the remainder of the authorized amount, \$594,180. On October 20, 1993, the Commission's Staff (Staff) filed a memorandum in this case recommending approval of this request.

The Commission, upon consideration of the verified application, the exhibits offered in support of the application, and the recommendation of its Staff, determines that a hearing is unnecessary to resolve the matters and issues herein and finds and concludes as follows.

Northeast is a Missouri corporation which provides telecommunications services to the public located in eleven telephone exchanges in the Missouri Counties of Adair, Clark, Knox, Linn, Macon, Putnam, Schuyler, Scotland, and Sullivan, and is a public utility subject to the jurisdiction of this Commission pursuant to Chapters 386 and 393, RSMo 1986, as amended.

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Northeast seeks approval from the Commission to borrow \$594,180 from the REA. The Commission issued an order on January 29, 1982 authorizing Northeast to execute a telephone loan contract amendment and mortgage note for the purpose of borrowing \$1,960,000 from the REA. Of the \$1,960,000 Northeast was authorized to borrow, the Company sought and obtained advances of only \$1,365,820. The \$594,180 which Northeast seeks to borrow is the remainder of the authorized \$1,960,000 which has not yet been advanced to Northeast. Attached to Northeast's Supplemental Application are the following documents: (1) an REA Telephone Loan Basis Date Agreement, entitled Agreement Between United States of America and Northeast Missouri Rural Telephone Company Dated as of July 6, 1993, attached as Exhibit No. 1; (2) a waiver of notice and the minutes of a special meeting of the Board of Directors of Northeast on September 11, 1993, containing the Board's resolution approving the execution of the Basis Date Agreement, attached as Exhibit No. 2; (3) a pro forma comparative balance sheet for December 31, 1992 and 1993, attached as Exhibit No. 3; and (4) a summary of capital expenditures for the years 1988 to 1992, attached as Exhibit No. 4.

According to Northeast's application, the REA has indicated it is willing to advance the remaining monies available under the prior loan, on essentially the same terms and conditions as those of the prior loan funds, provided Northeast executes a Basis Date Agreement, attached as Exhibit No. 1 to Northeast's Supplemental Application. The \$594,180 would be loaned to Northeast at an interest rate of two percent per annum, and Northeast would be required to repay these funds within 35 years from the date of the Basis Date Agreement. For the first 18 months of that 35-year period Northeast would be required to make quarterly payments of interest alone, and thereafter make quarterly payments of \$10.26 per \$1,000 of the principal balance advanced, with each of these letter payments applied first to the payment of interest on the principal balance, and then to the unpaid principal balance. The borrowing of the new funds is to be

) secured by a Mortgage and Security Agreement dated July 9, 1979, entered into
) between Northeast and the United States of America, which was previously approved
by the Commission in Case No. TF-79-199.

Northeast sought the prior loan of \$1,365,820 for the purpose of funding the upgrading of its telephone system to replace certain plant, to install certain new plant, and to operate its system. Northeast proposes to borrow the remaining amount of \$594,180 for essentially the same purposes. Specifically, Northeast seeks to use the loan proceeds for the purpose of reimbursing its treasury for monies previously spent on system improvements, to replace certain plant, to install certain new plant, and to operate its system.

Staff filed its memorandum recommending approval on October 20, 1993. Staff reviewed the effects of the additional borrowings on Northeast's financial statements, and indicates that Northeast's long-term debt ratio will increase from 50.36 percent to 51.58 percent, while its pre-tax interest coverage will decrease from 4.45 times to 4.40 times. Staff believes that these ratios are reasonable for Northeast at this time, and that the impacts of the additional borrowing on Northeast's financial condition are immaterial. Staff maintains that the loan terms setting an interest rate of two percent and requiring repayment within 35 years are reasonable, and concludes that the additional debt should not be detrimental to either the continued successful operations of Northeast or to its ratepayers. In addition, Staff maintains that the purposes to which the loan proceeds will be applied are reasonable, but indicates it has completed no study nor takes any position on the necessity of the improvements. Staff also notes that the loan proceeds are new money to Northeast, and are therefore subject to the Commission's fee schedule. Staff recommends that Northeast's Supplemental Application be approved by the Commission, subject to the condition that Northeast be required to file journal entries with the Commission's Internal Accounting Department in order for the fee schedule to be

applied, and be required to submit a copy of the final form of the Basis Date Agreement within 30 days of its execution.

The Commission has reviewed the application and exhibits of Northeast and has reviewed the recommendation of Staff, and determines that Northeast should be granted authority to borrow \$594,180 from the REA. The Commission finds that the terms of the loan, requiring repayment within 35 years at an interest rate of two percent per annum, are reasonable. The Commission further finds that Staff's recommendation that approval be conditioned upon the filing of journal entries with the Commission's Internal Accounting Department, and the submission of a copy of the final form of the Basis Date Agreement within 30 days of its execution, is reasonable and appropriate. The Commission is also of the opinion that the uses as contemplated for the proceeds of the loan are reasonable and will inure to the benefit of Northeast's customers and a whole. Thus, the Commission finds that the contemplated loan is reasonably required for the purposes as specified in this order, and such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

Staff indicates in its memorandum that Northeast has requested expedited treatment of its application. The Commission reiterates its position that expedited treatment should not be routinely requested, and determines that expedited treatment is not warranted in the present case, where the REA has already indicated its willingness to loan the funds at issue to Northeast upon execution of a Basis Date Agreement, and Northeast is in little or no danger of losing access to a favorable interest rate.

IT IS THEREFORE ORDERED:

1. That Northeast Missouri Rural Telephone Company of Green City, Missouri be authorized hereby to borrow up to \$594,180 from the United States of America through the Rural Electrification Administration.

2. That Northeast Missouri Rural Telephone Company of Green City, Missouri be authorized hereby to enter into, execute, and deliver a Basis Date Agreement with the United States of America acting through the Rural Electrification Administration, in substantially the form of the Basis Date Agreement attached to the Supplemental Application as Exhibit No. 1.

3. That the proceeds from the loan authorized herein shall be used for the purposes specified herein and no other.

4. That the interest rate applicable to the loan authorized herein shall not exceed two percent (2%) per annum.

5. That the term of the loan authorized herein shall not exceed thirty-five (35) years.

6. That Northeast Missouri Rural Telephone Company of Green City, Missouri be authorized hereby to execute, deliver and perform the necessary agreements relative to the financing herein authorized.

7. That Northeast Missouri Rural Telephone Company of Green City, Missouri be authorized hereby to do all things not contrary to law or to the rules and regulations of the Commission, necessary to the performance of the acts specifically authorized in this order, including the execution of such other agreements and documents as are reasonably necessary to the furtherance of the financing authorized herein.

8. That Northeast Missouri Rural Telephone Company of Green City, Missouri be directed hereby to submit to the Commission's Financial Analysis Department an executed copy of the Basis Date Agreement and any other documents executed in furtherance of the financing herein authorized, within thirty (30) days of the execution thereof.

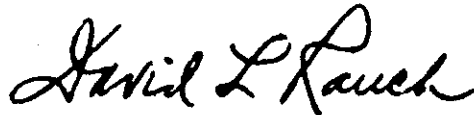
9. That Northeast Missouri Rural Telephone Company of Green City, Missouri be directed hereby to submit to the Commission's Internal Accounting Department a report verified by an appropriate official of Northeast Missouri

Rural Telephone Company of Green City, Missouri, reflecting the journal entries recorded relating to the use and application of the proceeds of the loan authorized to be issued herein.

10. That nothing in this order shall be considered a finding of the Commission of the value for ratemaking purposes of any properties herein involved, or as an acquiescence in the value placed upon said properties by Northeast Missouri Rural Telephone Company of Green City, Missouri. Furthermore, the Commission reserves the right to consider the ratemaking treatment to be afforded this financing transaction, and its resulting cost of capital, in any later proceeding.

11. That this Order shall become effective on November 12, 1993.

BY THE COMMISSION

A handwritten signature in cursive script that reads "David L. Rauch".

David L. Rauch
Executive Secretary

(S E A L)

Mueller, Chm., McClure, Perkins,
Kincheloe and Crumpton, CC., Concur.