

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION
JEFFERSON CITY
September 21, 2000

CASE NO: TF-2000-428

Office of the Public Counsel
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Enclosed find certified copy of an ORDER in the above-numbered case(s).

Sincerely,



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service
Commission held at its office
in Jefferson City on the 21st
day of September, 2000.

In the Matter of the Application of Le-Ru)
Telephone Company for Authority to Borrow an)
Amount Not to Exceed \$9,164,700 from the Rural)
Utilities Service, the Rural Telephone Bank and)
the Federal Financing Bank and in Connection)
therewith to Execute an Amending Telephone Loan)
Contract Amendment, Promissory Notes, and a)
Restated Mortgage, Security Agreement and)
Financing Statement.)

Case No. TF-2000-428

MODIFIED ORDER APPROVING FINANCING

This Modified Order Approving Financing is issued concurrently with the Commission's Order Withdrawing and Modifying Order Approving Financing Pursuant to Motion for Clarification and/or Modification.

On January 18, 2000, Le-Ru Telephone Company (Le-Ru or Company) filed an application with the Commission requesting authority under Section 392.310, RSMo 1994, and 4 CSR 240-2.060 to borrow certain sums, not to exceed \$9,164,700, from the Rural Utilities Service, the Rural Telephone Bank, and the Federal Financing Bank in order to fund capital improvements and to finance its operating needs.

On May 16, 2000, the Commission's Staff filed its recommendation and memorandum in this case, recommending that the Commission issue an order approving Le-Ru's application but with a reduction in the amount Le-Ru would be authorized to borrow to \$7,800,606 and with certain conditions. The Staff stated that the Company's application meets the requirements of Section 392.310, RSMo 1994, and recommended approval subject to modification of the amount and the conditions specified.

On July 7, 2000, the Commission held a hearing on the Company's application. On July 24, 2000, the Company submitted suggested ordered paragraphs for the Commission's consideration. The Commission issued its Order Approving Financing on August 15, 2000. A Notice Correcting Order Nunc Pro Tunc was issued on August 16, 2000, to accurately restate the vote on the August 15, 2000, order. Le-Ru filed its Motion for Clarification and/or Modification on August 22, 2000. The Commission issued its Order Directing Filing on August 29, 2000. The Commission's Staff filed Staff's Response to Motion for Clarification and/or Modification and Recommendations for Modification Order on September 12, 2000.

Le-Ru's Application

Le-Ru is a Missouri corporation based in Stella, Missouri, and provides telecommunication services to approximately 1,400 customers in two exchanges in Newton and McDonald Counties. Le-Ru proposes to use the proceeds of the loan it is requesting to improve and upgrade its existing facilities, and to extend its capacity and facilities to meet forecasted growth of five percent per year. Specifically, Le-Ru proposes to use the loan proceeds for: 1) replacement of air core cable; 2) replacement of air core service entrances; 3) integration of fiber feeder cable in the local loop; 4) utilization of electronic serving area (ESA) terminals; 5) providing for maximum length non-loaded subscriber loops of 15,000 feet; 6) further improvements in the fiber toll network; 7) generic updates of digital switches; 8) engineering and constructing new outside plant that will allow virtually all customers access to digital services; and 9) breaking outside plant into multiple Customer Serving Areas in order to manage growth and eliminate the need to continually reinforce feeder plant.

Le-Ru proposes to enter a loan agreement with the Rural Utility Service (RUS) and execute three mortgage notes in varying amounts payable

to the United States of America (acting through the Administrator of the RUS); to the Rural Telephone Bank (RTB); and to the Federal Financing Bank (FFB). As security, Le-Ru will deliver a restated mortgage, security agreement, and financing statement on substantially all of its assets. Le-Ru attached copies of the proposed forms for its notes and agreements as Appendices 1-6. Le-Ru also attached Appendix 7, an original Resolution of the Board of Directors of Le-Ru Telephone Company authorizing the loan and the execution of the necessary documents.

Le-Ru stated that none of the loan proceeds would be used to refund existing indebtedness and, thus, the amounts borrowed would be subject to the fee schedule set forth in Section 386.300, RSMo 1994. Finally, Le-Ru provided a pro forma balance sheet and a pro forma income statement to show the effect of the proposed financing for the Company and a capitalization expenditure schedule, as required by Section 392.310, RSMo 1994 (Appendices 8 and 9 to the application).

Staff Analysis and Conditions

The Staff reviewed the information provided by Le-Ru with its application and requested additional financial information that it analyzed. The Staff engaged in discussions and negotiations with the Company concerning the financing. Pursuant to the application and the information provided by Staff, the moneys borrowed would be payable over a term of up to 21 years and the estimated interest rate would be 6.39 percent. Final terms and conditions would be determined as the funds are borrowed.

Based on the pro forma financial statements filed with the application, Staff indicated that the capital structure of the Company would be 25.56 percent equity and 74.44 percent long-term debt. Staff stated that these ratios would be compatible with a company of very poor

credit quality. In addition the Staff stated a concern that Le-Ru's cash flow ratios would be diminished as a result of the proposed financing.

Staff reviewed and discussed its concerns with Le-Ru and as a result, Staff states Le-Ru agreed as follows:

1. To reduce the loan amount requested to \$7,800,606.
2. To limit dividends to the amount required for payment of taxes until such time as the equity ratio of the Company reaches 40 percent.
3. To use cash and cash equivalent working capital to pay down long-term debt no later than December 31, 2007, to reach an equity ratio of 40 percent.
4. To file semiannual surveillance reports beginning January 1, 2003, and ending December 31, 2007, or when the Company's equity ratio reaches 40 percent.

The Staff summarized Le-Ru's recent past system and facility upgrades and provided details concerning customer and service area growth, inadequacies in current facilities, immediate demands for service and delays meeting those demands, and deficiencies in current facilities and systems due to age and obsolescence. Staff's review and comments confirmed Le-Ru's need for its financing and for the proposed improvements. Staff recommended that the Commission approve the application subject to conditions 1-4 above.

Hearing

At the hearing for this case, the parties presented witnesses that verified the matters presented in the application and the basis for the conditions suggested by Staff and accepted by the Company and the Office of the Public Counsel. The parties further agreed to a modification of the first suggested condition. Based on the modification, the parties would

suggest that the Commission approve the loan in the original amount submitted to the Commission, but condition any draw of funds beyond \$7,800,606 upon the Company making further application to the Commission. This would avoid jeopardizing the loan application process already undertaken by the Company and permit the Company the option to come before the Commission at a later date to request authority to expand the scope of the financing to include all the work originally planned.

The witnesses for the Company and the Staff also presented information to the Commission to demonstrate the benefits to the ratepayers and public in terms of additional services and service reliability that would accrue as a result of making the improvements proposed to be financed with the loan transaction presented in this case.

Findings and Conclusions

Based on the application and the Staff recommendation, the Commission finds that the money, property or labor procured or to be procured or paid for by the proposed debt issue or its proceeds has been or is reasonably required for the purpose specified. The Commission further finds that the financing is not detrimental to the public interest. However, Staff's recommendation and Le-Ru's agreement to conditions also demonstrate that there is a need to monitor and assure the soundness of Le-Ru's financial condition.

The Commission finds that the proposed financing is not detrimental to the public interest and should be approved upon the terms presented by the Company, subject to conditions agreed to between Le-Ru and Staff and presented in the Staff's recommendation and at the hearing. Le-Ru and Staff shall maintain their records to ensure that the authorization of this order is not exceeded, that terms and conditions are adhered to, and that required fees are paid.

IT IS THEREFORE ORDERED:

1. That Le-Ru Telephone Company is authorized to execute and deliver such instruments and to undertake such other acts as are necessary to consummate the financing transaction as presented in the application and described in this order including the execution of documents to borrow an aggregate amount not to exceed \$9,164,700 from the Rural Utilities Service, the Rural Telephone Bank and the Federal Financing Bank subject to the requirements of this order, including a limit on the portion of this debt that the Le-Ru Telephone Company may draw upon without further application to the Commission.

2. That Le-Ru Telephone Company is authorized to draw down and obtain debt proceeds as provided in this order in amount up to \$7,800,606 aggregate principal amount through mortgage notes payable under terms and conditions as described in the application and in this order.

3. That Le-Ru Telephone Company may make a later application to the Commission to utilize the remainder of the financing authority approved in this order.

4. That Le-Ru Telephone Company shall submit to the Commission's Financial Analysis Department the final terms and conditions of each financing security as the transaction or transactions are closed.

5. That Le-Ru Telephone Company shall limit dividends to the net amount required for payment of the Company related tax liability of its shareholders until such time as the equity ratio reaches 40 percent.

6. That Le-Ru Telephone Company shall use cash and cash equivalent working capital to pay down long-term debt no later than December 31, 2007, as may be required to reach an equity ratio of 40 percent.

7. That Le-Ru Telephone Company shall file semiannual surveillance reports beginning January 1, 2003, and ending December 31, 2007, or ending when the Company's equity ratio reaches 40 percent.

8. That Le-Ru Telephone Company shall submit all fees due as required under Section 386.300, RSMo 1994.

9. That nothing in this order shall be considered as a finding by the Commission of the reasonableness of the particular issuance, or of the value for ratemaking purposes of the transactions undertaken under the authority of this order.

10. That the Commission reserves the right to consider the ratemaking treatment to be afforded the transactions herein involved, and the resulting cost of capital, in any later proceeding.

11. That Le-Ru Telephone Company and Staff shall maintain their business records to ensure that the authorization and conditions of this order are not exceeded or violated.

12. That in the event any modification, investigation, or other action related to the subject financing is required, a new case file may be opened or this case reopened.

13. That this order shall become effective on October 1, 2000.

BY THE COMMISSION

(S E A L)



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

Lumpe, Ch., Drainer, and
Schemenauer, CC., concur.
Murray, C., not participating.
Simmons, C., absent.

Thornburg, Regulatory Law Judge

ALL/Sec'y: Thompson / Pope

9-18
Date Circulated

9-18

IF-2: 30-428
CASE NO.

[Signature]
Lumpke, Chair

[Signature]
Dramer, Vice Chair

[Signature]
Murray, Commissioner

[Signature]
Schemenauer, Commissioner

[Signature]
Simmons, Commissioner

9-21
Agenda Date

Action taken: 3
3-045

Must Vote Not Later Than _____

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 21st day of Sept. 2000.

Dale Hardy Roberts

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

