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Missouri Public Service Commission

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June 30, 2000

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DANA K. JOYCE
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Vice Chair
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ROBERT G. SCHEMENAUER
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Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

FILED²
JUN 30 2000

Missouri Public
Service Commission

RE: Case No. TF-2000-428

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original of the non-proprietary version and original and eight (8) conformed copies of the proprietary version of **STAFF'S SUGGESTIONS**.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Dennis L. Frey
Associate General Counsel
(573) 751-8700
(573) 751-9285 (Fax)

DLF/lb
Enclosure
cc: Counsel of Record

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

FILED²

JUN 3 0 2000

Missouri Public
Service Commission

In the Matter of the Application of Le-Ru)
Telephone 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

STAFF'S SUGGESTIONS IN SUPPORT

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and respectfully states as follows:

1. On January 18, 2000, Le-Ru Telephone Company ("Le-Ru" or "Company"), filed with the Commission, pursuant to Section 392.310 RSMo 1994 and 4 CSR 240-2.060, an Application requesting authority to borrow certain sums, not to exceed \$9,164,700 from the Rural Utilities Service, the Rural Telephone Bank and the Federal Financing Bank. Le-Ru planned to use these funds to provide facilities for system improvements.

2. In subsequent discussions between Staff and Le-Ru, the Company expressed agreement with a number of changes to its proposal, including a reduction (to \$7,800,606) in the amount Le-Ru is interested in borrowing. The Staff incorporated these changes in its May 16, 2000 recommendation. In particular, Staff recommended approval of the Company's Application, subject to the following conditions:

A. That the total amount of borrowing be limited to \$7,800,606;

B. That dividends be limited to the amount needed to pay taxes until such time as Le-Ru's equity ratio reaches 40 percent;

C. That excess cash and cash equivalent working capital be used to pay down long-term debt no later than the year 2007; and

D. That the Company file semi-annual surveillance reports beginning January 1, 2003 and ending December 31, 2007, or when the Company's equity ratio reaches at least 40 percent.

3. On June 7, 2000, the Commission issued an Order directing, *inter alia*, that a hearing be held on this matter on July 7, 2000, and that Staff file, by June 23, 2000, copies of Le-Ru's annual reports for the years 1995 through 1999, along with the following information for each of the last five years, inclusive of calendar year 1999:

a) Le-Ru's capital structure;

b) the amount of dividends paid by the Company; and

c) the income taxes generated by the operations of the Company, and the total income tax liability to be paid at the shareholder level

4. Staff responded to the Commission's June 7th Order, with its Filing of Additional Information on June 23, 2000.

5. Also in its June 7th Order, as a means of facilitating the hearing and avoiding surprise, the Commission invited both Staff and Le-Ru to "file suggestions stating and supporting any position either may choose to advocate at the hearing, whether previously agreed or as an alternative to any proposed agreement." In addition, the Commission raised a series of questions that the Company and Staff should be prepared to discuss at the hearing. In the interest of facilitating the process, the Staff hereby provides additional information in support of its aforementioned May 16th recommendation, including advance responses to a number of the questions raised by the Commission in its Order.

Need for the Project

6. Staff's recommendation of approval in this case is driven by the clear need for Le-Ru to replace existing and outmoded plant, and to increase its capacity. In requesting authority to borrow additional funds, Le-Ru is seeking to continue the modernization of its outside telephone plant. In the last several years Le-Ru has made some improvements to its outside plant in specific geographic areas. However, because it is more cost-effective to do construction projects on a larger scale, the majority of the plant has not been updated in recent years. This has resulted in a number of plant conditions that prevent the company from offering the full range of modern services that telephone customers expect to receive.¹ These conditions include a widespread use of analog subscriber carrier; some existing buried air core cable and a shortage of spare lines to provide both basic and additional lines to the Company's customers.

a) Analog subscriber carrier: Le-Ru has twelve complete systems of analog carrier in operation. Analog carrier is adequate for Plain Old Telephone Service ("POTS") but is not adequate for most kinds of data service, which today's customers are demanding.

b) Air core cable: Approximately twenty percent of all of the Company's lines are provided over buried air core cable. Companies installed air core cable, in both buried and aerial applications, in the early and mid seventies, and the technology was considered innovative at that time. Over the years, however, most air core cable, including Le-Ru's, has deteriorated in the buried environment as a result of moisture-induced electrolysis. The effect has been to make much of the Company's cable unusable, thereby reducing the number of pairs available for POTS.

¹ Although the Company currently meets the minimum modernization standards required under 4 CSR 240-32.100, these requirements do not include provisioning of digital services such as Digital Subscriber Line.

c) Spare line shortage: The last and most limiting condition of the outside plant cable is that there are not enough circuits to serve the customers who have moved into the Company's serving areas in the past few years. Le-Ru's serving area is rural in nature, but people working in both northern Arkansas and southern Missouri have been moving into its area due to the construction of two new water districts in that area. At this time, Le-Ru has four customers waiting for basic telephone service and a number of customers who are waiting for additional lines. These services cannot be provided at this time due to the lack of circuits.

7. The Company's proposed modernization plan calls for the construction of a modern telephone plant that will allow all of its customers to have as many lines as they want, and will provide circuits that will enable the customers to use Digital Subscriber Line (DSL) service. Le-Ru cannot provision DSL service over loops that are longer than eighteen thousand feet. The Company plans to build what is known in the industry as Customer Serving Areas ("CSAs"). CSAs employ fiber feeder routes with copper distribution loops of less than eighteen thousand feet. The short distribution circuits will allow Le-Ru to provide various forms of DSL to its customers, including the Asymmetric Digital Subscriber Lines (ADSL), which is today's most popular form of DSL. ASDL is the service used most often to access the Internet because of its ability to provide extremely high bit rates downstream to the customer.

8. Le-Ru will need the next two and one half years to construct its new outside plant. The Company plans to have the work completed by the end of the year 2002 and to be able to put the new plant into operation by January 2003. At that time, the Company will begin to realize a financial benefit from the modernized plant and increased capacity.

9. The Staff endorses the Company's determination that it needs to replace and expand its existing capacity as well as to build a modern network that offers digital subscriber services to its customers. It should be noted, with regard to its plan to modernize its outside plant, that many other local exchange companies in Missouri have already completed similar upgrades.

Advance Responses to Commission Questions

10. Explanation of Recommendation and Supporting Conditions: Given the clear need for the Le-Ru to modernize and increase the capacity of its plant, as discussed above, the Staff recommended that the permission to borrow the necessary funds be granted. As noted earlier, the company originally proposed to borrow \$9,164,700; however, Staff identified some deferrable construction (new business office and warehouse) and ultimately recommended that the Commission authorize a borrowing of only \$7,800,606, an amount with which Le-Ru has expressed agreement. As reported in Exhibit 6 of Staff's aforementioned June 23, 2000 filing, the Company's stated 1999 equity ratio is 42.14%. Upon implementing the proposed borrowing program, Le-Ru's equity ratio will decline significantly. Staff's suggested condition that Le-Ru be required to return to a minimum 40% equity ratio no later than five years from borrowing the last dollar for construction was to allow the Company time to complete the construction and generate new revenues. As noted above, Le-Ru projects that construction will not be completed until December 31, 2002, and that the generation of increased revenue with the new plant will not commence until 2003.

11. Benefits, detriments, issues or obstacles to achieving equity ratio within 2 years, 3 years, 4 years and 5 years of the proposed financing: Again, since the Company projects that construction will not be completed until the end of 2003 and additional revenue will not begin to be realized from the project until 2003, Staff considered that the time frame recommended to the

Commission is reasonable. The Staff's time frame will allow Le-Ru time to build, make the plant used and useful, and begin generating revenue.

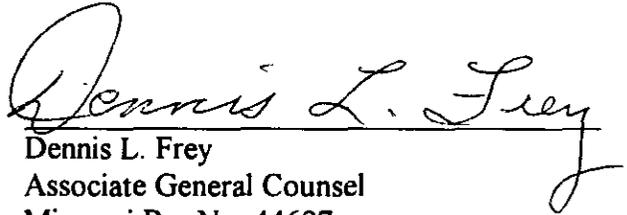
12. Specific equity ratio targets for each year of any proposed time frame to demonstrate progress toward agreed upon equity ratio: LE-RU would only begin to pay down debt in the year 2003, and the Company's equity ratio projections (attached as Exhibit 1) show that sufficient additional revenue to pay down the debt to a 40% equity ratio will not accrue until 2007. The Company classifies these projections as proprietary. On June 29, 2000, the Company filed a motion for a protective order so that this information may be filed as such.

13. Semiannual surveillance reports not required prior to January 1, 2003: Inasmuch as Le-Ru will not begin to generate additional revenue until 2003, surveillance reports prior to 2003 would not be helpful in monitoring the turnaround in the Company's equity position.

WHEREFORE, the Staff respectfully submits its Suggestions in Support of the Company's proposal and in accordance with its recommendation, filed on May 16, 2000.

Respectfully submitted,

DANA K. JOYCE
General Counsel



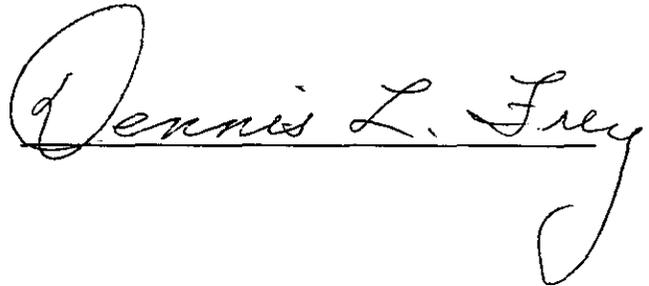
Dennis L. Frey

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 30th day of June 2000.



Dennis L. Frey

Exhibit 1

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

**Service List for
Case No. TF-2000-428
June 30, 2000**

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