



Missouri Public Service Commission

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May 16, 2000

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FILED 2
MAY 16 2000
Missouri Public
Service Commission

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. TF-2000-428

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of a STAFF RECOMMENDATION.

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

Dennis L. Frey
Assistant 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**

**FILED<sup>2</sup>**

MAY 16 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 RECOMMENDATION**

**COMES NOW** the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and for its Recommendation in the above-captioned case, 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. According to its Application, Le-Ru plans to use the funds to provide facilities for system improvements

2. Also on January 18th, Le-Ru filed a motion requesting expedited treatment of its Application in order to allow the Company to fill all of the requests of its customers for additional lines and service. Le-Ru's motion did not request action by a date certain.

3. On February 1, 2000, the Commission issued its Order Directing Response, requiring, among other things, that the Staff file by February 14, 2000 a response to advise the Commission of the earliest date by which it could file a recommendation regarding the aforementioned Application. The Order directed Staff to contact the Company and attempt to reach an agreement on a target date for the filing of Staff's recommendation, and further stated that in the event such agreement could be reached, the Commission would take no further action on the Company's request for expedited treatment.

4. On February 14, 2000, the Staff filed its Response, indicating that it had reached an agreement with the Company and advising the Commission that Staff expected to file its recommendation in this case no later than April 7, 2000.

5. Because of the Staff's need to analyze additional financial information, Staff and Le-Ru, on April 4, 2000, jointly filed a motion requesting an extension of time for filing Staff's recommendation in this matter until May 16, 2000. The Commission granted the joint motion on April 10, 2000.

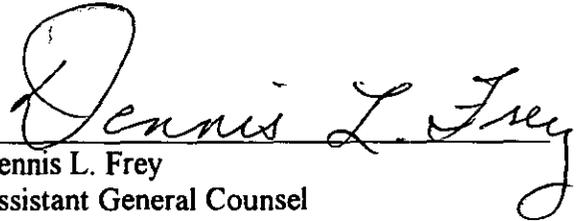
6. Discussions between Staff and Le-Ru have resulted in some modifications to the Company's proposal, including a reduction (to \$7,800,606) in the amount the Company is interested in borrowing. The Staff has incorporated these changes in its recommendation.

7. In Staff's opinion, Le-Ru's request is, pursuant to Section 392.310.2 RSMo 1994, reasonably required for the purposes stated in the Company's aforementioned Application. Accordingly, in the attached Memorandum ("Appendix A"), the Staff recommends approval of Le-Ru's request, subject to the conditions specified in the Memorandum.

**WHEREFORE**, the Staff respectfully requests that the Commission issue an Order granting Le-Ru's request for authority to borrow funds from the aforementioned lending agencies, subject to the specific conditions set forth in the Staff's attached Memorandum.

Respectfully submitted,

DANA K. JOYCE  
General Counsel

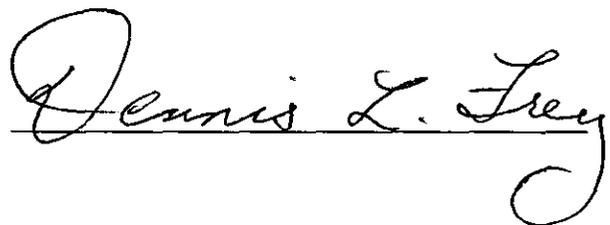


Dennis L. Frey  
Assistant General Counsel  
Missouri Bar No. 44697

Attorney for the Staff of the  
Missouri Public Service Commission  
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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 16th day of May 2000.



MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
Case No. TF-2000-428, Le-Ru Telephone Company

FROM: Ronald L. Bible, *RLB*  
Financial Analysis Department  
Arthur Kuss *AK*  
Telecommunications Department

*Ronald L. Bible* 5/12/2000  
Project Coordinator / Date

*Manu P...* 5-16-00  
General Counsel's Office / Date  
*D.L.F.*  
*5-16-00*

SUBJECT: Staff's Recommendation for approval of the Application of Le-Ru Telephone Company for authority to borrow an amount not to exceed \$7,800,606 from the Rural Utilities Service, the Rural Telephone Bank and the Federal Financing Bank..

DATE: May 12, 2000

Le-Ru Telephone Company

1. (a) **Type of Issue:** Mortgage Note payable to the United States of America acting through the Administrator of the Rural Utilities Service, the Rural Telephone Bank and the Federal Financing Bank.
  - (b) **Amount:** Not to exceed \$7,800,606.
  - (c) **Rate:** The rate will be in accordance with Section 305(d)(2)(A) of the Rural Electrification Act of 1936, as amended, and the implementing regulations as amended from time to time. The rate of 6.39% was quoted to Le-Ru in the RUS feasibility study. Final terms and conditions, including rates, will be provided as the funds are borrowed.
  - (d) **Other Provisions:** None.
2. **Proposed Date of Transaction:** As soon as the Commission so authorizes.
  3. (a) **Statement of Purpose of the Issue:** For the construction, completion, extension and improvement of its facilities within the state; specifically, the proceeds of the loan will be used to provide facilities for system improvements, including forecasted growth of 5% per year, and compliance with the Missouri Borrowers State Telecommunications Modernization Plan.

(b) **From a financial perspective, does Staff deem this purpose reasonable? :**

Yes  No

4. **Type of Transaction:** The Company would execute and deliver a restated mortgage, security agreement and financing statement on substantially all of its assets.

5. **Copies of executed instruments defining terms of the proposed securities:**

(a) If such instruments have been previously filed with the Commission, a reference to the Case Number in which the instruments were furnished.

(b) If such instruments have not been executed at the time of filing, a statement of the general terms and conditions to be contained in the instruments which are proposed to be executed.

(c) If no such instruments are either executed or to be executed, a statement of how the securities are to be sold.

6. **Certified copy of resolution of the directors of applicant, or other legal documents authorizing the issuance of the securities reviewed:**

Yes  No

7. **Pro-forma Balance Sheet and Income Statement reviewed:**

Yes  No

8. **Capital expenditure schedule reviewed:**

Yes  No

9. **Journal entries are required to be filed by the Company to allow for the Fee Schedule to be applied:**

Yes  No

10. **Recommendation of the Financial Analysis Department:**

Grant by session order (see Comments)

Conditional Approval granted pending receipt of definite terms of issuance (see Comments)

Require additional and/or revised data before approval can be granted (see Comments)

Formal hearing required (see Comments)

Recommend dismissal (see Comments)

## COMMENTS:

Le-Ru Telephone Company of , Missouri, (Le-Ru, Company) is a public utility engaged in providing telephone services to customers in Missouri. On January 18, 2000 the Company filed an application requesting the Missouri Public Service Commission (Commission) to authorize it to borrow an amount not to exceed \$9,164,700 from the Rural Utilities Service (RUS), the Rural Telephone Bank (RTB) and the Federal Financing Bank (FFB).

The Company's Application states, that the Applicant proposes to borrow the funds for the construction, completion, extension and improvement of its facilities within the state; specifically, the proceeds of the loan will be used to provide facilities for system improvements, including forecasted growth of 5% per year, and compliance with the Missouri Borrowers State Telecommunications Modernization Plan.

### Financial Analysis

Based on the pro forma financial statements filed by the Company with its application, Le-Ru's capital structure, would consist of 74.44 percent long-term debt and 25.56 percent equity. These are ratios compatible with a Company of very poor credit quality. In addition, the pro forma income and cash flow ratios for Le-Ru are significantly diminished. Staff contacted the Applicant and expressed their concerns about the financial viability of the Company as a result of the requested loans.

After preliminary discussions, the Company met with Staff to discuss the implications of its application. The purpose of the meeting was to verify the need for the construction the Company proposed, to ascertain the Company's ability to repay the loan amounts, and to secure commitments from the Company to improve its capital structure and interest coverage ratios in a timely manner. As a result of the meeting, Staff requested that the Company provide additional financial information. Le-Ru provided this information in a letter to Staff dated March 31, 2000.

Staff reviewed the additional information provided by the Company. In the March 31 letter the Company reduced its loan request to \$7,800,606 and agreed to limit dividends to the amount needed to pay income taxes until such a time as its equity ratio reaches 40 percent. Furthermore, the Company agreed to semi-annual surveillance reports during this period. However, additional information in that letter still caused Staff to have three concerns. First, the Company's financial projections, which extended through 2007, indicated its cash and cash equivalents increase from \$606,861 in 1999 to \$5,138,699 in 2007. However, long-term debt grows to \$10,104,780 in 2002 and decreases only marginally to \$8,258,129 in 2007. Second, the Company referred to the years 2008, 2009 and 2010 as the years they would make progress to attain the goal of 40 percent equity; yet they showed no projections for these years. Finally, the Company stated that if after a certain period of time Le-Ru has not reached 40 percent equity, it would file with the Commission its proposal regarding when and how it would achieve the 40 percent equity goal.

Following its review of Le-Ru's March 31 letter, Staff contacted the Company and expressed its concerns about the lack of commitment to reach the 40 percent equity goal as presented in the additional information. Staff also offered the following alternative proposal to the Company: a.) that no later than five years after the Company borrows the last dollar for the construction in this application, the Company will attain the 40 percent equity goal; and b.) that in the event the Company fails to reach the 40 percent equity goal within five years, it is to state the immediate action it will take to reach that goal, such as an immediate infusion of equity capital and/or use of cash and cash equivalents to pay down debt.

The Company responded to Staff with a letter on May 2, 2000 (attached). In it, the Company reaffirms its commitment to pay only those dividends necessary to meet income taxes until the 40 percent equity ratio is attained. Also, attached to the letter is a pro-forma balance sheet for 2007 that shows the Company using \$2,800,000 of cash and cash equivalent working capital to pay down long-term debt to reach the 40 percent equity ratio.

In summary, Le-Ru agrees to:

- A. Borrow no more than \$7,800,606
- B. Limit dividends to those needed to pay taxes until such a time as the equity ratio reaches 40 percent.
- C. No later than 2007, use cash and cash equivalent working capital to pay down long-term debt to reach an equity ratio of 40 percent.
- D. 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.

Staff finds these conditions to be reasonable and acceptable.

### **Telecommunication's Facilities Analysis**

Le-Ru requests Commission authority to borrow funds for improvements to its physical plant, to modernize its services and meet projected growth requirements.

In recent past upgrades, Le-Ru has demonstrated efforts to provide improvements by introducing:

- Signaling System 7 (SS7) technology.
- Some Custom Local Area Signaling System (CLASS) services, such as Caller ID.
- Some operational fiber-linked concentrators.
- Local access to Internet service for approximately 250 customers.

A review of the present conditions and of the plans proposed by Le-Ru leads to the following observations:

- Annual growth of 10% in customer base has been observed for the last 4 years.

- New subdivision construction plats are regularly being submitted for planning future service.
- Cable-pair exhaustion in the Powell exchange.
- Ten (10) currently held orders for new service, which cannot be filled until January 2001 at the earliest.
- Immediate requirements for at least twenty-five (25) new lines, for which current plant is not available.
- Air-core cable older than 30 years in service, responsible for 80% of deficiencies in a recent cable audit.
- A significant number of long customer loops in excess of 18,000 feet.
- Obsolescent technologies, such as Distributed Analog Carrier, which are incompatible with modern technologies, such as Internet Service.
- Inability in many areas to provide modern services, such as Custom Calling and CLASS features.

The expenditures of the requested funds will allow:

- Replacement of all defective air-core cable with filled cable.
- Linking of the Stella and Powell exchanges with fiber-optic cable.
- Upgrading of the network backbone with fiber-optic cable.
- Installation of additional copper-pair cable to serve new subdivisions.
- Installation of concentrators to permit the limiting of copper customer service loops to a length of not more than 18,000 feet.
- Replacement of Analog Carrier with Digital technology.
- Offering of modern service features, such as Custom Calling and CLASS.
- Planned future offering of high-speed Digital Subscriber Loop (DSL) services.

Following its review of Le-Ru's proposed plans the Telecommunications Department Staff has no objections to Le-Ru's proposals. Staff recommends that the Commission approve Le-Ru's Application for authority to borrow funds.

Based on its financial and facilities analysis, the Staff recommends that the Commission approve the Application submitted by Le-Ru Telephone Company in this case, and subject to conditions A, B, C and D set forth on page four above.

**The Staff respectfully requests that this matter be placed on the Commission's Agenda as soon as possible.**

Attachments:

Company letter, May 2, 2000

LAW OFFICES  
BRYDON, SWEARENGEN & ENGLAND  
PROFESSIONAL CORPORATION

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OF COUNSEL  
RICHARD T. CIOTTONE

May 2, 2000

Mr. David G. Winter  
Missouri Public Service Commission  
P.O. Box 360  
Jefferson City, MO 65102

**Re: Le-Ru Telephone Company, Case No. TF-2000-428.**

Dear Dave:

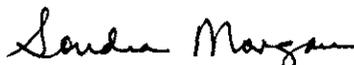
Attached to this correspondence, please find revised year 2007 figures to the projected balance sheet for Le-Ru Telephone provided before. This balance sheets contains a copy of the prior projections for that year as well as revised projections which show the effect of paying down \$2,800,000 in debt from the projected accumulated cash. Le-Ru proposes to pay down the debt in 2007 as shown which will have the effect of raising its equity to total capital ratio to 40.10 percent (40%). Le-Ru is willing to commit to this plan as well as to the previous commitments in our letter of March 31, i.e. limiting dividends to the amounts needed to pay income taxes until such time as its equity ration reaches forty percent and filing semi-annual surveillance reports with the Commission during this period.

We hope that these commitments on the part of the company will satisfy the Staff's concerns regarding the proposed financing. If you have questions regarding this information, you may call Tim Goodger at (913) 451-1882 or give me or Trip a call.

Sincerely,

BRYDON, SWEARENGEN & ENGLAND P.C.

By:



Sondra B. Morgan

Enclosure

cc: Mr. Denny Frey  
Mr. Bob Hart  
Mr. Tim Goodger

**LE-RU TELEPHONE COMPANY, INC.**  
**Paydown of RUS debt at December 31, 2007**

Assets	Projected 2007	Loan Paydown	Projected 2007 After Loan Paydown
<b>Current assets:</b>			
Cash and cash equivalents	5,138,699	(2,800,000)	2,338,699
Cash - RUS construction fund	100		100
Telecommunications accounts receivable	180,690		180,690
Other accounts receivable	24,367		24,367
Materials and supplies	87,437		87,437
Prepaid expenses	69,226		69,226
Total current assets	<u>5,500,519</u>	<u>(2,800,000)</u>	<u>2,700,519</u>
<b>Noncurrent assets:</b>			
Cash surrender value of life insurance	241,990		241,990
Other long-term assets	5,040		5,040
Investments in RTB stock	97,792		97,792
Total noncurrent assets	<u>344,822</u>	<u>0</u>	<u>344,822</u>
<b>Property, plant and equipment:</b>			
Telecommunications plant in service	13,627,529		13,627,529
Telecommunications plant under construction	16,246		16,246
Non-operating plant	14,959		14,959
Less depreciation reserve	(7,372,324)		(7,372,324)
Net property, plant and equipment	<u>6,286,410</u>	<u>0</u>	<u>6,286,410</u>
Total assets	<u>12,131,751</u>	<u>(2,800,000)</u>	<u>9,331,751</u>
<b>Liabilities and stockholders' equity</b>			
<b>Current Liabilities:</b>			
Accounts payable	83,724		83,724
Accrued expenses	113,388		113,388
Total current liabilities excluding current portion of long-term debt	<u>197,112</u>	<u>0</u>	<u>197,112</u>
Long-term debt	8,258,129	(2,800,000)	5,458,129
Total long-term debt	<u>8,258,129</u>	<u>(2,800,000)</u>	<u>5,458,129</u>
Deferred investment tax credit	22,597	0	22,597
Total liabilities	<u>8,477,838</u>	<u>(2,800,000)</u>	<u>5,677,838</u>
<b>Stockholders' equity:</b>			
Common stock	20,400		20,400
Retained earnings	3,633,513		3,633,513
Less treasury stock	0		0
Total stockholders' equity	<u>3,653,913</u>	<u>0</u>	<u>3,653,913</u>
Total liabilities and stockholders' equity	<u>12,131,751</u>	<u>(2,800,000)</u>	<u>9,331,751</u>
<b>Capital Structure</b>			
Long-term debt	8,258,129	(2,800,000)	5,458,129
Equity	3,653,913	0	3,653,913
Total capital structure	<u>11,912,042</u>	<u>(2,800,000)</u>	<u>9,112,042</u>
Long-term debt	69.33%	-9.43%	59.90%
Equity	30.67%	9.43%	40.10%
Total capital structure	<u>100.00%</u>	<u>0.00%</u>	<u>100.00%</u>

**Service List for  
Case No. TF-2000-428  
May 16, 2000**

**Office of the Public Counsel  
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Jefferson City, MO 65102**

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