

**STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION**

At a session of the Public Service  
Commission held at its office in  
Jefferson City on the 20th day of  
March, 2007.

In the Matter of the Application of Chariton Valley	)	
Telephone Corporation for Authority and Approval	)	
to Issue a Note, Loan Agreement, Mortgage,	)	<b><u>Case No. IF-2007-0278</u></b>
Security Agreement, and Financing Statement, to	)	
Borrow Funds from the Rural Utility Services of the	)	
United States of America, and for Interim Financing	)	

**ORDER GRANTING FINANCING APPLICATION**

Issue Date: March 20, 2007

Effective Date: March 30, 2007

On January 24, 2007, Chariton Valley Telephone Corporation ("Chariton Valley") filed an application seeking authority to enter into and execute a note, loan agreement, and related security instruments with the Rural Utility Services Administration of the Department of Agriculture of the United States of America ("RUS").<sup>1</sup> Chariton Valley is a small rural incumbent local exchange carrier providing service to approximately 8000 customers in 18 exchanges in north central Missouri.

Chariton Valley has secured a loan commitment from RUS providing an amount up to \$42,960,000 for the purpose of constructing new service facilities to improve service, replace existing plant, and to bring broadband capability closer to its customers' premises. Chariton Valley has requested expedited consideration of its application because RUS has established a deadline of April 20, 2007, by which it must obtain Commission approval and

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<sup>1</sup> Chariton Valley's application is filed pursuant to Sections 392.290, 392.300, and 392.310, RSMo 2000, and 4 CSR 240-2.060 and 4 CSR 240-3.530.

execute the loan documents. Chariton Valley asserts that in order to meet this deadline it must have Commission approval no later than March 31, 2007. If approval is not granted by this date, Chariton Valley maintains that it will be unable to consummate the loan with RUS by April 20, 2007, and harm could result to its subscribers in that any delay could result in less advantageous loan terms and would delay service improvements.

On March 14, 2007, the Commission's Staff filed a verified Recommendation and Memorandum regarding Chariton Valley's application. Staff made on-site inspections of eleven of Chariton Valley's exchanges, examining both inside and outside plant. Staff found that Chariton Valley's existing outside plant facilities are at the end of their useful life having a significant portion of the company's cable installed prior to the 1950s. Staff examined Chariton Valley's proposed plans to upgrade and modernize their network facilities and found the plan to be reasonable, from a technical operations perspective, for addressing problems associated with Chariton Valley's existing facilities.

Staff found that the financing would make a significant change in Chariton Valley's consolidated capital structure, but the change would not threaten Chariton Valley's overall financial integrity over the long-term. In spite of borrowing the money from RUS, Chariton Valley still projects it will have over twice as much equity as long-term debt on its balance sheet at the end of its projections. Chariton Valley's total debt to total capital ratio, following the loan, reflects less debt than the Standard and Poor's comparable key ratio for Rural Local Exchange Companies and better overall credit quality.

Staff states that it is not detrimental to the public interest for Chariton Valley to execute the loan documents and provide its security in connection with the financing and recommends that the Commission approve the application subject to four conditions.

Specifically, Staff recommends that the Commission impose the following conditions:

- 1) That nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for ratemaking purposes, and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding.
- 2) That Chariton Valley file with the Commission any information concerning deviations from all final terms and conditions of the proposed financing, as set forth in paragraph 9 of its application, including, but not limited to, the aggregate principal amount to be sold or borrowed, price information, estimated expenses, portion subject to the fee schedule and loan or indenture agreement concerning each issuance.<sup>2</sup>
- 3) That Chariton Valley file with the Commission any information concerning deviations from its stated use of the funds, as set forth in paragraph 6 of its application, that would materially change the pro forma capitalization and financial ratios submitted with its application.<sup>3</sup>

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<sup>2</sup> Paragraph 9 of Chariton Valley's application states:

The general terms and conditions to be contained in the note and loan agreement provide for a loan in a total amount up to \$42,960,000 with a repayment term and interest rate as set forth in the attached loan agreement. There will also be a need for initial temporary or interim financing until receipt of the initial RUS loan draw down amount.

<sup>3</sup> Paragraph 6 of Chariton Valley's application states:

Chariton Valley has determined to construct new service facilities to improve service, replace existing plant, and to bring broadband capability closer to its customers' premises. The new facilities and improvements will include:

- a. A Next Generation Switch is proposed to supplement the Huntsville 5ESS. This will establish a "cap and grow" environment to move Chariton Valley into a modern switching capability.
- b. Provide new, fiber-fed electronic sites to improve existing service and to expand and/or enhance broadband services in the rural area of all eighteen exchanges.
- c. Construction of new, buried exchange fiber facilities to connect the proposed electronic sites. Costs were based on predicted designed and then extrapolated on a cost per mile basis.
- d. Provide Broadband Loop Carrier (BLC) electronics at the central offices to replace existing subscriber Loop Carrier (SLC) electronics in the following towns: Atlanta, Bosworth, Bynumville, Clifton Hill, DeWitt, Ethel, Excello, Forest Green, Hale, Jacksonville, New Boston and Prairie Hill.
- e. Provide Fiber to the Premise (FTTP) equipment in the towns of Huntsville and Salisbury. Costs were predicted from recent pricing and number of establishments.
- f. Deployment of new, buried FTTP fiber facilities and drops to replace the copper facilities in Huntsville and Salisbury towns. Costs for the FTTP construction were based on predicted designs and then extrapolated on a cost per mile basis.
- g. Provide additional copper replacement throughout the serving area for growth, reinforcements, miscellaneous line extensions, and replacement of air-core facilities.
- h. To replace the existing transport electronics of GigE electronics to position for future broadband services in all 18 exchanges.

- 4) That Chariton Valley submit a verified report to the Commission's Budget and Fiscal Services department documenting the issuance of the note, the use of any associated proceeds, and the applicability and measure of fees under Section 386.300.2, RSMo.

No party filed a response to Staff's recommendation or opposed it in any manner.

The Commission has reviewed and considered Chariton Valley's verified application and the Staff's verified memorandum and recommendation, which are hereby admitted into evidence, and concludes it is not detrimental to the public interest for Chariton Valley to execute the loan documents and provide its security in connection with the financing. Consequently, the Commission shall approve Chariton Valley's application subject to the conditions requested by Staff. As required by Section 392.310.2, RSMo 2000, the Commission finds that the purchase of the financial instruments proposed in Chariton Valley's application is or will be reasonably required for the purposes specified in the application and that such purposes are not in whole, or in part, reasonably chargeable to operating expenses or to income.

**IT IS ORDERED THAT:**

1. Chariton Valley Telephone Corporation's motion for expedited treatment is granted.
2. Chariton Valley Telephone Corporation's Application for Authority to Issue a Note and Enter into a Loan Agreement, Mortgage, Security Agreement and Financing Statement to Borrow Funds from the Rural Utility Services of the United States of America and for Interim Financing is approved.

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- i. Provide new standby power generators for the central offices in the exchanges of Bevier, Bosworth, Callao and Hale.
  - j. Provide testing equipment for the operation of the communications system.

3. Chariton Valley Telephone Corporation is authorized to obtain a loan from the United States of America in an amount up to but not exceeding \$42,960,000, to issue the loan and security as set forth in its application and provide the United States of America security in its assets, pursuant to Sections 392.290, 392.300, and 392.310, RSMo 2000, and 4 CSR 240-2.060 and 4 CSR 240-3.530.

4. Chariton Valley Telephone Corporation is authorized to enter into and execute all documents necessary for the above-described transactions.

5. Chariton Valley shall submit to the Commission's Staff any information concerning any deviations from all final terms and conditions of the proposed financing, as set forth in paragraph 9 of its application, including, but not limited to, the aggregate principal amount to be sold or borrowed, price information, estimated expenses, portion subject to the fee schedule and loan or indenture agreement concerning each issuance.

6. Chariton Valley shall submit to the Commission's Staff any information concerning deviations from its stated use of the funds, as set forth in paragraph 6 of its application that would materially change the pro forma capitalization and financial ratios submitted with its application.

7. Chariton Valley shall submit a verified report to the Commission's Budget and Fiscal Services department documenting the issuance of the note, the use of any associated proceeds, and the applicability and measure of fees under Section 386.300.2, RSMo.

8. Nothing in this order shall be considered a finding by the Commission of the value of these transactions for ratemaking purposes, and that the Commission reserves the

right to consider the ratemaking treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding.

9. This order shall become effective on March 30, 2007.

10. This case may be closed on March 31, 2007.

**BY THE COMMISSION**

A handwritten signature in black ink, appearing to read 'Colleen M. Dale', written over a horizontal line.

Colleen M. Dale  
Secretary

( S E A L )

Davis, Chm., Gaw, Clayton and Appling, CC., concur  
Murray, C., dissents, dissenting opinion attached

Stearley, Regulatory Law Judge