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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 9th  
day of September, 1998.

In the Matter of the Application of Oregon )  
Farmers Mutual Telephone Company for Authority )  
to Borrow an Amount Not to Exceed \$800,000 from )  
CoBank, ACB, and in Connection Therewith to ) Case No. TF-98-243  
Execute a Master Loan Agreement, Revolving Term )  
Loan Supplement, Promissory Note, Deed of Trust, )  
Security Agreement and Financing Statement. )

ORDER APPROVING FINANCING

Oregon Farmers Telephone Company (Oregon Farmers) is a telephone corporation organized under the laws of the State of Missouri and a public utility subject to the jurisdiction of the Missouri Public Service Commission under Section 386.250(2), RSMo Supp. 1997. Oregon Farmers is generally engaged in the business of providing telecommunications service to approximately 1,130 customers in one exchange located in Holt County, Missouri. Oregon Farmers filed an application on December 17, 1997, asking the Commission to approve the borrowing of certain sums, not to exceed \$800,000.00, from CoBank, ACB (CoBank) to finance improvements to the telephone plant and operating needs of Oregon Farmers for the benefit of its customers. Oregon Farmers made its request in compliance with Section 392.310, RSMo 1994 and 4 CSR 240-2.060.

Oregon Farmers provided documentation required by 4 CSR 240-2.060(8) including a statement of the purpose for which the financing was sought, a pro forma balance sheet, a five-year capitalization expenditure schedule, income statements, and a certified copy of the

resolution of the Board of Directors authorizing the loan. Since the instruments defining the terms of the loan have not been executed, the company included copies of the instruments it proposes to execute following Commission approval of its actions. Oregon Farmers stated all of the proceeds of the loan would be subject to the fee schedule set out in Section 386.300, RSMo Supp. 1997.

Oregon Farmers wishes to use the proceeds of the loan to (1) install a fiber optic connection between St. Joseph and Oregon, Missouri to replace outdated radio connections, (2) replace existing copper cable between Oregon and Forest City, Missouri with fiber, (3) install a digital loop carrier in order to provide more customers with digital loop capability, (4) finance the operating needs of Oregon Farmers, and (5) for other appropriate purposes.

In order to finance these projects, Oregon Farmers asks the Commission to approve its borrowing of \$800,000.00 from CoBank. As part of this transaction, Oregon Farmers plans to issue a Master Loan Agreement and Revolving Term Loan Supplement. These documents provide for a commitment extending up to and including January 1, 2000, during which time Oregon Farmers can draw from the proceeds of the loan, and for a payment schedule calling for repayment of the loan in 32 equal, consecutive, quarterly installments beginning in 2000. Oregon Farmers will execute a Promissory Note payable to CoBank with the principal amount of \$800,000.00 bearing interest at a national variable or fixed rate. As security for the loan, Oregon Farmers plans to execute and deliver a Deed of Trust, Security Agreement, and Financing Statement. The Maximum Debt Limit contained in these documents is \$2,000,000.00 but Oregon Farmers currently seeks authority to borrow only \$800,000.00.

Staff, including the Telecommunications and Financial Analysis Departments, reviewed Oregon Farmers' application and exhibits and filed a recommendation on April 15, 1998. Staff indicated that Oregon Farmers' proposed replacement of the existing microwave radio toll circuits with a fiber route will greatly improve the quality of the telecommunications services it provides. Staff stated that the replacement of microwave radio toll circuits and shortening of customer loops that Oregon Farmers was proposing were the types of improvements that Staff had recommended to all companies implementing modernization in recent years. For these reasons, Staff indicated that it had no objections to Oregon Farmers' proposal. Staff recommended that the Commission approve the application subject to the requirements that Oregon Farmers be ordered to file a copy of the final terms and conditions associated with the financing, and that the Commission reserve the right to consider at a later date the ratemaking treatment to be afforded the transactions and the resulting cost of capital.

Staff stated that the result of the proposed transactions would be \$800,000.00 in new long-term debt. If the financing is approved, the company's Pre-Tax Interest Coverage ratio would decrease from the current 6.16x to 5.52x. The financing would alter the company's capital structure from its current 21.18 percent long-term debt and 78.82 percent common equity to a pro forma capital structure of 42.99 percent long-term debt and 57.01 percent common equity. Staff indicated that Oregon Farmers' current capital structure, pro forma capital structure, and pro forma Pre-Tax Interest Coverage ratio would allow it to achieve a rating consistent with an "AA" rated telecommunications company as defined by Standard & Poor's Corporation. Staff also indicated that, on

a pro forma basis, Oregon Farmers would exceed the four financial ratios that CoBank requested the company maintain in the Loan Agreement.

The Commission has reviewed Oregon Farmers' application for financing and Staff's memorandum. The Commission finds that Oregon Farmers should be authorized to execute Loan Agreements, Promissory Notes, Deeds of Trust, Security Agreements, and Financing Statements in an amount not to exceed \$800,000.00 as described in its application subject to the condition proposed by Staff. Oregon Farmers' proposed improvement plans appear reasonable and the net effect on Oregon Farmers from the issuance of the debt and equity falls within a reasonable range. The Commission finds that the funds are reasonably required for the purposes of constructing and modifying facilities and are not reasonably chargeable to operating expenses or to income.

**IT IS THEREFORE ORDERED:**

1. That the application filed by the Oregon Farmers Mutual Telephone Company on December 17, 1997, for financing and the specific relief requested in that application, is granted.

2. That Oregon Farmers Mutual Telephone Company is authorized to execute and deliver a Promissory Note payable to CoBank, ACB in the principal aggregate amount of \$800,000.00.

3. That Oregon Farmers Mutual Telephone Company is authorized to do all things necessary to complete the transactions specifically authorized in this order, including executing security agreements, financing statements, loan agreements, promissory notes, deeds of trust, and other documents, except those things contrary to law or to the rules and regulations of the Commission.

4. That the proceeds of the loans authorized by this order shall be used for the purposes specified in this order and for no other purposes.

5. That Oregon Farmers Mutual Telephone Company shall file a copy of the final terms and conditions associated with the financing transactions and copies executed agreements, to the Commission's Official Case File within 10 days of the completion of any such transaction.

6. That Oregon Farmers Mutual Telephone Company shall submit to the Commission any information concerning deviations from its stated use of the funds or any information that would materially change the pro forma capitalization and financial ratios.

7. That Oregon Farmers Mutual Telephone Company shall submit to the Commission's Internal Accounting Department a report verified by an appropriate company official reflecting the journal entries recorded relating to the application of the proceeds from the loans authorized by this order within 30 days of the entries.

8. That nothing in this order shall be considered a finding by the Commission of the reasonableness of the expenditures involved in these financing transactions or of the value, for ratemaking purposes, of the properties involved, or as an acquiescence in the value placed upon those properties by the Company. The Commission reserves the right to consider the ratemaking treatment to be afforded these financing transactions, and the resulting cost of capital, in any later proceeding.

9. That this Order shall become effective on September 22, 1998.

BY THE COMMISSION

*Dale Hardy Roberts*

Dale Hardy Roberts  
Secretary/Chief Regulatory Law Judge

( S E A L )

Lumpe, Ch., Drainer and  
Schemenauer, CC., concur.  
Crumpton and Murray, CC.,  
absent.

Harper, Regulatory Law Judge

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COMMISSION COUNSEL  
PUBLIC SERVICE COMMISSION