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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 3rd
day of September, 1998.

In the Matter of the Application of Ozark)
Telephone Company for Authority to Borrow an)
Amount Not to Exceed \$5,882,200 from the Rural)
Utilities Service and the Rural Telephone Bank) Case No. TF-98-549
and in Connection Therewith to Execute a Loan)
Agreement, Promissory Notes, and a Mortgage,)
Security Agreement and Financing Statement.)
)

ORDER DENYING REHEARING AND
GRANTING RECONSIDERATION AND CLARIFICATION

Ozark Telephone Company (Ozark) 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. The Company filed an application on June 5, 1998, asking the Commission to approve the borrowing of certain sums, not to exceed \$5,882,200.00, from the Rural Utilities Service (RUS) and the Rural Telephone Bank (RTB) to finance capital improvements and operating needs of Ozark for the benefit of its customers. This application was approved by an Order Approving Financing issued by the Commission on July 22. As part of the approval, the Commission imposed a requirement that the interest rate applicable to the debt issuance be equal to the current "cost of money" but not exceed 7 percent. This requirement had been requested by the Staff of the Commission (Staff).

Ozark filed an Application for Reconsideration and Clarification or in the Alternative, Application for Rehearing on July 29. Ozark requested the 7 percent interest rate cap be removed as the lender, RUS, had informed Ozark it could not complete the loan transaction with the condition as part of the loan agreement and that it considered the interest rate cap "an unacceptable alteration" of the agreed-upon terms of the proposed lending.

Ozark filed a Motion to Substitute Appendix to Application on July 31. Ozark stated it had previously granted a security interest in its properties to the Rural Telephone Finance Cooperative (RTFC) and one of the conditions of the current financing with RUS and RTB was that RTFC accommodate its lien on Ozark's assets and provide RUS and RTB a security interest on an equal basis with RTFC. Thus, it was necessary to revise Ozark's mortgage to show all three lenders as co-mortgagees. Ozark requested the Restated Mortgage, Security Agreement and Financing Statement be substituted for the previously submitted Appendix 4.

The Staff of the Commission (Staff) filed a memorandum Revised Staff Recommendation on August 7 in response to Ozark's Application for Reconsideration and Clarification or in the Alternative, Application for Rehearing. Staff indicated that it was willing to revise its previous recommendation regarding the 7 percent interest rate cap. Staff proposed the new requirement read as follows:

That the interest rate for this debt issuance shall be equal to the current cost of money, but will be evaluated for purposes of calculating an appropriate cost of debt in any future rate proceedings.

Staff also recommended Ozark be allowed to replace Appendix 4 of the original application with the Substitute Appendix filed July 31. In addition, Staff recommended the Order Approving Financing issued by the

Commission on July 22 be amended to reflect the inclusion of the requirements: 1) that Ozark be required to file to the Commission's Official Case File a copy of the final terms and conditions associated with the financing; 2) that Ozark be required to file with 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; 3) 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; 4) that Ozark provide quarterly financial data to Staff in a format currently utilized by the Financial Analysis Department; and 5) that Ozark be required to maintain a capital structure of at least 40 percent equity to total capital. Staff stated the requested conditions were necessary so that it could monitor the progress of Ozark in meeting the conditions set out in the Restated Mortgage and the Commission's Report and Order issued July 21, 1995 approving a Stipulation and Agreement concerning Ozark.

Ozark filed a Response to the Revised Staff Recommendation on August 14. Ozark indicated it had no objection to four of Staff's proposed conditions but was opposed to the requirement of quarterly reporting. Ozark indicated this type of reporting would be burdensome for the company due to its limited accounting staff. Ozark also stated the quarterly information would not provide an accurate picture of its financial status because Ozark records revenue and expenses on an accrual basis and typically only at year-end. Ozark indicated it would be required to file detailed reports annually with its lenders regarding its capital structure and financial status and would also file them with Staff if so ordered.

Staff filed a Reply to Ozark Telephone Company's Response to Staff Recommendations on August 20. Staff stated it did not think the request for quarterly financial information was unreasonable as all that was requested was straightforward balance sheet and income statement data. Staff indicated it was aware Ozark accounted for its revenue and expenses on an accrual basis but this is an industry standard and would not portray an inaccurate picture of Ozark's financial status compared to other utility companies. Staff stated it believed it was necessary to closely monitor Ozark's compliance with the 40 percent equity to total capital requirement imposed on Ozark by the Commission in Case No. TM-95-134.

The Commission has reviewed the documents and pleadings filed by Ozark and Staff and finds that Ozark should be required to file financial information so Staff can monitor Ozark's compliance with the various fiscal requirements the Commission has imposed. The Commission recognizes Ozark's concern that this filing could be burdensome to the company so will require only semiannual reports instead of the quarterly reports Staff sought. The Commission also finds that Ozark should provide Staff a copy of any annual reports it files with RUS, RTB and RTFC.

IT IS THEREFORE ORDERED:

1. That the Application for Reconsideration and Clarification filed by Ozark Telephone Company on July 29, 1998, is granted.
2. That the Application for Rehearing filed by Ozark Telephone Company on July 29, 1998, is denied.
3. That Ozark Telephone Company shall file semiannual financial reports with the Commission in the format currently used by the Financial Analysis Department so that Staff can monitor Ozark's compliance with the

required loan provisions until it achieves a capital structure of at least 40 percent equity to total capital.

4. That Ozark Telephone Company shall file with the Commission copies of the annual reports concerning its capital structure and financial status that it files with the Rural Utilities Service, Rural Telephone Bank and Rural Telephone Finance Cooperative.

5. That Ozark Telephone Company shall comply with the terms of the Stipulation and Agreement approved in Case No. TM-95-134 including the provisions regarding its capital structure and financing arrangements.

6. That the interest rate applicable to Ozark's debt issuance shall be equal to the current "cost of money" but will be evaluated for purposes of calculating an appropriate cost of debt in any future rate proceeding.

7. That Ozark Telephone Company shall file a copy of the final Mortgage Notes executed with the Rural Utilities Service and Rural Telephone Bank as well as any other final terms and conditions associated with the financing transactions agreements to the Commission's Official Case File within 10 days of the completion of any such transaction.

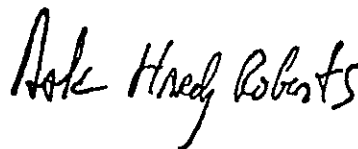
8. That Ozark Telephone Company shall submit to the Commission any information concerning deviations from its stated use of the funds or any information that would materially change the pro forma capitalization and financial ratios.

9. 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.

10. That this Order shall become effective on September 3, 1998.

BY THE COMMISSION



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

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

Harper, Regulatory Law Judge

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COMMISSION COUNSEL
PUBLIC SERVICE COMMISSION