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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 27th  
day of May, 1999.

In the Matter of the Application of Steelville	)	
Telephone Exchange, Inc., for Authority to	)	
Borrow an Amount Not to Exceed \$9,866,100 from	)	
the Rural Utilities Service and the Rural	)	<u>Case No. TF-99-318</u>
Telephone Bank and in Connection Therewith to	)	
Execute a Telephone Loan Contract Amendment,	)	
Promissory Notes, and a Restated Mortgage,	)	
Security Agreement and Financing Statement.	)	

**ORDER APPROVING FINANCING**

Steelville Telephone Exchange, Inc. (STE), filed its application on January 27, 1999, seeking authority to borrow an amount not to exceed \$9,866,100 from the Rural Utilities Service (RUS) and the Rural Telephone Bank (RTB), and to execute various promissory notes and security agreements in association with the proposed loan. In its application, STE states that the proposed loan will be used to improve and modernize its facilities and, possibly, to discharge or retire existing indebtedness.

On April 8, 1999, the Commission directed STE by order to file additional information in support of its application. The Commission directed STE to update its *pro forma* financial statements, Appendix 7 to its Application, to reflect a ten-year period, beginning in 1999. Additionally, the Commission directed STE to inform the Commission as to how it intends to service the proposed debt and whether any new revenues

are anticipated during its term. STE filed the requested information on April 30, 1999, and simultaneously requested a protective order to protect highly confidential and proprietary information contained therein. The Commission issued the requested protective order on May 3, 1999.

### **Discussion**

STE proposes to enter into a loan agreement with RUS, the Amending Telephone Loan Contract, pursuant to RUS' project, "Missouri 536-N12 Steelville." STE proposes to execute and deliver a mortgage note to the United States of America, acting through the RUS, in the amount of \$6,231,000, payable within twenty-two years and bearing interest at a variable rate which may exceed seven percent annually, and a second mortgage note to RTB in the amount of \$3,635,100, payable within twenty-two years and bearing interest at a variable rate. As security, STE proposes to execute and deliver a restated mortgage, security agreement and financing statement covering substantially all of its assets. The purpose of the proposed financing is to purchase and install a new tandem switching platform; deploy three remotes from the new tandem; replace aerial cable with underground cable; engineer and construct new outside plant, permitting the delivery of enhanced services to subscribers; and break existing outside plant into multiple Customer Serving Areas.

The Staff of the Commission (Staff) filed its Memorandum in this matter on March 4, 1999, its Revised Memorandum on March 18, 1999, and

its Clarification Memorandum on March 26, 1999. In each of its memoranda, Staff recommended that the application be approved. No responses to Staff's recommendations were received.

In its recommendations, Staff states that STE is a regulated public utility which provides telecommunications services to approximately 4,446 customers in its Missouri service area. Staff further states that the proposed loan will be used for capital improvements and to finance the operational needs of STE. The Staff believes that the proposed transaction is reasonable and will provide benefits to STE's customers in the form of improved services.

Staff admits that the proposed loan would have a significant impact on STE's consolidated capital structure if STE utilized the entire line of credit. Thus, STE's total debt to total capital ratio would change from 54.98 percent to 71.62 percent and its equity ratio would fall to 28.38 percent. However, Staff states that STE personnel have represented that STE will only draw upon approximately \$1,000,000 annually of the line of credit and Staff recommends approval on that basis. Under that scenario, STE's equity ratios would vary between 43.0 percent and 43.6 percent over the period 1999-2002, and its debt ratios vary from 56.4 percent to 57.00 percent over the same period.

Based on STE's financial statements, the Staff states that the resulting debt ratio, pretax interest coverage ratio and funds flow interest coverage ratio would be well within the range necessary to achieve the benchmark ratio for a "BBB" rated telecommunications company. Staff suggests that STE will eventually achieve a "AA" rating. The Staff

concludes that the proposal is reasonable and recommends that the Application be approved with certain conditions.

In the additional information that STE filed at the direction of the Commission on April 30, 1999, STE states that, while it anticipates no new revenues during the life of the proposed obligation, it does anticipate increased revenues. The upgrades that STE will undertake with the proceeds of the proposed financing are compliant with the State Telecommunications Modernization Plan (STMP), which requires fiber optic transmission plant and higher data transmission rates to subscribers' residences. The new switch will permit STE to provide Custom Local Area Signaling Services (CLASS). The proposed financing will also permit STE to shorten subscribers' local loops and provide advanced data transmission services. The highly confidential and proprietary financial information filed by STE on April 30, 1999, shows that STE will be able to service the proposed obligation with existing revenues, including anticipated growth therein.

The Commission has reviewed the Application and accompanying documentation, the additional information filed by STE, including highly confidential and proprietary information, and the Staff recommendations. The Commission finds the proposed financial transaction to be reasonable and not detrimental to the public interest. The Commission will approve the requested financial transaction with certain conditions.

In its pleading filed on April 30, 1999, STE requested that the Commission not condition its approval of the proposed financing upon the conditions suggested by Staff. In particular, the condition in question

is Staff's recommendation that STE maintain an equity ratio of forty percent or better throughout the life of the proposed obligation. Alternatively, Staff recommends that STE obtain prior approval from the Commission to permit its equity ratio to fall below forty percent. This recommended condition is tied to STE's assurance to Staff that STE will only draw upon the proceeds of the proposed financing at an average rate of \$1,000,000 annually. STE states that its equity ratio may, from time to time, fall below forty percent and that, in some years, it may draw upon more than \$1,000,000 of the proceeds of the proposed financing. The Commission finds that the public interest requires that the conditions recommended by Staff be imposed in this case.

**IT IS THEREFORE ORDERED:**

1. That Steelville Telephone Exchange, Inc., is hereby authorized to perform the following:

- A. Borrow from the Rural Utilities Service an amount not to exceed \$6,231,000, and borrow from the Rural Telephone Bank an amount not to exceed \$3,635,100, in accordance with the terms and conditions of the Amending Telephone Loan Contract attached to the Application as Exhibits 1 and 2;
- B. Execute and deliver Mortgage Notes to the United States of America, payable through the Administrator of the Rural Utilities Service, and to the Rural Telephone Bank evidencing the loan amounts, substantially in the form of the Mortgage Notes attached to the Application as

Appendices 3 and 4, in a total sum not to exceed \$9,866,100;

C. Execute and deliver a restated mortgage, security agreement and financing statement for the purpose of securing the loans substantially in the form of the Restated Mortgage, Security Agreement and Financing Statement attached to the original Application as Appendix 5;

D. Do and perform, or cause to be done and performed, all such other acts and things, as well as to make, execute and deliver any and all documents as may be necessary, advisable or proper to the end that the intent and purposes of this financing may be fully effectuated.

2. That Steelville Telephone Exchange, Inc., shall file in this case copies of all notes, mortgages, security agreements, financing statements, and other documents, executed and delivered with respect to the transactions herein authorized, within thirty days of the execution and delivery thereof.

3. That the proceeds realized from the financing transaction herein authorized shall be used for the purposes specified herein and no other.

4. That Steelville Telephone Exchange, Inc., shall henceforth maintain an equity ratio greater than or equal to 40.0 percent and that Steelville Telephone Exchange, Inc., shall not allow its equity ratio to

fall below 40.0 percent without specific prior authority from this Commission.

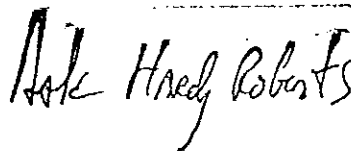
5. That Steelville Telephone Exchange, Inc., shall continue to submit quarterly surveillance data reports as directed by the Staff of the Missouri Public Service Commission.

6. That the Staff of the Missouri Public Service Commission shall monitor the equity ratio of Steelville Telephone Exchange, Inc., and notify the Commission if it appears likely to fall below 40.0 percent.

7. That nothing in this order shall be considered a finding by the Commission of the value of this transaction for ratemaking purposes, and the Commission reserves the right to consider any ratemaking treatment to be afforded the transaction herein involved in a later proceeding.

8. That this order shall become effective on June 8, 1999.

BY THE COMMISSION



Dale Hardy Roberts  
Secretary/Chief Regulatory Law Judge

( S E A L )

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

Thompson, Deputy Chief Regulatory Law Judge

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MAY 28 1999

COMMISSION COUNSEL  
PUBLIC SERVICE COMMISSION