

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 21st
day of December, 1995.

In the matter of the application of Fidelity)
Telephone Company and Bourbeuse Telephone) CASE NO. TF-96-178
Company for authority to finance and encumber)
certain public utility property.)

ORDER APPROVING FINANCING

On November 29, 1995, Fidelity Telephone Company (Fidelity) and Bourbeuse Telephone Company (Bourbeuse) (collectively Applicants or Companies) filed an application seeking Commission authorization to enter into a Master Equipment Lease Agreement with AT&T Credit Corporation to lease and finance a 5ESS-2000 CDX switch and related transmission equipment. Applicants propose to finance approximately \$3.3 million of the switch costs and other related transmission costs. An additional 10 percent contingency may be added to the total amount of the financing to reflect unanticipated costs of installing the AT&T switch. On December 14, 1995, the Staff of the Missouri Public Service Commission (Staff) filed a memorandum in this case recommending approval of the request.

The Missouri Public Service Commission (Commission) upon consideration of the verified application, the exhibits offered in support of the application, and the recommendation of its Staff, determines that a hearing is unnecessary to resolve the matters and issues herein, and finds and concludes as follows.

Fidelity and Bourbeuse are Missouri local exchange telecommunications companies certificated to provide local exchange service to customers in Franklin, Gasconade, Washington and Crawford Counties,

Missouri, and are public utilities subject to the jurisdiction of this Commission pursuant to Chapters 386 and 392, RSMo 1994.

Fidelity and Bourbeuse seek approval from the Commission to finance approximately \$3.3 million of the costs of the 5ESS-2000 CDX switch. The switch will be used to switch the local exchange traffic of both Fidelity and Bourbeuse. Attached to the application as Exhibit A is an unexecuted copy of the Master Equipment Lease Agreement Schedule. Also included with the application is a pro forma balance sheet and income statement with adjustments showing the effects of the proposed financing upon the indebtedness and capitalization of Fidelity and Bourbeuse, attached to the application as Exhibit C, and a five-year capitalization expenditures schedule, attached to the application as Exhibit D. Exhibit B, which contains certified copies of the resolutions of the Board of Directors of Fidelity and Bourbeuse, were late-filed on December 12, 1995. Applicants submit that it will be in the best interests of the companies, their customers, and shareholders to permit the financing of the switch, as this will allow Applicants to provide safe and adequate service to their customers. Applicants also seek expedited review of the application, and request that the Commission issue an order by December 21, 1995, if possible, so that the lease agreement and financing may be executed by December 31, 1995.

The Commission's Staff has reviewed the application of Fidelity and Bourbeuse, and the exhibits attached thereto, including a pro forma balance sheet and income statement, capital expenditures schedule, certified copy of the resolutions of the Board of Directors of Fidelity and Bourbeuse, and an unexecuted copy of the lease agreement. Staff states that the application involves a capital lease for an AT&T 5ESS-2000 switch and associated transmission equipment. Staff notes that the tele-

communications department has previously reviewed the project and determined that there is a need for the new equipment, and thus deems the project appropriate. Staff states that the amount of the financing is up to and including \$3,301,653. The rate of the financing, according to Staff, is a variable rate tied to the three-year U.S. Treasury Note, with a starting point of 4.6 percent. No adjustment will be made if the three-year U.S. Treasury note is within 25 basis points of 5.58 percent. In the event that the three-year U.S. Treasury Note is trading above or below the band of 5.33 percent to 5.83 percent, the 4.6 percent variable rate will be adjusted in the appropriate direction by an amount equal to the magnitude greater than or less than the 25 basis point band. As an example, Staff states that if the three-year U.S. Treasury Note was trading at 5.25 percent, the variable rate would be 4.6 percent minus the difference between 5.33 percent -- which is equal to the lower bound of the 25 basis point band -- and 5.25 percent, or 8 basis points for a rate of 4.52 percent (4.60 percent minus 0.08 percent). Staff states that Fidelity and Bourbeuse will have the right to purchase the equipment at the end of the five-year lease term for \$1.

Staff indicates that Fidelity and Bourbeuse intend to classify the equipment funded by this financing arrangement as telephone plant-in-service, in accordance with the Uniform System of Accounts, Part 32, and intend to depreciate this plant at the Companies' current depreciation rate authorized by the Commission. Staff also indicates that the Applicants intend to classify this lease as a debt on their balance sheet. Staff explains that classifying the lease as a debt will have a significant change in the Applicants' consolidated capital structure, but the changes do not threaten the Companies' financial integrity. Staff states that the Companies' consolidated Debt to Total Capital Ratio would move from 9.24

percent to 26.48 percent. While Staff acknowledges that this represents a significant move in the Companies' consolidated capital structure, Staff states that this would still be in the "AA" category for telecommunications companies, according to Standard & Poor's Corporation. The Pre-Tax Interest Coverage Ratio [(earnings before interest and taxes)/interest] would change from 24.92 times as of June 30, 1995 to 13.53 times, and the Funds Flow Interest Coverage Ratio [(funds from operations plus interest charges paid)/(gross interest expense)] would change from 26.24 times as of June 30, 1995, to 14.26 times. Staff states that these figures are well within the range for a "AA" rated telecommunications company according to Standard & Poor's Corporation.

Staff recommends that the Commission approve the application submitted by Fidelity and Bourbeuse in this case, subject to the condition that the Companies be required to file with the Commission a copy of the final Master Equipment Lease Agreement entered into with AT&T Capital Corporation. Staff also notes that Applicants wish to receive a final order prior to December 31, 1995, and would like to have an order issued by December 21, 1995, thus Staff respectfully requests that this matter be placed on the Commission's Agenda as soon as possible.

The Commission has reviewed the application and exhibits of Fidelity and Bourbeuse, and has reviewed the recommendation of Staff, and determines that Fidelity and Bourbeuse should be granted authority to enter into the Master Equipment Lease Agreement and financing arrangements with AT&T Credit Corporation for the lease of the 5ESS-2000 CDX switch and related transmission equipment. The Commission is of the opinion that the proposed terms and conditions of the financing are reasonable, and that the use of the proceeds to finance the lease of the 5ESS-2000 CDX switch and related transmission equipment is reasonable and will enure to the benefit

of Fidelity's and Bourbeuse's customers as a whole. Thus, the Commission finds that the contemplated financing is reasonably required for the purposes as specified in this order, and such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

The Commission also determines that the condition suggested by Staff is reasonable. In addition, the Commission finds that it is able to accommodate Applicants' request for expedited review.

IT IS THEREFORE ORDERED:

1. That the application filed by Fidelity Telephone Company and Bourbeuse Telephone Company is hereby approved.

2. That Fidelity Telephone Company and Bourbeuse Telephone Company be authorized hereby to enter into a Master Equipment Lease Agreement with AT&T Credit Corporation to lease and finance a 5ESS-2000 CDX switch and related transmission equipment.

3. That Fidelity Telephone Company and Bourbeuse Telephone Company be authorized hereby to finance up to and including \$3,301,653 of the switch costs and other related transmission costs.

4. That Fidelity Telephone Company and Bourbeuse Telephone Company be authorized hereby to add to the total amount of the financing an additional ten percent (10%) contingency to reflect unanticipated costs of installing the AT&T switch.

5. That the proceeds from the financing authorized herein shall be used for the purpose specified herein and no other.

6. That Fidelity Telephone Company and Bourbeuse Telephone Company be authorized hereby to execute, deliver, and perform the necessary agreements relative to the financing authorized herein.

7. That Fidelity Telephone Company and Bourbeuse Telephone Company be authorized hereby to do all things not contrary to the law or

to the rules and regulations of the Commission, necessary to the performance of the acts specifically authorized in this order, including the execution of such other agreements and documents as are reasonably necessary to the furtherance of the financing authorized herein.

8. That Fidelity Telephone Company and Bourbeuse Telephone Company be authorized hereby to enter into and execute the Master Equipment Lease Agreement with AT&T Credit Corporation as requested in the application, in substantially the form as presented in Exhibit A to the application, and such other instruments as may be required to carry out the financing authorized herein.

9. That Fidelity Telephone Company and Bourbeuse Telephone Company be directed hereby to file with the Commission a copy of the final Master Equipment Lease Agreement within fifteen (15) days from the date the lease agreement is executed.

10. That nothing in this order shall be considered a finding of the Commission's value for ratemaking purposes of any properties herein involved, or as an acquiescence in the value placed upon said properties by Fidelity Telephone Company and Bourbeuse Telephone Company. Furthermore, the Commission reserves the right to consider the ratemaking treatment to be afforded these financing transactions, and the resulting costs of capital, in any later proceeding.

11. That this application shall be granted expedited treatment.

12. That this order shall become effective on December 31,
1995.

BY THE COMMISSION



David L. Rauch
Executive Secretary

(S E A L)

Mueller, Chm., McClure, Kincheloe,
and Drainer, CC., Concur.
Crumpton, C., Absent.