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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 23rd
day of December, 1997.

In the Matter of the Application of Miller)
Telephone Company for Authority to Borrow an)
Amount Not to Exceed \$2,098,600 from the Rural)
Utilities Service, the Rural Telephone Bank, and)
the Federal Financing Bank, and in connection) **Case No. TF-98-109**
therewith to Execute 1) an Amending Telephone)
Loan Contract; 2) Promissory Notes; and 3) a)
Supplemental Mortgage, Security Agreement and)
Financing Statement.)
)

ORDER APPROVING FINANCING

Miller Telephone Company (Miller) is a Missouri telecommunications corporation and a public utility subject to the jurisdiction of the Missouri Public Service Commission. § 386.250(2), RSMo 1996. The company filed an Application on September 8, 1997, asking the Commission to approve financing arrangements made in accordance with the Rural Utilities Service (RUS) Project Designation "Missouri 599-B13 Miller" pursuant to Sections 392.290-392.310, RSMo 1994. Miller requested authority to borrow certain sums, not to exceed \$2,098,600, in the following amounts from the following federal government lenders: \$1,165,500 from the RUS; \$684,000 from the Rural Telephone Bank (RTB); and \$249,000 from the Federal Financing Bank (FFB).

Miller provided the documentation required by 4 CSR 240-2.060(8): a pro forma balance sheet, income statements, a five-year capitalization expenditure schedule, and a certified copy of the resolution of the Board of Directors authorizing the loans. Since the instruments defining the

terms of the loans have not been executed, Miller included a description of their general terms and conditions.¹ Miller stated that none of the proceeds of the loans will be used for the purpose of guaranteeing, taking over, refunding, discharging or retiring existing indebtedness. Consequently, all of the proposed financing will be subject to the fee schedule as set forth in Section 386.300, RSMo 1996.

Miller states that the funds it proposes to borrow will be used to provide service to 216 new subscribers and for other system improvements, including: upgrading the existing exchange switch, replacing the existing PCM spans with fiber optic terminals, implementing a carrier serving area design concept in the provision of local loop service, placing 89 miles of buried cable, and constructing a new headquarters building. In borrowing the federal funds necessary to complete RUS Project Designation "Missouri 599-B13 Miller", Miller proposes to execute and deliver the following promissory notes:

- 1) a Mortgage Note similar to Exhibit 2 of the Application which is payable to the United States of America acting through the Administrator of the Rural Utilities Service in the aggregate principal amount of \$1,165,000 bearing interest at a rate determined in accordance with Section 305(d)(2)(A) of the Rural Electrification Act of 1936, as amended from time to time, and the implementing regulations as amended from time to time provided that the rate may exceed 7 percent per year and providing for payment of the indebtedness evidenced thereby within 21 years from the date thereof;

¹ See Exhibits 1-6 in Miller's Application.

- 2) a Mortgage Note similar to Exhibit 3 of the Application which is payable to the Rural Telephone Bank in the amount of \$684,000 bearing interest at various rates determined for each advance in accordance with Section 408(b)(3) of the Rural Electrification Act of 1936, as amended from time to time, and the implementing regulations as amended from time to time and providing for payment of the indebtedness evidenced thereby within 21 years from the date thereof;
- 3) a Future Advance Promissory Note similar to Exhibit 4 of the Application which is payable to the Federal Financing Bank in the amount of \$249,000 bearing interest at a rate established by the FFB as of the date on which the respective advance is made on the basis of the determination made by the Secretary of the Treasury pursuant to Section 6(b) of the Federal Financing Bank Act of 1973, as amended, provided, however, that the shortest maturity used as the basis for any rate determination shall be the remaining maturity of the most recently auctioned 13-week United States Treasury bills, and providing for payment of the indebtedness evidenced thereby within 21 years from the date thereof; and
- 4) a Reimbursement Note similar to Exhibit 5 which is payable to the United States of America acting through the Administrator of RUS in a sum equal to the amounts paid by the United States pursuant to the guarantee by RUS to the FFB for amounts payable to FFB under the note made by Miller to FFB with interest in accordance with the Late Charge Rate defined as a rate equal to one and one-half times the rate to be

determined by the Secretary of the Treasury taking into consideration the prevailing market yield on the remaining maturity of the most recently auctioned 13-week United States Treasury bills.

Miller proposes to secure the loans by executing and delivering a supplemental mortgage, security agreement, and financing statement similar to Exhibit 6 of the Application.

The Staff of the Public Service Commission (Staff) reviewed Miller's Application and exhibits and filed a memorandum recommending approval of Miller's proposed financing arrangement on November 12, 1997. Staff indicated that the purposes for the funds are reasonable from a financial perspective and notes that the interest rates on the loans are relatively low because they are close to the rate on a 23-year US Treasury Bond. Staff states that the RUS and RTB rates are equal to the Treasury rate on the day of issue.² The FFB rate is the Treasury rate plus 1/8 percent.

Staff states that Miller's current capital structure consists of 37.87 percent long-term debt and 62.13 percent common equity. According to Staff, Miller's pro forma financial statement indicates the effect of borrowing \$2,098,600 of new debt will be to increase its percentage of long-term debt to 68.76 percent. Accordingly, the new debt will decrease the percentage of owners equity to 31.24 percent.

Staff indicates it performed a ratio analysis of Miller using telecommunications benchmarks from Standard and Poor's Utility Rating Service. Staff states that Miller's Pre-Tax Interest Coverage Ratio, Total

² Staff indicates that as of October 19, 1997, the Treasury rate was 6.38 percent.

Debt to Total Capital, and Funds Flow Interest Coverage Ratio are currently in the "AA" range. Staff's analysis revealed that with the increased debt, Miller will no longer meet any of Standard and Poor's criteria for investment grade bonds and its capital structure will drop below investment grade (BBB).

However, Staff notes the federal government loan indentures only require Pre-Tax Interest Coverage of 1.0 times for a company to obtain financing. Staff indicates that the pro forma Pre-Tax Interest Coverage for Miller after the new debt will be 1.68 times. Further, Staff states that Miller's pro forma statements show Miller's revenue will increase by \$253,464 (36.4 percent) in the first year. Staff believes further increases in revenues should be expected as new customers come on line as a result of Miller's growth.

Based on its review, Staff recommends the Commission approve Miller's Application to borrow monies from the RUS, RTB, and FFB. Staff also recommends that Miller be required to file with the Commission all documents relating to the loans as a condition of approval.

The Commission has reviewed Miller's application for financing and exhibits and Staff's memorandum and attachments and finds that Miller should be authorized to borrow an amount not to exceed \$2,098,600, in the following amounts from the following federal government lenders: \$1,165,500 from the RUS; \$684,000 from the Rural Telephone Bank (RTB); and \$249,000 from the Federal Financing Bank (FFB). The Commission finds that funds borrowed shall be used to provide service to 216 new subscribers, upgrade the existing exchange switch, replace the existing PCM spans with fiber optic terminals, implement a carrier serving area design concept in the provision of local loop service, place 89 miles of buried cable, and

construct a new headquarters building. The Commission finds that the funds are reasonably required for these purposes and are not reasonably chargeable to operating expenses or to income. These are new loans, subject to the fee schedule set out in Section 386.300, RSMo 1986.

IT IS THEREFORE ORDERED:

1. That Miller Telephone Company is authorized to borrow an amount not to exceed \$2,098,600, in the following amounts from the following federal government lenders: \$1,165,500 from the Rural Utilities Service; \$684,000 from the Rural Telephone Bank; and \$249,000 from the Federal Financing Bank. The terms and conditions of such loans shall be substantially in accordance with the terms and conditions of the Amending Telephone Loan Contract attached to the company's application as Exhibit 1.

2. That Miller Telephone Company is authorized to execute and deliver promissory notes evidencing the loans referred to in Ordered Paragraph 1. The promissory notes shall be substantially in accordance with the promissory notes attached to the company's application as Exhibits 2-5, and shall not exceed the total sum of \$2,098,600.

3. That Miller Telephone Company is authorized to execute and deliver a supplemental mortgage, security agreement and financing statement for the purpose of securing the loans. The supplemental mortgage, security agreement and financing statement shall be substantially in accordance with the Supplemental Mortgage, Security Agreement and Financing Statement attached to the company's application as Exhibit 6.

4. That Miller Telephone Company is authorized to enter into, execute, deliver and perform all other documents and to take such other actions as may be necessary to effectuate the financing authorized by this order.

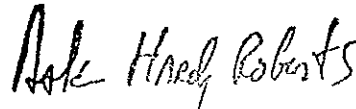
5. That the proceeds of the loans authorized by this order shall be used for the purposes specified in this order and for no other purposes.

6. That Miller Telephone Company shall file with the Commission copies of all documents related to the financing transactions approved in this order within 30 days of the closing date.

7. 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 their resulting cost of capital, in any later proceeding.

8. That this Order shall become effective on January 2, 1998.

BY THE COMMISSION



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

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

Hennessey, Regulatory Law Judge