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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 22nd day of July, 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 and in Connection Therewith to Execute a Loan Agreement, Promissory Notes, and a Mortgage, Security Agreement and Financing Statement.	)	**Case No. TF-98-549**

ORDER APPROVING FINANCING

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. Ozark is generally engaged in the business of providing telecommunications service to approximately 1,841 customers in two exchanges located in McDonald County, Missouri as well as approximately 267 customers in Arkansas and Oklahoma. 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. Ozark made its request in compliance with Section 392.310, RSMo 1994 and 4 CSR 240-2.060.

Ozark 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, income statements, and a certified copy of the resolution of the Board of Directors authorizing the loan. Ozark indicated it had not included the required five year capitalization expenditure schedule as it had acquired the assets in question April 1, 1996 and therefore did not have five years of information. Ozark provided a capitalization expenditure schedule covering the time period it had owned the assets and requested a waiver of the requirement of a five-year capitalization expenditure schedule. 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. Ozark stated a portion of the loan would be used for the purpose of taking over, refunding, discharging or retiring existing indebtedness so would not be subject to the fee schedule set out in Section 386.300, RSMo Supp. 1997.

Ozark has requested financing authority in order to complete projects related to its Modernization Plan, approved by the Commission in Case No. TM-95-134 on September 25, 1997. Specifically, Ozark wishes to use the proceeds of the loan to (1) improve and extend services on an all one-party basis, (2) install COE electronics for establishing electronic serving areas in its exchanges, (3) replace remaining air-core cable with buried filled cable, (4) install fiber optic cable from Noel to Southwest City and upgrade the subscriber feeder network to lightweight facilities, (5) reinforce existing copper cable, and (6) install an underground fiber and duct system.

In order to finance these projects, Ozark asks the Commission to approve its borrowing of $3,715,000.00 from RUS and $2,167,200.00 from RTB. As part of this transaction, Ozark plans to issue a Mortgage Note payable to the United States of America acting through the Administrator of the RUS in the amount of $3,715,000.00 and a Mortgage Note payable to RTB in the amount of $2,167,200.00, with both notes providing for the payment of the indebtedness evidenced thereby within twenty-two (22) years. As security for the loan, Ozark plans to execute and deliver a mortgage, security agreement, and financing statement giving RUS and RTB an equal ratable priority lien with Ozark's prior lien held by the Rural Telephone Finance Cooperative on all of Ozark's assets.

Staff, including the Telecommunications and Financial Analysis Departments, reviewed Ozark's application and exhibits and filed a memorandum recommendation on July 10, 1998. Staff indicated that the construction, completion, extension and improvement of facilities proposed by Ozark are fair, reasonable, and required by its Modernization Plan. Staff recommended the Commission approve Ozark's Application subject to the requirements that Ozark be required to file with the Commission a copy of the final Mortgage Notes executed with RUS and RTB, 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, and that the Commission would reserve the right to consider at a later date the ratemaking treatment to be afforded the transactions and the resulting cost of capital. Staff also noted that Ozark had indicated it expected the interest rate on the loans to be approximately 5.75 percent. In its Application, Ozark had referenced a recent change to the definition of "cost of money" in Public Law 104-180 which would allow Ozark's interest rates to exceed 7 percent per year. Staff stated that this change in the law did not prevent the Commission from placing a cap on the interest rate it would approve. For this reason, Staff recommended an additional condition be placed on the approval of Ozark's Application, specifically that the interest rate for the debt issuance be equal to the current "cost of money" but not to exceed 7 percent.

Staff stated that the result of the proposed transactions would be $5,882,200 in new long-term debt. If the financing is approved, the company's Pre-Tax Interest Coverage ratio would decrease from the current 1.67x to 1.22x and its Funds Flow Interest Coverage ratio would decrease from the current 2.16x to 1.74x. The financing would increase the company's total debt to total capital ratio from 72.53 percent to 86.10 percent. Staff stated that although the proposed transactions appeared to cause a significant increase in Ozark's total debt to total capital ratio in the short term, Staff felt the long-term outlook provided a more accurate portrayal of Ozark's ability to support the financing it had requested. Staff stated that Ozark projected that by 2002 its total debt to total capital ratio would improve to 60.41 percent, its Pre-Tax Interest Coverage ratio would increase to 3.05x, and its Funds Flow Interest Coverage ratio would increase to 3.84x. Staff indicated all of these figures would allow Ozark to achieve a rating consistent with a "BBB" rated telecommunications company as defined by Standard & Poor's Cooperation. Staff made no objection to the waiver of the filing of a five year capitalization expenditure schedule requested by Ozark.

The Commission has reviewed Ozark 's application for financing and exhibits, Staff's memorandum, its attachments and specific recommendations. The Commission finds that Ozark should be authorized to execute Loan Agreements, Promissory Notes, Mortgages, Security Agreements, and Financing Statements in an amount not to exceed $5,882,200.00

as described in its application subject to the condition proposed by Staff. Based upon Staff's review, Ozark's proposed improvement plans appear reasonable and the net effect on Ozark 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 Ozark Telephone Company on June 5, 1998, for financing and the specific relief requested in that application, is granted.

2. That Ozark Telephone Company is authorized to execute and deliver a Mortgage Note payable to the United States of America through the Administrator of the Rural Utilities Service in the principal aggregate amount of $3,715,000.00.

3. That Ozark Telephone Company is authorized to execute and deliver a Mortgage Note payable to the Rural Telephone Bank in the principal aggregate amount of $2,167,200.00.

4. That Ozark 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, mortgages, and other documents, except those things contrary to law or to the rules and regulations of the Commission.

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 the interest rate applicable to the debt issuance shall be equal to the current "cost of money" but is not to exceed 7 percent.

7. That the waiver requested by Ozark Telephone Company of the provision in 4 CSR 240-2.060(8) requiring the filing of a five year capitalization expenditure schedule with this Application is granted.

8. 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, and copies of the executed agreements, to the Commission's Official Case File within 10 days of the completion of any such transaction.

9. 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.

10. That Ozark 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.

11. 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.

12. That this Order shall become effective on August 4, 1998.

BY THE COMMISSION

Dale Hardy Roberts

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

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

Harper, Regulatory Law Judge