

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service
Commission held at its office in
Jefferson City on the 10th day of
November, 2005.

In the Matter of the Application of The Oregon)
Farmers Mutual Telephone Company for Authority)
to Execute a Secured Guaranty in Favor of the) **Case No. TF-2005-0503**
Rural Telephone Finance Cooperative in Connection)
with a Loan to Northwest Missouri Holdings, Inc.)

ORDER GRANTING APPLICATION

Issue Date: November 10, 2005

Effective Date: November 20, 2005

On June 24, 2005, The Oregon Farmers Mutual Telephone Company filed an application asking the Commission for authority to execute a Secured Guaranty in favor of the Rural Telephone Finance Cooperative (RTFC). The application explains that Oregon Farmers provides basic local telecommunications service to approximately 1,271 customers in one exchange located in Holt County, Missouri. All outstanding stock of Oregon Farmers is owned by Northwest Missouri Holdings, Inc.

The Commission authorized Northwest Missouri Holdings to purchase the stock of Oregon Farmers in Case No. IM-2004-0461. In that same case, Oregon Farmers was authorized to execute and deliver a Deed of Trust, Security Agreement, and Financing Statement placing a lien on its assets in order to secure a loan from the RTFC to Northwest Missouri Holdings in the amount of \$7,388,889. The RTFC has now requested that Oregon Farmers execute a Secured Guaranty to serve as additional security for the RTFC loan to

Northwest Missouri Holdings. It is for the execution of this Secured Guaranty that Oregon Farmers seeks the Commission's approval.

On August 31, the Commission's Staff filed a Recommendation and Memorandum regarding Oregon Farmers' application. Staff's memorandum explains that the Secured Guaranty that the RTFC has asked Oregon Farmers to sign is actually a part of the original loan documentation required by the RTFC at the time of the original transaction. Oregon Farmers did not request authority from the Commission to sign that Secured Guaranty at that time, so it is requesting that authority now. Staff indicated that if Oregon Farmers does not sign the Secured Guaranty, the interest rate on the loan will be increased. By signing the Secured Guaranty, Oregon Farmers would decrease its interest costs over the remaining fourteen-year life of the loan. Staff recommended that the Commission approve the application.

The Commission initially considered Oregon Farmers' application at its September 8 agenda meeting. After discussing the application, the Commission found that it had questions about the Secured Guaranty. In order to put those questions to the parties, the Commission conducted an on-the-record presentation on September 20.

Oregon Farmers, Staff, and the Office of the Public Counsel were represented at the on-the-record presentation by counsel. Pat Eudy, President of Oregon Farmers, and John Kiebel and Matt Barnes of Staff offered sworn testimony regarding the details of the application and the Secured Guaranty. In addition, Oregon Farmers and Staff filed written memoranda following the on-the-record presentation.

The testimony indicated that the Secured Guaranty, for which Oregon Farmers is seeking approval in this case, was actually a part of the loan package for which Oregon

Farmers was given approval in Case No. IM-2004-0461 as a transfer of property under Section 392.300.1, RSMo 2000. As a result of miscommunication between counsel and the company, Oregon Farmers neglected to seek separate approval of the Secured Guaranty as an “evidence of indebtedness” under Section 392.310.1, RSMo 2000. The RTFC still wants the additional protection afforded by the Secured Guaranty and for that reason, Oregon Farmers filed a new application to obtain the Commission’s approval for the issuance of the Guaranty.

The Commission also questioned how the Secured Guaranty differed from the security interest that the RTFC obtained in the assets of Oregon Farmers in the transaction approved in the earlier case. Oregon Farmers explained that while the assets of Oregon Farmers have already been pledged to the RTFC to secure the debt of Oregon Farmers’ corporate parent, Northwest Holdings, Inc., Oregon Farmers, by signing the Secured Guaranty, is obligating itself to pay that debt if Northwest Holdings does not do so.

Based on representations from the company, Staff’s recommendation indicated that Oregon Farmers would face a 200 basis point increase in the interest rate that it must pay on the RTFC loan if it does not sign the Secured Guaranty. In its Legal Memorandum, Oregon Farmers indicated that after reviewing the language of the Loan Agreement it has concluded that the increase in the interest rate that would result from its failure to sign the Secured Guaranty would be 50 basis points rather than 200 as previously indicated.

The Commission has reviewed and considered Oregon Farmers’ application, the Recommendation and Memorandum of Staff, as well as the evidence presented at the on-the-record presentation. The Commission concludes that the Secured Guaranty, the issuance of which Oregon Farmers asks the Commission to approve, is essentially a part of

the transaction for which the Commission granted its approval in Case No. IM-2004-0461. There is no reason to revisit that case. Signing the additional guaranty will reduce the interest charges that Oregon Farmers will have to pay over the life of the previously approved loan. Furthermore, signing the additional guaranty does not appreciably increase the risk undertaken by Oregon Farmers and will not result in any harm to Oregon Farmer's ratepayers. Therefore, the Commission will approve Oregon Farmers' application for authority to enter into a Secured Guaranty relating to the previously approved transaction.

IT IS THEREFORE ORDERED:

1. That The Oregon Farmers Mutual Telephone Company's Application is granted.
2. That The Oregon Farmers Mutual Telephone Company is authorized to enter into and perform in accordance with the terms of the Secured Guaranty attached to its Application.
3. That The Oregon Farmers Mutual Telephone Company is authorized to do any and all other things as may be reasonably necessary in furtherance of all acts specifically authorized by this order.
4. That nothing in this order shall be considered a finding by the Commission of the value of these transactions for ratemaking purposes and that the Commission reserves the right to consider the ratemaking treatment to be afforded these financing transactions, and their results in cost of capital, in any later proceeding.

5. That this order shall become effective on November 20, 2005.

BY THE COMMISSION

A handwritten signature in black ink, appearing to read 'Colleen M. Dale', written over a horizontal line.

Colleen M. Dale
Secretary

(S E A L)

Davis, Chm., Clayton and Appling, CC., concur
Gaw, C., dissents
Murray, C., absent

Woodruff, Senior Regulatory Law Judge