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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 December, 1994.

In the matter of the application of CITIZENS)
TELEPHONE COMPANY OF HIGGINSVILLE, MISSOURI,)
INC., for authority to borrow an amount not)
to exceed \$1,000,000 from the National Bank) **CASE NO. TF-95-143**
for Cooperatives and in connection therewith)
to execute a Loan Agreement, Promissory Note,)
Deed of Trust, Security Agreement and Financing)
Statement.)

ORDER APPROVING FINANCING

On October 27, 1994, Citizens Telephone Company of Higginsville, Missouri, Inc. (Citizens) filed an application in this case requesting authority to borrow from the National Bank for Cooperatives (CoBank) an amount not to exceed \$1,000,000, and to execute a Loan Agreement; Promissory Note; and Deed of Trust, Security Agreement and Financing Statement in connection therewith. On December 15, 1994, the Commission's Staff filed a memorandum in this case essentially recommending that Citizens' application be granted by session order.

The Commission, upon consideration of the verified application, the schedules and 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.

Citizens is a Missouri corporation with its principal place of business located at Higginsville, Missouri. Citizens is also a public utility subject to the jurisdiction of this Commission pursuant to Chapters 386 and 392, RSMo 1986, as amended, and is engaged in providing telecommunications service to approximately 3,700 customers in one exchange located in Lafayette County, Missouri.

Citizens seeks approval from the Commission to borrow an aggregate principal amount of up to \$1,000,000 from the National Bank for Cooperatives. The proposed medium-term loan anticipates the execution of a number of documents, including the following: (a) National Bank for Cooperatives Loan Agreement between CoBank and Citizens, Loan No. T36476; (b) Promissory Note by Citizens to CoBank as Payee, Loan No. T36476; (c) Deed of Trust, Security Agreement and Financing Statement between Citizens as Grantor, CoBank as Beneficiary, and Walter G. Schmidt or his successor as Trustee. Advances against the loan will be made by CoBank to Citizens upon the request of Citizens until April 1, 1995. Interest will be paid monthly beginning with the first advance, with repayment of the principal to commence on April 20, 1995, and end on January 20, 2002. Repayment is to be made in 28 equal consecutive quarterly installments of principal and interest payable on the 20th of each April, July, November, and January. The unpaid principal balance of the medium-term loan is to bear interest at a variable floating rate equal to the National Variable Rate, which is an index of rates established by CoBank. The Loan Agreement also provides that Citizens may request that the interest rate be fixed, for a period of time agreed upon by both parties, ranging from a period of six months to the final maturity date of the loan, at an interest rate to be quoted by CoBank.

Net proceeds from the medium-term loan are intended to be used for the acquisition of property; the construction, completion, extension, or improvement of the facilities of Citizens or the improvement of its service within the State of Missouri; for the discharge or lawful refunding of the obligations of Citizens; or for the reimbursement of monies actually expended by Citizens from income from any source within the last five years. More specifically, the funds are intended for use in connection with the following purposes: (1) for payment of the balance of Citizens'

indebtedness to GTE Automatic Electric Incorporated under the terms of a Long-term Financing Agreement dated March 13, 1975 (GTE loan), the balance of which was \$447,500 on December 31, 1993; (2) for the purchase and installation of switching equipment; (3) for financing the operational needs of Citizens; and (4) for other appropriate purposes.

The Commission's Staff has reviewed Citizens' application, and schedules and exhibits, including a pro-forma balance sheet and income statement, capital expenditure schedule, certified copy of the resolution of the directors of Citizens, and unexecuted proposed instruments and documents relating to the proposed financing. Staff explains that the GTE loan -- which will be repaid with part of the proceeds of the present loan -- was approved by the Commission in Case No. 18,342 at a variable interest rate equal to the prime rate plus 125 basis points. The proposed financing would have a variable interest rate equal to CoBank's National Variable Rate, which is closely tied to the prime interest rate. Both rates are currently at 8.5%, therefore the terms of the proposed financing would be more favorable. Since \$447,500 of the loan proceeds will be used to retire existing debt, new debt will only increase by the amount of \$552,500. Staff points out that Citizens' application shows an increase in interest expense of \$52,000, but concludes that the effect of this increase in interest expense does not adversely affect the Company's financial ratios. Staff states that Citizens' capital structure will consist of 36.46% long-term debt and 63.54% equity, and that Citizens will still have a debt ratio and a pre-tax interest coverage ratio greater than the benchmark for a "AA" rated utility company as determined by Standard and Poor's Corporation.

In addition, Staff notes that the Loan Agreement requires Citizens to be held to four financial ratios upon penalty of default. The ratios are as follows: (1) a ratio of consolidated current assets to consolidated current liabilities of not less than 1.1 to 1; (2) a ratio of

consolidated net worth to consolidated total assets of not less than .35 to 1; (3) a Times Interest Earned Ratio (TIER) of 1.75; and (4) a Debt Service Coverage Ratio (DSC) of 1.50. According to Staff, the ratios appear to be reasonable financial requirements, and based on the information provided in the pro-forma financial statement, Citizens would be in compliance with all the ratios. Staff concludes that the proposed financing will not have a negative impact on Citizens' creditworthiness, or its ability to attract new capital. Staff indicates that the application was reviewed by the Financial Analysis Department from a financial point of view, and by the Telecommunications Department from an operational point of view, including a determination of the necessity of additional switching equipment. The application was also reviewed by the Accounting Department, which intends to address any ratemaking implications in the next rate proceeding. In conclusion, Staff recommends that the Commission approve the application submitted by Citizens, and recommends that the Company be required to file copies of the final loan documentation with the Commission.

The Commission has reviewed the application, schedules, and exhibits of Citizens, and has reviewed the recommendation of Staff, and determines that Citizens should be granted authority to borrow an aggregate principal amount of up to \$1,000,000 from CoBank, as described in Citizens' application and exhibits attached thereto. The Commission is of the opinion that the use of a variable rate keyed to the prime rate is not unreasonable, especially given the opportunity to switch to a fixed rate, and that the overall terms of the proposed financing are reasonable. The Commission also deems reasonable the use of a portion of the loan proceeds to repay the existing GTE loan, as the terms of the proposed loan are more favorable than the terms of the GTE loan. The Commission is also of the opinion that the uses contemplated for the proceeds of the medium-term loan

are reasonable and will inure to the benefit of Citizens' customers as a whole. Thus, the Commission finds that the contemplated loan is reasonably required for the purposes specified in this order, and such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

IT IS THEREFORE ORDERED:

1. That Citizens Telephone Company of Higginsville, Missouri, Inc. be authorized hereby to borrow an aggregate principal amount of up to \$1,000,000 from the National Bank for Cooperatives.

2. That Citizens Telephone Company of Higginsville, Missouri, Inc. be authorized hereby to enter into and execute a National Bank for Cooperatives Loan Agreement with the National Bank for Cooperatives, in substantial accordance with the terms and conditions of the form submitted by Citizens in this proceeding as Exhibit 1.

3. That Citizens Telephone Company of Higginsville, Missouri, Inc. be authorized hereby to execute and deliver a Promissory Note evidencing the loan, in substantial accordance with the form submitted by Citizens in this proceeding as Exhibit 2.

4. That Citizens Telephone Company of Higginsville, Missouri, Inc. be authorized hereby to execute and deliver a Deed of Trust, Security Agreement and Financing Statement in substantial accordance with the form submitted by Citizens in this proceeding as Exhibit 3.

5. That the proceeds from the proposed financing be used for the purposes specified herein and no other.

6. That Citizens Telephone Company of Higginsville, Missouri, Inc. be authorized hereby to execute, deliver and perform the necessary agreements relative to the financing herein authorized.

7. That Citizens Telephone Company of Higginsville, Missouri, Inc. be authorized hereby to do all things not contrary to law or the rules

and regulations of the Missouri Public Service Commission, necessary to the performance to 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 Citizens Telephone Company of Higginsville, Missouri, Inc. be directed hereby to submit to the Missouri Public Service Commission the final loan documentation, within 30 days of the documentation becoming available to Citizens.

9. That Citizens Telephone Company of Higginsville, Missouri, Inc. be directed hereby to submit to the Missouri Public Service Commission's Internal Accounting Department a report verified by an appropriate official of Citizens Telephone Company of Higginsville, Missouri, Inc. reflecting the journal entries recorded relating to the use and application of the loan proceeds of the financing authorized herein, within 30 days after the receipt of any loan proceeds.

10. That nothing in this order shall be considered a finding by the Commission of the reasonableness of the expenditures herein involved, the value for ratemaking purposes of any properties herein involved, or as in acquiescence in the value placed on any such properties by Citizens Telephone Company of Higginsville, Missouri, Inc. Furthermore, 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.

11. That this order shall become effective on January 3, 1995.

BY THE COMMISSION

A handwritten signature in cursive script, reading "David L. Rauch".

David L. Rauch
Executive Secretary

(S E A L)

Mueller, Chm., McClure, Perkins,
Kincheloe and Crumpton, CC., Concur.