

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
JEAN JEWELL
RANDY LOBB
DON HOWELL
LISA NORDSTROM
LYNN ANDERSON
BEVERLY BARKER
RON LAW
GENE FADNESS
TONYA CLARK
WORKING FILE

FROM: TERRI CARLOCK

DATE: JUNE 13, 2002

RE: ALBION TELEPHONE COMPANY'S REQUEST TO BORROW UP TO \$15 MILLION; CASE NO. ALB-T-02-2.

Albion Telephone Company (Albion) filed an Application requesting authority to borrow up to \$15 Million from the Rural Telephone Utilities Service (RUS). The proposed RUS loan should qualify for the 5% hardship rate with a 15-year loan maturity. If not, the interest rate will be at RUS's then current market rate at the time of closing. The loan will be secured by a first mortgage lien on Albion's assets under a Supplemental Mortgage and Security Agreement.

Proceeds of the loan will be utilized to: 1) upgrade central office switching, 2) install additional fiber and upgrade outside plant, 3) fund construction to meet anticipated customer growth, and 4) general system improvements.

STAFF DISCUSSION AND RECOMMENDATION

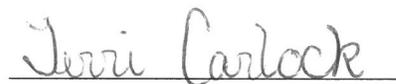
A portion of these loan funds will be used for non-regulated services. Staff continues to express concern about using regulated assets and operations to secure non-regulated activities. Any adjustments associated with non-regulated costs will occur in future rate cases.

To monitor any loan covenants required by RUS, Staff recommends the following reporting requirements be included in the Order approving the Application:

- 1) Provide copies of the RUS final loan approvals including documentation for advances.
- 2) Provide a copy of any executed collateral documentation.
- 3) Provide copies of **all** annual certification, covenant reports, and letters regarding these determinations.
- 4) The "Report of Securities Issued".

COMMISSION DECISION

Should the Application be approved with Staff's recommended reporting requirements?



Terri Carlock

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