

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL
WORKING FILE**

FROM: TERRI CARLOCK

DATE: DECEMBER 5, 2003

**RE: CAMBRIDGE TELEPHONE COMPANY'S REQUEST TO BORROW UP
TO \$17.5 MILLION; CASE NO. CAM-T-03-2.**

Cambridge Telephone Company (Cambridge) filed an Application requesting authority to borrow up to \$17.5 Million from the Rural Telephone Utilities Service (RUS) and Rural Telephone Bank (RTB). The proposed financing is expected to be structured with three loans: a RUS loan of \$7,500,000 that qualifies for the 5% hardship interest rate with a 15-year loan maturity, a RUS loan of \$6,096,000 and a RTB loan of \$3,547,950. The interest rate on the other two loans will be at RUS's and BTB's then current market rate at the time advances are made. The loan will be secured by a first mortgage lien on Cambridge's assets under a Supplemental Mortgage and Security Agreement. The loan contracts will have two covenant requirements: 1) Any future investments by Cambridge in CTC Telecom must receive approval from RUS, and 2) a times interest earned ratio (TIER) of 1.0 must be maintained through December 31, 2006 with a TIER of 1.45 after that date.

Proceeds of the loan will be utilized to: 1) implement a long-range network strategy to upgrade its system by replacing central offices and add DSL capacity to provide broadband services, 2) install new fiber optic and buried cable, 3) purchase new work trucks and test equipment, 4) to refund certain existing loans, and 5) for related system improvements.

STAFF DISCUSSION AND RECOMMENDATION

Staff believes a portion of these loan funds used for broadband and fiber will be 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.

Staff recommends approval of the loan request. To monitor any loan covenants required, Staff also recommends adopting the following reporting requirements:

- 1) Provide copies of the RUS and RTB 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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