

- 868  
Terri

# GIVENS PURSLEY LLP

Due 3/23/10  
Pd 546.60  
owe \$83.50

**LAW OFFICES**  
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Jeffrey C. Fereday  
Steven J. Hippler  
Karl T. Klein  
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Deborah E. Nelson

Franklin G. Lee  
David R. Lombardi  
D. David Lorello, Jr.  
Kimberly D. Maloney  
John M. Marshall  
Kenneth R. McClure  
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Cynthia A. Mellillo  
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Kendall L. Miller  
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Stephanie C. Westermeier  
OF COUNSEL  
  
John A. Miller, LL.M.\*  
TAX CONSULTANT  
  
\*Licensed in Kentucky only

May 7, 2003

**VIA HAND DELIVERY**

Mr. Terri Carlock  
Idaho Public Utilities Commission  
472 W. Washington  
P.O. Box 83720  
Boise, ID 83720-0074

RECEIVED  
FILED  
2003 MAY -7 PM 4:08  
IDAHO PUBLIC UTILITIES COMMISSION

Re: Direct Communications Rockland  
Our File: 1257-31

Dear Terri:

This letter is a follow-up to our conversation last week about the Direct Communications Rockland loan. As you see from the attached documents, Rockland originally applied to the Rural Utilities Service ("RUS") for a loan in the amount of \$3,316,000. The Commission approved a loan for that amount on October 24, 2001 in Order No. 28880, Case No. DCM-T-01-1. A copy of Order No. 28880 is attached for your convenience.

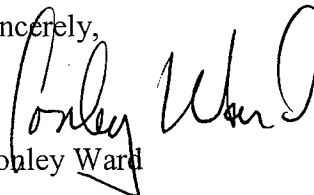
Unfortunately, when the contemplated capital improvements were actually bid out, the central office improvements came in at almost \$700,000 more than the loan design contemplated, as you can see from the attached loan budget and earlier documents. Consequently, RUS reworked the loan into two separate loans of \$2,561,000 from RUS and \$1,489,950 from the Rural Telephone Bank, for a new loan total of \$4,050,950. This change did not come to our attention until we received the documents for the loan closing, which must occur by May 30<sup>th</sup> to avoid the loan approval lapsing.

Under these circumstances, it would appear that the Commission could best serve the public interest by amending its Order No. 28880, pursuant to Section 61-624, Idaho Code, to approve the two loans described above rather than the original \$3,316,000 amount. I would very much appreciate it if Staff would bring this matter to the Commission's attention and, hopefully, support the requested amendment. Otherwise, Direct will have to go through the whole loan approval process again.

Mr. Terri Carlock  
May 7, 2003  
Page 2

If you have any questions or concerns, please give me a call.

Sincerely,

A handwritten signature in black ink, appearing to read "Conley Ward". The signature is written in a cursive style with a large, looped initial "C".

Conley Ward

CEW/tms

Enclosure

cc: Leonard May

S:\CLIENTS\125731\CEW to Carlock re RUS loan.DOC



United States Department of Agriculture  
Rural Development

Rural Business-Cooperative Service • Rural Housing Service • Rural Utilities Service  
Washington, DC 20250

SEP 27 2002

Mr. Leonard A. May  
President  
Direct Communications Rockland, Inc.  
P.O. Box 269  
Rockland, Idaho 83271

Dear Mr. May:

We are pleased to advise that a loan in the amount of \$2,561,000 from the Rural Utilities Service and a loan in the amount of \$1,489,950 from the Rural Telephone Bank have been approved for your organization. The interest rate for each advance will be determined in accordance with our letter of September 26, 2002. Subsequent to our letter of September 26, 2002, we revised the "Forecast of Revenues and Expenses" and a revised copy is enclosed.

The loan contract and other documents will be forwarded in the near future for execution. This loan is approved with the understanding that the loan contract will be authorized and executed by your organization and returned to us by the date, which will be set forth in the letter transmitting the loan contract.

Sincerely,

JERRY H. BRENT, Director  
Northwest Area  
Telecommunications Program

Enclosure

FORECAST OF REVENUES AND EXPENSES		CORPORATE NAME AND ADDRESS DIRECT COMMUNICATIONS ROCKLAND, IN ROCKLAND, ID	
		LOAN DESIGNATION IDAHO 513-D12 ROCKLAND	SUBSCRIBER FORECAST 1,732
1. Local Network Service Revenues*			\$665,558
2. Access, Long Distance Network, and Carrier Billing & Collection Revenues			3,805,037
3. Miscellaneous Revenues			15,068
4. Less Uncollectible Revenues			0
5. Net Operating Revenues			\$4,485,663
6. Plant Specific Operations Expense			\$865,567
7. Plant Nonspecific Operations Expense			115,975
8. Depreciation Expense			1,636,873
9. Amortization Expense			0
10. Customer Operations Expense			247,122
11. Corporate Operations Expense			694,878
12. Other Operating Income and Expense			0
13. Taxes Excluding F.I.T.			158,686
14. Total Fixed Charges (Interest)			812,307
15. Nonoperating Net Income (expressed with the opposite arithmetic sign)			(7,267)
16. Extraordinary Items			0
17.			0
18. Nonregulated Net Income			(68,141)
19. Total Expenses, Excluding Federal Income Taxes			\$4,455,999
20. Net Income Before Federal Income Taxes			\$29,664
21. Federal Income Taxes			4,450
22. Net Income After Federal Income Taxes			\$25,214
23. Add Interest			812,307
24. Net Operating Income			\$837,521
25. Add: Depreciation And Amortization			1,636,873
26. Available For Interest And Principal Payments			\$2,474,394
27. Scheduled Interest And Principal Payments			1,938,080
28. Available For Plant Additions, Replacements, Etc.			\$536,314
29. Times Interest Earned Ratio (Line 24 / Line 23)			1.03
Item 14. (interest)			
Outstanding Loan Balance(s).....@ 4.71%	\$8,259,809.00 =		\$389,089
Current Loan(s).....@ 4.90%	\$4,050,950.00 =		\$198,450
Total Outside Financing.....@ 7.03%	\$3,198,082.00 =		\$224,768
Total Interest.....			\$812,307
*Local Service Revenues Based On Approved Rates			



United States Department of Agriculture  
Rural Development

Rural Business-Cooperative Service • Rural Housing Service • Rural Utilities Service  
Washington, DC 20250

SEP 26 2002

Mr. Leonard A. May  
President  
Direct Communications Rockland, Inc.  
P.O. Box 269  
Rockland, Idaho 83271

Dear Mr. May:

We have completed the preliminary studies of your organization's "D" loan application and are submitting the results of these studies for your consideration. They show that your organization qualifies for a hardship loan from the Rural Utilities Service (RUS). However, in accordance with 7 CFR 1735.30 (d), your application has an insufficient hardship point total to receive a hardship loan this quarter. Based on telephone conversations we had with Mr. Garin Bott, we understand that your organization has requested concurrent loan funds so that your loan can be approved this Fiscal Year (FY) rather than wait to see if you would succeed in receiving a hardship loan next quarter.

Accordingly, concurrent loans in the amount of \$2,561,000 made by the RUS and \$1,489,950 made by the Rural Telephone Bank (RTB) will be required. The concurrent loan ratio between RUS and the RTB is based on the total amount of funds appropriated for Fiscal Year 2002 for RUS cost-of-money loans and RTB loans. Both loans will bear interest at the rate applicable to each advance of loan funds based on the average yield on outstanding marketable obligations of the United States having a final maturity comparable to the final maturity of the advance. The RUS loan interest rate will be fixed at the time of each advance. The interest rate on the RTB loan advance will be an interim rate. A permanent interest rate will be determined on the RTB loan advance at the end of the fiscal year in which the advance is made based on the RTB's cost-of-money rate for that fiscal year. Interest rates of 4.84 percent for the RUS loan and 5.00 percent for the RTB loan were used in our feasibility study. It should be understood that this letter is not a commitment that a loan will be approved.

Our studies show that \$3,980,000 of the above funds will be needed to connect 367 new subscribers and provide for system improvements including placement of DWDM SONET equipment at its fiber regeneration sites, the upgrade of central offices, placement of 10 DLC units throughout the Paris exchange and replacement of all air core cable in the Paris exchange. In addition to funds required for construction, the enclosed Preliminary Telephone Loan Budget, RUS Form 493, includes \$70,950 for investment in RTB Class B Stock. The stock will be issued at the time of each RTB loan fund advance in an amount equal to 5 percent of such advance for all other purposes.

Also enclosed is a copy of the "Forecast of Revenues and Expenses" for the proposed system. It is based on the number of subscribers proposed to be served, existing local service rates without mileage or zone charges and other revenues and expenses outlined on the form.

If loans are approved, no documents will be prepared until RUS receives written concurrence from the Rural Telephone Finance Cooperative that the new loans may be secured under the Restated Mortgage, Security Agreement and Financing Statement dated as of November 3, 1997.

If a loan is approved, no "D" loan funds will be released until your organization has furnished to RUS, among other things, all of the documents, opinions, and other evidence listed in the loan contract applicable to this loan, including evidence that your organization has duly authorized, executed, recorded, and filed a security instrument, in form and substance satisfactory to the Administrator.

The first advance of "D" loan funds will include but not be limited to:

An amount then owing for interim financing for construction subsequent to April 26, 2002, as approved by RUS.

2. The cost of preloan engineering services in an amount to be approved by RUS.
3. An amount for the purchase of any applicable RTB Class B stock.

No loan funds will be advanced for outside plant construction until your organization has submitted evidence that you have complied with the requirements of the Idaho State Historic Preservation Office, U. S. Fish and Wildlife Service, State Game and Fish, Natural Resources Conservation Service, and the Corps of Engineers.

We understand that you are converting a portion of your RTFC line of credit to long term debt. If you wish to secure that debt under the shared mortgage, you will need to request an additional lien accommodation in accordance with 7 CFR 1744 Subpart B.

Debt service payments are to be made on a monthly basis. This requirement will be included in the mortgage notes. Outstanding loans will continue to be billed as required by the mortgage notes for those loans.

The mortgage will contain a provision requiring your organization to maintain an average TIER of at least 1.5 with TIER not less than 1.0 for any given year.

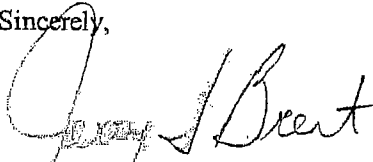
Mr. Leonard May

2

The maturity period for your "D" loan is 17 years as you requested with the information submitted as a part of the loan application package. The principal repayment period will be 17 years. The approximate amount to be repaid will be \$3,605,000 at a monthly payment of \$20,000 for the RUS portion and \$2,097,000 at a monthly payment of \$11,700 for the RTB portion, assuming the interest rates used in the feasibility study. The actual repayment of the loans will depend on the interest rate applicable to each advance and the schedule of those advances. A savings in interest costs over the life of the loan would result if a shorter amortization period were selected.

We would appreciate any suggestions you may have with respect to the matters discussed in this letter. If you concur in the above requirements, please let us know by facsimile (202-690-4654) with a follow-up letter from an officer of your organization and indicate the maturity period desired for the loan, if shorter than the period stated above. We then will proceed with our studies. Our office should be advised of your decision immediate upon receipt of this letter.

Sincerely,



JERRY H. BRENT, Director  
Northwest Area  
Telecommunications Program  
Rural Utilities Service

Enclosures

**FORECAST OF REVENUES AND EXPENSES**

CORPORATE NAME AND ADDRESS  
 DIRECT COMMUNICATIONS ROCKLAND, IN  
 ROCKLAND, ID

	LOAN DESIGNATION	SUBSCRIBER FORECAST
	IDAHO 513-D12 ROCKLAND	1,732
1. Local Network Service Revenues*		\$665,558
2. Access, Long Distance Network, and Carrier Billing & Collection Revenues		3,865,192
3. Miscellaneous Revenues		15,068
4. Less Uncollectible Revenues		0
5. Net Operating Revenues		\$4,545,818
6. Plant Specific Operations Expense		\$865,567
7. Plant Nonspecific Operations Expense		115,975
8. Depreciation Expense		1,636,873
9. Amortization Expense		0
10. Customer Operations Expense		247,122
11. Corporate Operations Expense		694,878
12. Other Operating Income and Expense		0
13. Taxes Excluding F.I.T.		158,686
14. Total Fixed Charges (Interest)		611,437
15. Nonoperating Net Income (expressed with the opposite arithmetic sign)		(7,267)
16. Extraordinary Items		0
17.		0
18. Nonregulated Net Income		(68,141)
19. Total Expenses, Excluding Federal Income Taxes		\$4,255,129
20. Net Income Before Federal Income Taxes		\$290,689
21. Federal Income Taxes		86,574
22. Net Income After Federal Income Taxes		\$204,115
23. Add Interest		611,437
24. Net Operating Income		\$815,552
25. Add Depreciation And Amortization		1,636,873
26. Available For Interest And Principal Payments		\$2,452,424
27. Scheduled Interest And Principal Payments		1,400,396
28. Available For Plant Additions, Replacements, Etc.		\$1,052,028
29. Times Interest Earned Ratio (Line 24 / Line 23)		1.33
Item 14 (interest)		
Outstanding Loan Balance(s).....@ 4.71%	\$8,259,809.00 =	\$389,089
Current Loan(s).....@ 4.90%	\$4,050,950.00 =	\$198,450
Total Outside Financing.....@ 6.54%	\$365,261.00 =	\$23,898
Total Interest.....		\$611,437
*Local Service Revenues Based On Approved Rates		



USDA-RUS Preliminary <b>TELEPHONE LOAN BUDGET</b>	NAME OF BORROWER <b>DIRECT COMMUNICATIONS ROCKLAND, INC</b> BORROWER and LOAN DESIGNATION <b>IDAHO 513-D12 ROCKLAND</b>		
<b>BUDGET ITEM</b>	<b>PRIOR LOAN</b> <b>RESERVES AS OF: 8/16/2002</b>		
	RESERVE BALANCES A.	AVAILABLE FOR NEW PROJECTS B.	
		NEW PROJECT BUDGET C.	
1. CONSTRUCTION	a. CENTRAL OFFICE		\$2,732,000
	b. OUTSIDE PLANT	113,527	
	c. LAND and BUILDINGS		
	d. SPECIAL PROJECTS		
2. ENGINEERING	a. PRELOAN		15,000
	b. CONSTRUCTION		220,000
3. OPERATING EQUIPMENT	a. OFFICE EQUIPMENT		
	b. VEHICLES and WORK EQUIPMENT		80,000
4. a. OVERHEAD EXPENDITURES			
	b. CLASS B STOCK - RURAL TELEPHONE BANK		70,950
5. OPERATING FUNDS			
6. REFINANCING WITH LOAN FUNDS			
7. ACQUISITIONS			
8. OTHER			
9. TOTALS		\$113,527	\$0
10. LESS AVAILABLE FROM PRIOR LOANS (COL. B, ITEM 9)			0
11. LESS NONLOAN FUNDS			
12. TOTAL NEW LOAN FUNDS			
13. HARDSHIP LOAN			
14. CONCURRENT - COST OF MONEY			2,561,000
15. CONCURRENT - RURAL TELEPHONE BANK			
16. GUARANTEED LOAN			
17. OTHER LOAN			
<b>REQUIRED ADDITIONAL BUDGET DATA</b>			
18. PRIOR LOANS		19. NONLOAN FUNDS, AS ADJUSTED	
PRIOR LOAN TOTALS	\$11,323,021	NONLOAN FUNDS, PRIOR LOAN	
REA LOANS	9,924,421	SALES OR PROPERTY	
RTH LOANS	1,398,600	OTHER	
RUS LOANS		TOTAL, NONLOAN FUNDS	\$119,645
GUARANTEED LOANS			
		20. CUMULATIVE ADVANCES AS OF FIB # _____	
		REA	\$9,924,421
		RTB	1,158,560
		FFB	
		RUS	
		21. ENCUMBERED BUT UNADVANCED FUNDS \$	
		126,513	
22. RETIRED PLANT		NEW & ACQUIRED AREAS	
ESTIMATED ORIGINAL COST OF RETIRED PLANT (this loan)		\$0	
ESTIMATED SALVAGE VALUE OF RETIRED PLANT (this loan)		\$0	
NOTES			
There are no proposed retirements associated with this loan.			



United States Department of Agriculture  
Rural Development

Rural Business-Cooperative Service • Rural Housing Service • Rural Utilities Service  
Washington, DC 20250

Mr. Leonard A. May  
President  
Direct Communications Rockland, Inc.  
P. O. Box 269  
Rockland, Idaho 83271

MAR 13 2003

Dear Mr. May:

Enclosed are six copies of the Restated Mortgage, Security Agreement and Financing Statement ("the mortgage") along with other documents and instructions relative to your organization's "D" loan in the amount of \$2,561,000 Rural Utilities Service (RUS) cost-of-money funds made by RUS and \$1,489,950 made by the Rural Telephone Bank (Bank). The executed counterparts will be sent to you by the Rural Telephone Finance Cooperative (RTFC), along with their instructions. We indicated in our letter dated September 27, 2002, announcing approval of the "D" loan that we would specify the date by which the telephone loan contract is to be executed, authorized and returned to us. That date is 60 days from the date of this letter.

Please note the section in the loan contract, which specifies that loan funds advanced to your organization are to be held in trust for the Government and promptly deposited into a special construction account. It is of the utmost importance that the loan funds be used only for the purposes and in the amounts approved by RUS as set forth in the financial requirement statement.

Two 17-year notes covering these loans in the total amount of \$4,050,950 are enclosed for execution. The terms of the notes provide for monthly principal payments beginning two years after the date of the notes. Please proceed with fulfillment of the loan contract requirements so loan funds can be released for approved loan purposes with a minimum of delay. Again, observe the above date for return of the loan contract.

We will be pleased to answer any questions you may have concerning these loans.

Sincerely,

JERRY H. BRENT, Director  
Northwest Area  
Telecommunications Program  
Rural Utilities Service

Enclosures



United States Department of Agriculture  
Rural Development

Rural Business-Cooperative Service • Rural Housing Service • Rural Utilities Service  
Washington, DC 20250

MAR 13 2003

Mr. Robert A. Parrett  
Legal Assistant  
Rural Telephone Finance  
Cooperative  
2201 Cooperative Way  
Herndon, Virginia 20171-3025

Dear Mr. Parrett:

Enclosed are 14 signed copies of the Restated Mortgage, Security Agreement and Financing Statement (the mortgage) among Direct Communications Rockland, Inc. (Direct), the United States of America, the Rural Telephone Bank, and the Rural Telephone Finance Cooperative (RTFC). It is our understanding that RTFC will execute and forward these documents to Direct with instructions for final execution.

Please provide the RTFC note information on the Schedule B to the mortgage. Also, enclosed for your information is a copy of the instructions we provided to Direct regarding these documents.

Thank you for your cooperation.

Sincerely,

JERRY H. BRENT, Director  
Northwest Area  
Telecommunications Program  
Rural Utilities Service

Enclosures

cc: Mr. Leonard A. May

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

REC'D 10/24/01  
OCT 24 2001

IN THE MATTER OF THE APPLICATION )  
OF DIRECT COMMUNICATIONS )  
ROCKLAND, INC. FOR AUTHORITY TO )  
BORROW \$3,316,000 FROM THE RURAL )  
UTILITIES SERVICE. )

CASE NO. DCM-T-01-1

Givens Pursley, LLC

ORDER NO. 28880

On September 18, 2001, Direct Communications Rockland, Inc. filed an Application requesting an Order from the Commission that would authorize it to borrow \$3,316,000 in Rural Utilities Service (RUS) loans. The funds will be drawn at various times as advances when expenditures are made over the next five years. The loans will be for a period of time equal to the depreciation schedules set by RUS. The interest rate is currently 5% for hardship loans or the current market rate if lower.

FINDINGS OF FACT

1. The Commission has jurisdiction over this Applicant and this Application in accordance with *Idaho Code*, Title 61, Chapters 1 and 9.
2. The Applicant requests that the Commission grant it authority to borrow \$3,316,000 from the Rural Utilities Service.
3. The Commission also finds that the proceeds of the proposed loan will be used for and will partially reimburse general funds for (1) extension of service to new customers, (2) addition of new dense wave division multiplex electronic equipment for Rockland's existing fiber optic facilities, (3) installation of new central office equipment, and (4) related purposes.
4. The Commission finds that the expenditures per exchange and general areas total \$678,000 in Rockland, \$50,000 in Arbon, \$1,493,000 in Paris, \$345,000 in Mink Creek and Pocatello, \$195,000 in Soda Springs, \$235,000 for engineering, \$80,000 for utility trucks, and \$240,000 for reimbursement of general funds. It is projected that of these amounts, \$2,281,000 is associated with regulated activities and \$1,035,000 is associated with deregulated activities.
5. All fees have been paid by applicant in accordance with *Idaho Code* § 61-905.

CONCLUSIONS OF LAW

Applicant is incorporated under the laws of the State of Idaho and is duly authorized to do business in this state in connection with its utility operations.

The Commission has jurisdiction over this Application.

The proposed loan to be issued to Rockland by RUS is for a lawful purpose and is within Applicant's corporate powers. The proposed transaction is in the public interest, and a formal hearing on this matter would serve no public purpose.

The Commission finds that this Application shall be approved, conditioned on the same restrictions and filing requirements when approved by RUS. Rockland shall file copies of the final loan documents and all required filings with RUS with the Commission as they are completed. Furthermore, Rockland shall also file annual statements reflecting total balances outstanding and mortgage compliance calculations.

All fees have been paid by Applicant in accordance with *Idaho Code* § 61-905.

### ORDER

IT IS HEREBY ORDERED that the Application of Direct Communications Rockland, Inc. to borrow \$3,316,000 from the Rural Utilities Service is granted, conditioned upon the same restrictions and filing requirements as set by RUS.

IT IS FURTHER ORDERED that Rockland shall file copies of the final loan documents and all required filings made with RUS with the Commission as they are completed.

IT IS FURTHER ORDERED that Rockland shall file annual statements reflecting total balances outstanding and mortgage compliance calculations.

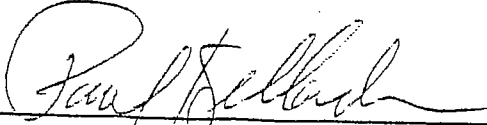
IT IS FURTHER ORDERED that nothing in this Order shall be construed to obligate the State of Idaho to pay or guarantee in any manner whatsoever any security authorized, issued, assumed or guaranteed under the provisions of this Order. *Idaho Code* § 61-906.

IT IS FURTHER ORDERED that this authorization is without prejudice to the regulatory authority to this Commission with respect to rates, services, accounts, evaluations, estimates, or determination of costs, or any other matter which may come before this Commission pursuant to its jurisdiction and authority as provided by law.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. DCM-T-01-1 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this order or in interlocutory Orders previously issued in this Case No. DCM-T-01-1. Within seven (7) days after any person has petitioned for

reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.


DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 23<sup>rd</sup> day of October 2001.

  
\_\_\_\_\_  
PAUL KJELLANDER, PRESIDENT

  
\_\_\_\_\_  
MARSHA H. SMITH, COMMISSIONER

  
\_\_\_\_\_  
DENNIS S. HANSEN, COMMISSIONER

ATTEST:

  
\_\_\_\_\_  
Jean D. Jewell  
Commission Secretary

O:DCMT011\_jh