(text box: 1)BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF DIRECT COMMUNICATIONS ROCKLAND, INC. FOR AUTHORITY TO BORROW FROM THE RURAL UTILITIES SERVICE IN THE AMOUNT OF $8,994,930. | )))))) | CASE NO. ROK-T-99-1ORDER NO.  27914 |

On January 13, 1999, pursuant to Chapter 9, Title 61, of the Idaho Code and the Commission’s Rules of Procedure, (IDAPA 31.01.01.141-150), Direct Communications Rockland, Inc. filed an Application for Loan Approval with the Commission requesting authority to execute a loan contract amendment and supplemental mortgage in the amount of $8,994,930 with the United States acting through the Rural Utilities Service.  The borrowing is for the merged companies, Direct Communications Rockland, Inc. and Direct Communications Lakeside, Inc.  That merger was approved by the Commission on January 14, 1999.  Order No. 27866.

Based on the Application, supporting documents, Staff comments and the law, the Commission grants the Application with conditions as set forth below.

APPLICATION

Direct Communications is a regulated company that provides basic local exchange and other telecommunications services in the Rockland, Arbon and Paris exchanges in southeastern Idaho.

According to information provided as part of the Application process, the funds will be drawn at various times as advances when expenditures are made over the 5-year construction period.  The loans will be for a period of 18 years.  The proposal, if approved, consists of the following:  a) a hardship loan with Rural Utilities Service for $5,000,000 at an interest rate of 5%; b) a concurrent loan with Rural Utilities Service for $2,664,000 at a fixed interest rate; and c) a concurrent loan with Rural Telephone Bank for $1,398,600 at a fixed interest rate.  The fixed rate will be established for each advance and 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.  A rate of 5.33% was utilized for the preliminary Rural Utilities Service loan review.

The proposed loan proceeds will be used for and will partially reimburse general funds for (1) extending service to new customers, (2) upgrading central office equipment, (3) purchasing and installing a broadband switch, (4) constructing fiber and copper outside plant, (5) constructing new headquarters facilities, (6) constructing new toll facilities, (7) purchasing vehicles and work equipment, and (8) constructing an ETV facility.  The proposed expenditures per exchange and general areas are broken down as follows:  $67,125 in Arbon, $1,878,050 in Rockland, $5,236,705 in Paris, $614,050 for vehicles and work equipment, and $1,199,000 for engineering.  Loan documents reflect that of these amounts $6,837,932 will be associated with regulated activities and $2,156,998 will be associated with deregulated activities.

Rural Utilities Service will require additional documents be filed with it prior to the time specific advances are released.  The filing requirements include: (1) evidence the security instrument is properly authorized, executed, recorded and filed; (2) evidence the proposed merger has been completed under the terms and conditions approved; (3) evidence of compliance with the allowable distribution requirements of the Rural Utilities Service mortgage.  In addition, Rural Utilities Service will require evidence of adequate concurrence, commitment or other evidence from (1) U S WEST Communications, Inc. for the fiber optic toll facility, (2) the eight schools to be connected for the ETV facilities, and (3) other agencies clearing construction plans where they have jurisdiction.

Rural Utilities Service also imposed certain restrictions on the use of loan funds which include: (1) a Times Interest Earned Ratio (TIER) of 1.0 times throughout the period ending December 31, 2002 and a TIER of 1.9 times after this date; (2) investment in Rural Telephone Bank Class B stock equal to 5% of each Rural Telephone Bank loan advance; (3) use of general funds in the amount of $450,000 for routine COE and OSP work and drops; (4) use of only hardship loan proceeds for the headquarters facilities, and (5) use of only concurrent loan funds for the ETV project.

STAFF COMMENTS

Staff noted that the merger approval granted by the Commission in ROK-T-98-1 was conditioned on Rockland submitting its tariff to the Commission for approval combining the two companies and that the new tariffed rates not be changed from current rates and maintain revenue neutrality.  Order No. 27866.  Staff stated that the required tariffs have not been received and approved as required by the Commission’s Order.  Staff, therefore, recommended the Commission require Rockland to meet these conditions for the completion of the merger as a condition precedent for approval of its Application.

Staff also stated that it recognizes the benefits associated with the proposed projects but has some concern with the timing, cash flow and feasibility analysis for some of them.  Staff, therefore,  recommended Rockland supply the Staff with copies of all the Rural Utilities Service and Rural Telephone Bank documentation to allow the Staff to monitor loan competition and advance levels.  Staff will also monitor the switch credit, direct assignments, allocation and separation factors for ratemaking purposes.

Staff, therefore, recommended approval of the loan request conditioned on the merger tariffs being filed and approved as previously ordered.  Staff also recommended that Rockland be required to file copies of the final Rural Utilities Service and Rural Telephone Bank loan documents and all filings required by Rural Utilities Service and Rural Telephone Bank with the Staff as they are completed.  Finally, Staff recommended that Rockland file annual statements reflecting total balances outstanding and mortgage compliance calculations.

FINDINGS

The Commission finds that Rockland is a public utility within the definition of Idaho Code § 61-129 and that it has jurisdiction over this matter pursuant to the provisions of Idaho Code § 61-901 et seq.

The Commission further finds that it conditioned its merger approval of Direct Communications Rockland and Direct Communications Lakeside on Rockland submitting its merged tariff to the Commission for approval.  Order No. 27866.  Staff stated that the required tariffs have not been received and approved as required by the Commission’s Order.  The Commission, therefore, finds that Rockland must comply with these conditions for the completion of the merger as a condition precedent for approval of this Application.

The Commission further finds that the general purposes to which the proceeds will be put are lawful purposes under the Public Utility Law of the State of Idaho and are compatible with the public interest.  However, the Commission finds that this general approval of the general purposes to which the proceeds will be put is neither a finding of fact nor a conclusion of law that any particular program of Rockland which may be benefited by the approval of this Application has been considered or approved by this Order, and this Order shall not be construed to that effect.  Further, the issuance of an Order authorizing the proposed loans does not constitute agency determination/approval of the type of financing or the related costs for ratemaking purposes, which determination the Commission expressly reserves until the appropriate proceeding.

The Commission further finds that Rockland should be required to file copies of the final Rural Utilities Service and Rural Telephone Bank loan documents and all filings required by Rural Utilities Service and Rural Telephone Bank with the Staff as they are completed.  The Commission further finds that Rockland should be required to file annual statements reflecting total balances outstanding and mortgage compliance calculations with the Staff.

Rockland has paid the fees required by Idaho Code § 61-905.

The Commission finds that the Application should be approved.

O R D E R

IT IS THEREFORE ORDERED that the Application of Direct Communications Rockland, Inc. for authority to execute

a.A hardship loan with Rural Utilities Service for $5,000,000 at an interest rate of 5%;

b. A concurrent loan with Rural Utilities Service for $2,664,000 at a fixed interest rate; and

c. A concurrent loan with Rural Telephone Bank for $1,398,600 at a fixed interest rate.

for a total loan amount of $8,994,930 is hereby granted as conditioned in this Order.

IT IS FURTHER ORDERED that Rockland shall file the following:

a.Its merged tariff with the Commission for approval;

b.Copies of the final Rural Utilities Service and Rural Telephone Bank loan documents and all filings required by Rural Utilities Service and Rural Telephone Bank with the Staff as they are completed; and

c.Annual statements reflecting total balances outstanding and mortgage compliance calculations with the Staff.

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

IT IS FURTHER ORDERED that nothing in this Order and no provision of Chapter 9, Title 61, Idaho Code, or any act of deed done or performed in connection with this Order shall be construed to obligate the State of Idaho to pay or guarantee in any manner whatsoever, any securities authorized, issued, assumed or guaranteed under the provisions of Chapter 9, Title 61, Idaho Code.

IT IS FURTHER ORDERED that the issuance of this Order does not constitute acceptance of Rockland’s exhibits or other material accompanying the Application for any purpose other than the issuance of this Order.

.THIS IS A FINAL ORDER.  Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order.  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         day of February 1999.

DENNIS S. HANSEN, President

RALPH NELSON, Commissioner

MARSHA H. SMITH, Commissioner

ATTEST:

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MYRNA J. WALTERS

Commission Secretary

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**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

February 16, 1999