DECISION MEMORANDUM

TO:COMMISSIONERHANSEN

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WORKING FILE

FROM:TERRI CARLOCK

DATE:FEBRUARY 5, 1999

SUBJECT:DIRECT COMMUNICATIONS ROCKLAND’S APPLICATION TO BORROW $8,994,930 DEBT; CASE NO.  ROK-T-99-1.

RECOMMEND:APPROVALWITH CONDITIONS

Direct Communications Rockland, Inc. (Rockland) requests authority to borrow $8,994,930 in Rural Utilities Service (RUS) loans.  The borrowing is for the merged companies, Direct Communications Rockland, Inc. and Direct Communications Lakeside.  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 RUS for $5,000,000 at an interest rate of 5%; b) a concurrent loan with RUS for $2,664,000 at a fixed interest rate; and c) a concurrent loan with Rural Telephone Bank (RTB) 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 RUS loan review.

The proposed loan proceeds will be used for and will partially reimburse general funds for (1) extension of service to new customers, (2) upgrade central office equipment, (3) purchase and install a broadband switch, (4) construct fiber and copper outside plant, (5) construct new headquarters facilities, (6) construct new toll facilities, (7) purchase vehicles and work equipment, and (8) construct an ETV facility.  The expenditures per exchange  and general areas total $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.  It is projected that of these amounts $6,837,932 is associated with regulated activities and $2,156,998 is associated with deregulated activities.  Staff will monitor the switch credit, direct assignments, allocation and separation factors for ratemaking purposes.  Since the construction period is five years these classifications could change.

RUS has established additional filing requirements of additional documents prior to the time specific advances are released and restrictions on the use of loan funds.  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 RUS mortgage.  Also required is evidence of adequate concurrence, commitment or other evidence from (1) U S WEST 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.  The restrictions on the loan 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 RTB Class B stock equal to 5% of each RTB 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 recognizes benefits associated with these projects but has some concern with the timing, cash flow and feasibility analysis for some of the projects.  Staff recommends Rockland supply copies of all the RUS and RTB documentation to allow monitoring of the progress.

The merger authority by the IPUC in ROK-T-98-1, Order No. 27866 was conditioned on “1.  That Rockland submit 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, and 2.  That Rockland’s current Idaho USF draw be frozen at current levels pending re-examination of Rockland’s revenue requirements for the combined company.”  The required tariffs have not been received and approved.  Staff recommends this loan authority be conditioned in the same manner as RUS has conditioned the loan by requiring Rockland to meet the above conditions for the completion of the merger.

STAFF RECOMMENDATION

Staff recommends approval of this loan request conditioned on the merger tariffs being filed and approved.  Rockland should be required to file with the Commission Staff copies of the final loan documents and all required filings with RUS and RTB as they are completed.  Annual statements reflecting total balances outstanding and mortgage compliance calculations should also be filed with the Commission Staff.

COMMISSION DECISION

Should the request be approved with the above conditions?

If not, should further analysis be completed?

Should copies of the additional documents filed with RUS and RTB be filed with the Commission Staff?

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