DECISION MEMORANDUM

TO:COMMISSIONERNELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

MYRNA WALTERS

STEPHANIE MILLER

DAVID SCHUNKE

DON HOWELL

SUSAN HAMLIN

BEVERLY BARKER

GARY RICHARDSON

TONYA CLARK

WORKING FILE

FROM:TERRI CARLOCK

DATE:APRIL 5, 1996

SUBJECT:RURAL TELEPHONE COMPANY’S REQUEST TO GUARANTEE PEND OREILLE TELEPHONE COMPANY’S LOAN OF $5,650,000, CASE NO. RUR-T-96-1

RECOMMEND:APPROVAL WITH PROTECTION PARAGRAPH FOR IDAHO RATEPAYERS

Rural Telephone Company (Rural) requests approval to guarantee the loan with CoBank of Pend Oreille Telephone Company (Pend Oreille) in the amount of $5,650,000.  Pend Oreille is a wholly owned subsidiary of Rural, formed to acquire and operate telephone plant in the State of Washington.  The exchanges to be operated currently include Ione, Metalline Falls and Cusick.

The loan proceeds will be used to purchase the exchanges from GTE Northwest and complete central office and outside plant upgrades in the Washington exchanges.  The term of the loan will be for 15 years.  The interest rate will be set at the market rate at the time of closing.  Currently the rate is 7.25% to 7.50%.

Rural will guarantee the underlying mortgage or other security.  The purchase appears to be a reasonable transaction at a price to book ratio of approximately 1.2 x.  The Washington Utilities and Transportation Commission has approved the transaction and Rural is currently making the FCC filing.

STAFF DISCUSSION AND RECOMMENDATION

Staff believes the transaction is a reasonable business endeavor for Rural but is concerned with the potential impact of the guarantee on Idaho ratepayers.  I recommend approval of the guarantee by Rural of the Pend Oreille loan with a paragraph included in the order stating that any loan payments made by Rural will be the responsibility of the shareholders and will not be carried by Idaho ratepayers.

COMMISSION DECISION

Should Rural Telephone Company be granted authority to guarantee the loan of Pend Oreille Telephone Company with CoBank in the amount of $5,650,000?

Should a paragraph be included in the order stating that any loan payments made under this guarantee will be the responsibility of the shareholders and will not be included in any rate proceedings for Idaho ratepayers?

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Terri Carlock

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