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

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| IN THE MATTER OF THE JOINT APPLICATION OF MIDVALE TELEPHONE EXCHANGE, INC. AND SAWTOOTH TELEPHONE, INC. FOR AUTHORITY TO BORROW FROM RURAL TELEPHONE FINANCE COOPERA­TIVE IN THE AMOUNT OF $378,947. | )  )  )  )  )  )  ) | CASE NO.MID-T-98-02  SAW-T-98-01  ORDER NO.   27520 |

On April 22, 1998, pursuant to Chapter 9, Title 61, of the Idaho Code and the Commission’s Rules of Procedure, (IDAPA 31.01.01.141-150), Midvale Telephone Exchange, Inc. and Sawtooth Telephone, Inc. filed a Joint Application requesting authority for Sawtooth to borrow up to $378,947 from Rural Telephone Finance Cooperative.  Midvale and Sawtooth also requested authority for Midvale, Sawtooth’s parent company, to guarantee payment of the loan in accordance with terms set forth in the Rural Telephone Finance Cooperative Commitment Letter attached as Exhibit A to the Joint Application.

The Commission, having fully considered this Joint Application and attached exhibits, its files and records relating to this Joint Application and the applicable laws and rules, grants the Joint Application and makes the following findings.

BACKGROUND

Sawtooth Telephone, Inc. is a wholly-owned subsidiary of Midvale Telephone Exchange, Inc.  On March 5, 1996, the Commission approved the sale of the U S WEST Communications, Inc.’s Stanley exchange to Midvale or its wholly-owned subsidiary, Sawtooth.  Order No. 26353.  The Commission approved Sawtooth’s Certificate of Public Convenience and Necessity by Order No. 27166 issued October 20, 1997, in Case Nos. USW-T-97-17, COL-T-97-1, COU-T-97-1, DCL-T-97-1, FMT-T-97-1, FRE-T-97-1, PRJ-T-97-1, SAW-T-97-1, WTL-T-97-1.

Midvale and Sawtooth now request authority for Sawtooth to borrow up to $378,947, including $18,947 for subordinated capital certificates, from Rural Telephone Finance Cooperative.  Midvale and Sawtooth also request authority for Midvale to guarantee payment of the loan in accordance with terms set forth in the Rural Telephone Finance Cooperative Commitment Letter attached as Exhibit A to the Joint Application.  Sawtooth and Midvale state that the loan proceeds will be used to pay the purchase price for a new digital switch serving Sawtooth’s Stanley exchange.  This would replace an outdated switch that was in place when Sawtooth purchased the Stanley exchange from U S WEST in 1996.

The proposed loan offers the option of either a fixed or variable interest rate to be selected at closing.  The loan would be for a fixed term of approximately fifteen (15) years and would be secured by a promissory note, a modification to mortgage and security agreement and a guaranty by Midvale.  The loan commitment fee is $758.

The loan will be secured by a first lien on Sawtooth’s assets and revenue.  Midvale will be required to provide a periodic payment guarantee that is secured by a second lien on Midvale’s assets and revenue.  Moreover, the loan agreement also requires the following:

1.Sawtooth must maintain a Modified Debt Service Ratio of no less than 1.0 for the fiscal years ending December 31, 1998 through December 31, 1999 and no less than 1.25 for the highest two out of the last three fiscal years starting in fiscal year ended December 31, 1998;

2.Equity contributed by Midvale throughout the fiscal year will be included in the calculation for the Modified Debt Service Ratio;

3.When net worth as a percentage of total assets is 40% or less, Rural Telephone Finance must consent to dividends and other cash distributions; and

4.Sawtooth must begin collecting Universal Service Funding (“USF”) in fiscal year ended December 31, 1999.

Staff Recommendation

Staff observed that Sawtooth is currently precluded from raising its rates during the three- year freeze period. Therefore, Staff recommended that the Commission preclude Sawtooth from filing for USF until the end of the freeze.  Staff noted that prior to receiving USF funding that Sawtooth would be required to demonstrate the need for USF funding and increase its rates to the USF threshold level.

Staff also stated that, for regulatory purposes, the switching replacement contribution of $130,218 provided for in the sale should be a reduction to rate base.  Therefore, for ratemaking purposes, Staff recommended Sawtooth book the full value of the asset and depreciate the total contribution amount of $130,218 at the time the asset is booked.

FINDINGS OF FACTAND CONCLUSIONS OF LAW

The Commission finds that Midvale and Sawtooth are telephone corporations within the definition of Idaho Code § 61-121 and public utilities within the definition of Idaho Code § 61-129.  The Idaho Public Utilities Commission has jurisdiction over this matter pursuant to the provisions of Idaho Code § 61-901, et seq., and the Joint Application reasonably conforms to Rules 141 through 150 of the Commission’s Rules of Procedure, IDAPA 31.01.01.141-150.

The Commission 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, this is only a general approval of the purposes to which the proceeds will be put, and is not a finding of fact or a conclusion of law that this particular program is approved by this Order.  The issuance of an order authorizing the proposed financing does not constitute agency determination/approval of the related costs for rate making purposes.  The Idaho Public Utilities Commission does not have before it for determination, and therefore does not determine, any effect of the proposed transactions on rates to be charged by Sawtooth or Midvale for telephone service to consumers in the state of Idaho.  The Commission further finds that the proposed transaction is in the public interest and a formal hearing on this matter would serve no public purpose.

The Commission finds that all lawful fees have been paid by Sawtooth and Midvale, as provided by Idaho Code § 61-905.

The Commission finds that the Joint Application should be approved subject to the conditions recommended by the Staff.

O R D E R

IT IS THEREFORE ORDERED that thisJoint Application by Midvale Telephone Exchange, Inc. and Sawtooth Telephone, Inc. is granted as conditioned and Sawtooth Telephone, Inc. is authorized to execute and deliver to Rural Telephone Finance Cooperative a Loan Agreement, Secured Promissory Note in an amount not to exceed $378,947, and Modification to Mortgage and Security Agreement.

IT IS FURTHER ORDERED that Midvale Telephone Exchange, Inc. is authorized to  guarantee payment of the loan in accord with terms set forth in the Rural Telephone Finance Cooperative Commitment Letter attached as Exhibit A to the Joint Application.

IT IS FURTHER ORDERED that Sawtooth Telephone, Inc. currently is operating under a three-year rate freeze.  Prior to receiving USF funding at the end of the rate freeze, Sawtooth will be required to demonstrate the need for USF funding and increase rates to the USF threshold level.

IT IS FURTHER ORDERED that Sawtooth book the switch replacement contribution as an increase to the depreciation reserve when the new switch asset is recorded.

IT IS FURTHER ORDERED that Midvale Telephone Exchange, Inc. and Sawtooth Telephone, Inc. shall file with this Commission a report of securities issued including verified copies of any agreement entered into in connection with the issuance of debt setting forth the date of issuance, principal amount, interest rate, date of maturity and all other terms.

IT IS FURTHER ORDERED that this authorization is without prejudice to the regulatory authority of this Commission with respect to rates, service, accounts, 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 security 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 ofMidvale Telephone Exchange, Inc. and Sawtooth Telephone, Inc.’s exhibits or other material accompanying the Joint Application for any purpose other than the issuance of this Order.

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 these Case Nos. MID-T-98-2 and SAW-T-98-1 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 these Case Nos. MID-T-98-2 and SAW-T-98-1.  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                  day of May 1998.

DENNIS S. HANSEN, PRESIDENT

RALPH NELSON, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

vld/O:MID-T-98-2.cc

**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

May 21, 1998