

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
LEGAL
WORKING FILE**

FROM: TERRI CARLOCK

DATE: FEBRUARY 9, 2012

**RE: ALBION TELEPHONE COMPANY'S REQUEST TO BORROW UP TO
\$17,075,000; CASE NO. ALB-T-12-01.**

Albion Telephone Company (Albion) filed an Application requesting authority to borrow up to \$17,075,000 from the Federal Finance Bank (FFB) to be guaranteed by the Rural Telephone Utilities Service (RUS). The loan will be secured by a Restated Mortgage, Security Agreement and Financing Statement.

Proceeds of the loan will be utilized to build fiber to premises facilities capable of providing telephony, high-speed data and broadband services to customers in the Albion, Arco and Malad exchanges.

STAFF DISCUSSION AND RECOMMENDATION

The requested borrowing authority will consist of more than one loan. The Broadband Loan will bear interest at the comparable Treasury rate, currently 4% per annum. The Telecommunications Loan will bear interest at the cost-of-money interest rate established by the government, currently 5% per annum. Both loans will have a five year time period where advances may be drawn. The final maturity date is set as December 31, 2030 with the first payment scheduled for October 31, 2013. The loans have provisions allowing for prepayment, refinancing and maturity extensions if requested and accepted by FFB and RUS. Albion will endeavor to maintain a 1.0x Times Interest Earned Ratio (TIER). Additional indebtedness may not be incurred without prior written consent of RUS if the TIER is below 1.0.

A portion of these loan funds will be used for non-regulated services. Allocations and any adjustments associated with non-regulated costs will occur in future rate cases.

Staff recommends approval of the requested loan authority. To monitor any loan covenants required by FFB and RUS, Staff recommends the following reporting requirements be included in the Order approving the Application:

- 1) Provide copies of the FFB/RUS final loan approvals including documentation for advances.
- 2) Provide a copy of any executed collateral documentation.
- 3) Provide copies of **all** annual and special financial reports, certification, covenant reports, and letters regarding these determinations.
- 4) The "Report of Securities Issued".

COMMISSION DECISION

Should the Application be approved with Staff's recommended reporting requirements?



Terri Carlock

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