

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF HAROLD TELEPHONE)
COMPANY, INC., FOR AUTHORITY TO)
EXECUTE AN AMENDMENT TO THE TELE-)
PHONE LOAN CONTRACT AND TO EXECUTE)
A NOTE IN THE AMOUNT OF \$1,014,300)
TO THE RURAL TELEPHONE BANK, RURAL)
ELECTRIFICATION ADMINISTRATION,)
UNITED STATES OF AMERICA, FOR THE)
PURPOSE OF IMPROVING AND EXTENDING)
TELEPHONE SUBSCRIBERS AND TO MAKE)
RELATED IMPROVEMENTS INCLUDING THE)
CONSTRUCTION OF FACILITIES TO)
HANDLE NEW DIGITAL SERVICES)

CASE NO. 8294

O R D E R

On July 29, 1981, Harold Telephone Company, Inc., ("Harold") filed with the Commission its application for authority to borrow \$1,014,300 from the United States of America, acting through the Rural Telephone Bank ("RTB") to be amortized over a period of 35 years at an interest rate of 11.25 percent per annum. Harold further requested authority to execute the necessary notes for the proposed loan.

Harold additionally requested that the Commission grant a certificate of public convenience and necessity for the purpose of constructing additional telephone lines and facilities, all as more specifically set out in the application and record. Harold proposed to use the loan funds for the following purposes:

- (a) Extend services to 755 new subscribers;
- (b) Install a new digital office in the Harold exchange and additions to existing toll and EAS facilities;
- (c) Expend \$125,000 to purchase land for additional building space in the Harold exchange;
- (d) Invest \$48,300 in Class B stock in RTB; and
- (e) Provide for engineering, legal and accounting fees.

A hearing was held on September 18, 1981, in the offices of the Public Service Commission at Frankfort, Kentucky. All parties of interest were allowed to be heard. There were no intervenors, and no protests were entered.

DISCUSSION

There were several items which have been presented in this matter which require comment. The first is the source of the loan for which borrowing authority is requested. Harold was questioned as to whether funds were available from the Rural Electrification Administration ("REA") at 5 percent per annum, and the Commission was told at the hearing that as a result of an REA study, this loan was not approved by REA. However, Harold stated by letter filed October 20, 1981, that loan funds were not available through REA at the time of application. The Commission staff has confirmed this through contact

with REA, and therefore Harold has proceeded to secure funds from RTB at the best available interest rate.

The second matter of concern is Harold's proposal to locate the proposed digital central office for the Harold exchange on land leased from Harold's owner. This was questioned very closely at the public hearing, and as a result of reevaluation by Harold, the company stated by letter filed October 20, 1981, that the land would be purchased from the owner. Harold further stated that the land would be independently appraised in order to eliminate any appearance of conflict of interest, and that the Commission will be provided with a copy of the appraisal and deed of conveyance when the transaction is completed. Since this land is the best and most reasonable site for the proposed central office, the Commission will accept Harold's proposal to buy this land. However, Harold should insure that a copy of the appraisal and deed of conveyance is filed promptly after the transaction is completed, as proposed.

The third matter of concern is the purchase of land adjacent to Harold's main offices in the Harold exchange. A building formerly used as a grocery store and laundromat is located on this property, and Harold is presently using this building for additional office and storage space. The Commission accepts Harold's purchase of this property for \$100,000 as a necessary investment, but questions the additional \$25,000 paid for the contents of the building. Harold stated that the purchase of the building's contents was required as a condition of sale of the land, and further stated that an attempt would

be made to sell these contents to recover the costs. This \$25,000 purchase, however, is neither used nor useful to Harold's subscribers. Therefore, Harold's shareholders should pay for this purchase rather than its subscribers.

The Commission, after consideration of the application and all evidence or record, and being advised, is of the opinion and finds that:

(1) The public convenience and necessity require that such construction and system improvements as are proposed in the application and record be performed, and that a certificate of public convenience and necessity be granted;

(2) The proposed borrowing, with the exception of the \$25,000 proposed for purchase of the contents of the building discussed herein, is for lawful objects within the corporate purposes of Harold, is necessary and appropriate for and consistent with the proper performance by Harold of its service to the public, will not impair its ability to perform that service, is reasonably necessary and appropriate for such purpose, and should be approved.

IT IS THEREFORE ORDERED that Harold Telephone Company, Inc., be and it hereby is granted a certificate of public convenience and necessity to proceed with the construction as set forth in the application and record.

IT IS FURTHER ORDERED that Harold be and it hereby is authorized to borrow \$989,300 from the United States of America,

acting through the Rural Telephone Bank, to be amortized over a period of 35 years at an interest rate of 11.25 percent per annum, and to execute and deliver to RTB the necessary notes therefor.

IT IS FURTHER ORDERED that the shareholders of Harold shall pay for the \$25,000 purchase of the contents of the building discussed herein, and that neither the \$25,000 nor interest paid thereon shall be considered as an expense for rate-making purposes in future proceedings before this Commission.

IT IS FURTHER ORDERED that the proceeds from the borrowing authorized herein shall be used only for the lawful purposes as set out in the application and record.

Nothing contained herein shall be deemed a finding of value for any purpose nor construed as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 10th day of November, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Wolf
Chairman

Katharine Bandall
Vice Chairman

Lynn Carrigan
Commissioner

ATTEST:

Secretary