

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)

CITIZENS COMMUNICATIONS COMPANY,)
KAUAI ELECTRIC DIVISION)

and)

KAUAI ISLAND UTILITY CO-OP)

For Approval of the Sale of Certain)
Assets of Citizens Communications)
Company, Kauai Electric Division)
and Related Matters.)

DOCKET NO. 02-0060

DECISION AND ORDER NO. 19755

Filed Oct. 30, 2002
At 8:00 o'clock A.M.

Karen Higashi
Chief Clerk of the Commission

ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii.

K. Higashi

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STATE OF HAWAII

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Company, Kauai Electric Division)
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Docket No. 02-0060

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DECISION AND ORDER

I. Introduction

By Decision and Order No. 19658 (Decision and Order), filed on September 17, 2002, the commission approved the application filed on March 15, 2002, by CITIZENS COMMUNICATIONS COMPANY, (Citizens) KAUAI ELECTRIC DIVISION and KAUAI ISLAND UTILITY CO-OP (KIUC) (collectively hereinafter called Movants) which requested commission approval of: (1) the Amended and Restated Purchase and Sale Agreement dated March 5, 2002; (2) the assignment of Citizens' Kauai Electric Division's (KE) legislatively-granted franchise to KIUC, pursuant to Hawaii Revised Statutes (HRS) § 269-19; (3) the sale of certain of KE's assets to KIUC; and (4) the financing proposed to be obtained by KIUC for the purpose of acquiring KE's assets, pursuant to HRS § 269-17, which included the financing of the \$215 million purchase price of KE's assets through a 30-year term

loan from the Rural Utilities Service's (RUS) municipal rate loan program.

On October 22, 2002, Movants filed a Motion to Reopen Docket No. 02-0060 and Amend Decision and Order No. 19658 (Movants' Motion), pursuant to Hawaii Administrative Rules (HAR) § 6-61-41.¹ In Movants' Motion, Movants state that RUS recently informed them that the municipal rate loan for the purchase price of KE's assets would be amortized over a 25-year term instead of the 30-year term contemplated by Movants and the remaining parties to this docket. As a result, Movants request that the commission: (1) reopen Docket No. 02-0060 solely to allow the commission to review the purchase price financing as modified by the 25-year term; and (2) amend the Decision and Order to reflect the change to the amortization period.

On October 24, 2002, the DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS (Consumer Advocate) filed its Statement of Position, in which it stated that it does not object to the commission's approval of Movants' Motion.

On October 25, 2002, the DEPARTMENT OF THE NAVY (DoN) filed its Statement of Position on Movants' Motion and stated that it does not object to the commission's approval of the requests set forth in Movants' Motion.

¹On October 24, 2002, Movants filed "Exhibit A to Motion to Reopen Docket No. 02-0060 and Amend Decision and Order No. 19658 Filed on October 22, 2002," in which Gregg Gardiner, Chairman of the Board of Directors of KIUC, detailed the events that led to the change in the financing information submitted in this docket from a 30-year term to a 25-year term.

On October 28, 2002, the COUNTY OF KAUAI (County) filed its Statement of Position and stated that it does not object to either the granting of Movants' Motion or the actions requested by the commission.

II. Motion to Reopen

Pursuant to HAR § 6-61-41, Movants request that the commission reopen this docket for the sole purpose of allowing the commission to review the financing as modified by the reduced amortization period. Movants acknowledge that the investigative powers set forth in HRS § 269-7² and the ordering paragraph 6³ of the Decision and Order provide the commission with the ability to reopen this docket to consider the change in the loan term that was approved by the commission.

²HRS § 269-7 provides the commission with the power to examine the condition of a public utility, the manner in which it is operated with reference to the safety or accommodation of the public, the value of its physical property, all of the utility's financial transactions, its business relations with other persons, companies or corporations, its compliance with all applicable state and federal laws and with the provisions of its franchise, charter, and articles of association, and generally any and all matters of every nature affecting the relations and transactions between the utility and the public, persons or corporations.

³Movants note that the commission reserved for itself the right to monitor the financing process and financial closing of the sale of KE's assets to ensure that the parties' representations and the financial projections contained in the record in this docket do not differ from the financing loan terms that KIUC will receive and financial closing that will occur. Ordering paragraph 6 of the Decision and Order provides:

The Applicants shall promptly provide the commission with written notice of the approval of RUS municipal rate financing and of the financial closing of the transaction contemplated in this docket.

Since the actual loan term for the purchase price financing differs from the loan term that was presented in this docket, the commission finds good cause to reopen this docket solely to allow the commission to review the financing of the purchase price as amortized over a 25-year term. Accordingly, the commission concludes that the Movants' request to reopen this docket should be granted.

III. Motion to Amend the Decision and Order

Movants also request that the commission issue an amended order approving the change in the amortization period of the previously approved RUS financing from 30 years to 25 years. In particular, Movants seek the replacement of the second and third sentence of Article V, Section A of the Decision and Order to accommodate the changes in the financial projections as a result of the change in the amortization term.⁴

In support of their motion to amend the Decision and Order, Movants submitted financial projections based upon the 25-year loan amortization term, which when compared to the 30-year loan amortization projections, results in some notable changes. First, the projected amount of effective rate relief by way of patronage capital refunds during the 10-year projection period is estimated to increase from approximately \$22.95 million

⁴Another reason to replace the two sentences mentioned above is to reflect the favorable change from RUS' municipal loan third quarter rate (used in the financial projections prior to the filing of the Movants' and DoN's Final Position Statement) to the rate that KIUC's loan will be subject - the fourth quarter rate.

under the 30-year loan term to approximately \$23.28 million, or an increase of approximately \$330,000.

Second, the projected equity at the end of the 10-year projection period is estimated to increase from approximately \$79.81 million, or approximately 25.50 per cent of total assets, under the 30-year term to approximately \$81.18 million, or approximately 27.21 per cent of total assets.

Third, as a result of the term change from 30 years to 25 years, the projected interest expense due to long-term debt for the 10-year projection period is estimated to decrease from approximately \$81.98 million to approximately \$79.23 million.

Finally, the free cash flow over the 10-year projection period is estimated to decrease from approximately \$91.09 million under the 30-year term to approximately \$76.49 million.

Movants assert that while the amount of projected free cash flow will be approximately \$14.6 million lower when amortized under the 25-year term, the \$76.49 million in free cash flow buildup is a significant amount and demonstrates KIUC's financial fitness to provide electric service to Kauai ratepayers. Movants further note that the projected long-term debt at the end of the 10-year projection period will result in a decrease from approximately \$171.69 million under the 30-year term to approximately \$155.71 million under the 25-year term, or a \$15.97 million decrease.

Based upon a review of the record, as supplemented by the Movants, the commission finds that KIUC is fit, willing, and

able to provide electric service to KE's ratepayers on the Island of Kauai.

Accordingly, the commission concludes that the Movants' request to amend the Decision and Order should be granted. Specifically, the Decision and Order should be amended to reflect the change in the financing loan term from 30 years to 25 years, as set forth in ordering paragraph 2 below. Specifically, the commission concludes that the second and third sentences of Article V, Section A of the Decision and Order should read as follows:

According to the projections provided to the parties and the commission, KIUC's equity is expected to increase to approximately \$81.2 million after projected patronage capital credit refunds pursuant to the terms of the Stipulation. In addition, free cash flow is expected to accumulate to approximately \$76.5 million over the same ten-year timeframe.

IV.

THE COMMISSION ORDERS:

1. The Movants' request to reopen this docket solely to allow the commission to review the change in the amortization period of the previously approved RUS financing from 30 years to 25 years is granted.

2. The Movants' request to amend the Decision and Order No. 19658, filed on September 17, 2002, is granted. Decision and Order No. 19658 shall be modified in the following manner:

A. First, Paragraph 4 of the ordering paragraph shall be replaced with the following paragraph:

The financing to be obtained by KIUC for the purpose of acquiring KE's assets, which consists of funding the \$215 million purchase price with RUS municipal rate loan financing, which will be amortized over a 25-year term, as well as the \$25 million secured line of credit and the \$60 million disaster recovery line of credit from CFC is approved, pursuant to HRS § 269-17, subject to the condition that the \$215 million purchase price is financed by RUS at closing at a weighted average interest rate that is substantially similar to the weighted average interest rate for municipal rate funds for the fourth quarter of 2002 contained in Appendix A to the Final Position Statement of Citizens, KIUC, and DoN, filed on September 10, 2002.

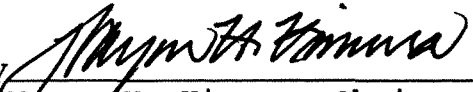
B. Next, the second and third sentences of Article V, Section A of Decision and Order No. 19658 shall read:

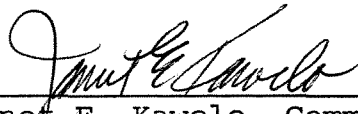
According to the projections provided to the parties and the commission, KIUC's equity is expected to increase to approximately \$81.2 million after projected patronage capital credit refunds pursuant to the terms of the Stipulation. In addition, free cash flow is expected to accumulate to approximately \$76.5 million over the same ten-year timeframe.

3. Except as modified by this decision and order, Decision and Order No. 19658, filed on September 17, 2002, shall remain unchanged in all other respects and is affirmed.

DONE at Honolulu, Hawaii this 30th day of October,
2002.

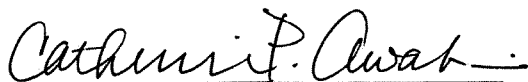
PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 
Wayne H. Kimura, Chairman

By 
Janet E. Kawelo, Commissioner

By (RECUSED)
Gregg J. Kinkley, Commissioner

APPROVED AS TO FORM:


Catherine P. Awakuni
Commission Counsel

02-0060.ah

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 19755 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

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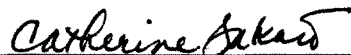
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DATED: October 30, 2002