

ORIGINAL

Decision No. 42099

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of)
KERN MUTUAL TELEPHONE COMPANY, a)
California corporation, for an order)
authorizing it (a) to issue and sell)
\$500,000 principal amount of First)
Mortgage 4% Bonds, Series A, due)
September 1, 1973; (b) to execute)
and deliver a First Mortgage Indenture)
to be dated as of September 1, 1948,)
and to mortgage its properties as)
therein provided to secure said Bonds;)
(c) to apply the proceeds of sale of)
said Bonds to the completion of im-)
provements and extensions of its)
properties, to the discharge of cer-)
tain obligations, and to reimburse)
its treasury; and (d) to make Debent-)
ures hereinbefore authorized subord-)
inate to said Bonds.)
-----)

Application
No. 29728

O P I N I O N

In this application, Kern Mutual Telephone Company asks permission to issue and sell, for the purposes hereafter stated, at their face amount, \$500,000 of First Mortgage 4% Bonds, Series A, due September 1, 1973, and to execute a first mortgage indenture to secure the payment of the bonds.

Kern Mutual Telephone Company is a corporation organized and existing under the laws of the State of California. It is a public utility furnishing all local and long distance telephone services in the cities and communities of Taft, Fellows, Maricopa, McKittrick, Buttonwillow, Lost Hills, and Cuyama Valley,

all in Kern County, California. Applicant's profit and loss statement for 1947 and for the seven months ending July 31, 1948, may be summarized as follows:

<u>Item</u>	<u>1947</u>	<u>1948-to July 31</u>
Operating revenues	\$309,645.25	\$213,847.83
Operating expenses	<u>218,147.19</u>	<u>148,382.05</u>
Net operating revenues	91,498.06	65,465.78
Operating taxes	<u>40,620.96</u>	<u>29,238.04</u>
Net operating income	50,877.10	36,227.74
Other income	-	1.00
Gross income	<u>50,877.10</u>	<u>36,228.74</u>
Interest deductions	2,095.41	5,620.31
Net income	<u>\$ 48,781.69</u>	<u>\$ 30,608.43</u>

Applicant as of July 31, 1948, reports assets and liabilities as follows:

<u>Assets</u>	
Telephone plant in service	\$690,498.26
Construction work in progress	91,204.41
Current assets	112,172.10
Cash in bank and working funds	\$20,364.12
Accounts receivable	44,294.52
Material and supplies	47,513.46
Prepayments	4,681.05
Long-term debt discount	1,428.18
Insurance funds	<u>3,197.26</u>
Total Assets	<u>\$903,181.26</u>

<u>Liabilities</u>	
Capital stock	\$250,000.00
Notes payable	215,000.00
Accounts payable	35,673.09
Accrued taxes	37,485.51
Advance payments	190.81
Depreciation reserve	311,195.66
Other reserves	1,439.20
Donations	24,728.92
Surplus unappropriated	<u>27,468.07</u>
Total Liabilities	<u>\$903,181.26</u>

Applicant as of September 15, 1948, had outstanding 4% short-term notes payable to the Bank of America National Trust

and Savings Association in the aggregate face amount of \$192,595.54. Applicant reports that it must provide itself with funds to pay such notes and to enlarge and improve its telephone properties. Its principal construction expenditures and other financial requirements from May 1, 1948, to March 1, 1949, other than the payment of said notes, are reported as follows:

<u>Item</u>	<u>Amount</u>
Taft cable expansion	\$ 11,355.00
Taft central office building and pole yard	85,000.00
Taft station and PBX conversion and installation of held orders	57,072.00
Taft dial office	299,021.00
Buttonwillow rural expansion	6,000.00
Fellows cable plant	7,224.00
Fellows building	3,000.00
Fellows station and PBX conversion and installation of held orders	5,715.00
Fellows new central office	4,047.00
Normal requirements	12,000.00
Expenses of financing	21,250.00
Working capital	<u>20,000.00</u>
Total	<u>\$531,684.00</u>

To pay its notes due to the bank and to finance the above construction program and for other purposes stated, Applicant asks permission to issue and sell to Aid Association For Lutherans, at their face amount, \$500,000 of First Mortgage 4% Bonds, Series A, due September 1, 1973. The bonds are redeemable at 103% of their face amount plus accrued interest during the first five years after their issue. Thereafter the redemption price reduces 1/10th of 1% per year until the last year when the redemption price is par. The indenture securing the payment of the bonds establishes a sinking fund of 2% of the greatest principal amount of all bonds of Series A theretofore issued.

The moneys in the sinking fund are to be used to redeem the bonds. If the company's maintenance expenses do not equal at least 15% of its gross operating revenues during any year, Applicant agrees, to the extent of the deficiency, either to certify to the trustee, within the time specified in the indenture, "unfunded additions to telephone plant" or within such time, to deposit with the trustee cash or bonds issued under the indenture.

Applicant asks permission to pay to the Pacific Company of California and The First Boston Corporation, who have negotiated the sale of the bonds, a commission equal to 3% of the face amount of the bonds.

The Commission by Decision No. 41826, dated July 7, 1948, authorized Applicant to issue and sell \$650,000 of 5% cumulative income debentures due June 1, 1973. To date Applicant has been able to sell only \$28,000 of said debentures. It is hopeful that eventually it may be able to sell \$150,000 of the debentures which, with the issue of the \$500,000 of bonds, will be sufficient to finance Applicant's construction needs presently foreseeable. Applicant has agreed with Aid Association For Lutherans to limit the sale of the debentures to \$200,000, and to subordinate the payment of the debentures to the payment of the \$500,000 of bonds.

A copy of Applicant's proposed first mortgage indenture is on file in this proceeding as Exhibit "A". We believe that Applicant should eliminate from the indenture paragraph (h) under the definitions of "Event of Default". With this change we find the proposed indenture to be in satisfactory form.

O R D E R

The Public Utilities Commission of the State of California having considered the above entitled application and it being of the opinion that a public hearing thereon is not necessary, that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for through the issue of \$500,000 of First Mortgage 4% Bonds, Series A, due September 1, 1973, by Kern Mutual Telephone Company is reasonably required by it for the purposes specified herein, and that the expenditures for said purposes, other than accrued interest and the payment of expenses incident to the issue and sale of the bonds, are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Kern Mutual Telephone Company, after the effective date hereof and on or before December 31, 1948, may issue and sell, at not less than their face amount plus accrued interest, \$500,000 of First Mortgage 4% Bonds, Series A, due September 1, 1973, and execute a first mortgage indenture substantially in the same form as the first mortgage indenture on file in this application as Exhibit "A", modified as indicated in the foregoing opinion, for the purpose of securing the payment of said bonds, said sale of bonds to be substantially in accordance with the terms of the agreement on file in this application as Exhibit "C".
2. Kern Mutual Telephone Company shall use the proceeds, exclusive of accrued interest, derived from the issue and sale of said bonds to pay its expenses incident to the issue and

sale of said bonds, to discharge its note indebtedness of \$192,595.54, to pay in part for the improvements to and extensions of its properties referred to in the foregoing opinion or to reimburse its treasury for moneys expended for such improvements and extensions and for the improvement and maintenance of its service. The accrued interest may be used for general corporate purposes.

3. Pending the preparation and delivery of definitive bonds, Kern Mutual Telephone Company may issue, sell and deliver temporary bonds in the aggregate face amount of not exceeding \$500,000 under the same terms and conditions under which it is authorized to issue definitive bonds, and thereafter exchange said temporary bonds for definitive bonds.

4. Until otherwise ordered by the Commission, the order in Decision No. 41826, dated July 7, 1948, is hereby amended to limit to \$200,000 the issue and sale of 5% cumulative income debentures by Kern Mutual Telephone Company, the payment of such income debentures to be subordinated to the payment of said \$500,000 of bonds.

5. The authority herein granted to issue and sell said bonds and to execute said first mortgage indenture will become effective when Applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is five hundred (\$500.00) dollars.

6. Kern Mutual Telephone Company shall file with the Commission such report, or reports, as are required by the Commission's General Order No. 24-A, which order, insofar as

applicable, is made a part of this order. Applicant shall further file with the Commission, as soon as available, two (2) copies of its first mortgage indenture as executed.

Dated at San Francisco, California, this 5th day of October, 1948.

R. Z. [Signature]
Dean H. Powell
Harold P. [Signature]
Herbert Pottel

Commissioners

