

ORIGINAL

Decision No. 64129

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 \$350,000 principal amount of First Mortgage 5-1/4% Bonds, Series D, due July 1, 1982, (b) to execute and deliver a Third Supplemental Indenture as of July 1, 1962, to set forth the special terms and provisions in respect to said Series of Bonds and to secure said Bonds, and (c) to apply the proceeds of sale of said Bonds toward the redemption of outstanding shares of 6-1/2% Cumulative Preferred Stock, Series B, payment of outstanding short term indebtedness and to reimburse its treasury.

Application No. 44676
Filed August 1, 1962

O P I N I O N

This is an application for an order of the Commission authorizing Kern Mutual Telephone Company to execute a supplemental indenture and to issue \$350,000 of bonds.

The bonds will constitute a new series. They will be designated as First Mortgage 5-1/4% Bonds, Series D, will be due on July 1, 1982, and commencing July 1, 1967, but not prior thereto, will be redeemable, at the option of the company, at an initial premium of 4-7/8%, plus accrued interest. Applicant has made arrangements to sell the \$350,000 of bonds to Pacific Mutual Life Insurance Company at their face value, plus accrued interest.

The purpose of issuing and selling the 5-1/4% bonds is to enable applicant to pay \$165,000 of 6% demand notes now outstanding and to retire \$175,000 of 6.5% cumulative preferred stock. The remaining \$10,000 to be received from the sale of the bonds will be used to pay expenses incident to such sale, estimated at \$4,000, to pay the premium of \$1,750 on the redemption of the preferred stock, and to reimburse the company's treasury.

It is true that the company's program, in part, includes the replacement of preferred stock with mortgage debt. However, it is apparent that applicant will realize savings in fixed charges and in expenses as a result of its proposed refinancing operations and, moreover, it is clear from a review of applicant's financial reports that its earnings and financial structure are sufficient to service and support the proposed borrowing. In 1961 and during the first four months of 1962 applicant's net operating revenues were approximately four times its interest charges and its capital ratios, as of April 30, 1962, and as adjusted to give effect to the present financing, are indicated in the following tabulation:

	<u>April 30, 1962</u>	<u>Adjusted</u>
Long-term debt	36%	55%
Notes	9	-
Preferred stock	25	15
Common stock and surplus	<u>30</u>	<u>30</u>
Total	<u>100%</u>	<u>100%</u>

We have considered this application and, based on the information before us, we find and conclude that the proposed financing is for proper purposes and will not impair the ability of the utility to meet its public service obligations, and that applicant will be required to pay a lower interest rate on the bonds it now proposes to issue than it would if the five-year limitation on redemption were to be deleted, and that the ensuing lower financial requirements should inure to the benefit of the consumers. We will enter an order granting the application, subject to the provisions set forth in the following order.

The authorization herein given is for the issue of bonds only and is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

O R D E R

The Commission has considered the above-entitled matter, has determined that a public hearing is not necessary, and is of the opinion that the money, property or labor to be procured or paid for through the issue of the bonds herein authorized is reasonably required for the purposes specified herein, that such purposes, except as otherwise authorized, are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that the application should be granted, subject to the terms of this order; therefore,

IT IS HEREBY ORDERED that -

1. Kern Mutual Telephone Company, on or after the effective date hereof and on or before March 31, 1963, may execute a loan agreement with Pacific Mutual Life Insurance Company and a Third Supplemental Indenture in the same form, or substantially in the same form, as that filed as Exhibit A in this proceeding, and, pursuant to the terms thereof, may issue and sell its First Mortgage 5-1/4% Bonds, Series D, in an aggregate amount of not to exceed \$350,000 at not less than their face value, plus accrued interest.

2. Kern Mutual Telephone Company shall use the proceeds to be received through the issue of said bonds for the purposes specified in this application. The accrued interest may be used for said purposes or for general corporate purposes.

3. Kern Mutual Telephone Company shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

4. The authority herein granted shall become effective when Kern Mutual Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$350.

Dated at San Francisco, California,
this 21st day of AUGUST, 1962.

George H. Grover
President
Richard B. Whaley
Richard B. Whaley
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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