

**ORIGINAL**

Decision No. 67739

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 to (a) issue and sell \$860,000 principal amount of First Mortgage 5% Bonds, Series E, due July 1, 1989, (b) execute and deliver a Fourth Supplemental Indenture as of July 1, 1964, to set forth the special terms and provisions in respect of said Series of Bonds and to secure said Bonds, and (c) apply the proceeds of sale of said Bonds toward the redemption of its outstanding \$360,000 First Mortgage 4% Bonds, Series A, construction of additions and betterments, payment of outstanding short term indebtedness and to reimburse its treasury.

Application No. 46845  
Filed July 27, 1964

O P I N I O N

This is an application for an order of the Commission authorizing Kern Mutual Telephone Company to issue and sell \$860,000 principal amount of its bonds and to execute a supplemental indenture.

Applicant is a California corporation engaged as a public utility in the business of providing telephone service in the Counties of Kern, San Luis Obispo, Santa Barbara and Ventura. For the year 1963, it reported operating revenues of \$985,048, net income of \$125,268 and 9,346 telephones in service at the end of the period. The financial statements, attached to the

application, indicate that for the first six months of 1964, the company's operating revenues and net income were \$521,027 and \$71,264, respectively; that as of June 30, 1964, its depreciated investment in telephone plant amounted to \$2,170,789; and that total assets of \$2,424,216 were offset primarily by capitalization composed as follows:

	<u>Amount</u>
Long-term debt	\$ 955,500
Short-term notes payable	250,000
Preferred stock	257,875
Common stock equity	<u>723,155</u>
Total	<u>\$2,186,530</u>

In this proceeding, applicant seeks authority to issue a new series of bonds in the principal amount of \$860,000 to be designated as First Mortgage 5% Bonds, Series E, dated as of July 1, 1964, and due July 1, 1989. Said bonds will be subject to optional redemption at an initial regular premium of 4-14/19%, plus accrued interest, during the twelve months commencing July 1, 1969, and thereafter at annually reducing premiums. However, in the event of a consolidation, merger or sale of all, or substantially all, of the utility's properties prior to July 1, 1969, such redemption premium would be 5%. Repayment of principal will be secured by an existing mortgage as heretofore supplemented and as further supplemented by a proposed Fourth Supplemental Indenture, which also includes an annual sinking fund provision equivalent to two percent of the greatest principal amount of Series E bonds issued.

Subject to receiving authorization from the Commission, the company proposes to sell the new issue to Pacific Mutual Life Insurance Company at par, plus accrued interest, and to use the proceeds, including accrued interest, for purposes generally described in the application and in Exhibit F attached thereto as follows:

1.	To repay 6% short-term notes issued to finance the cost of plant additions and replacements . . . . .	\$350,000
2.	To retire First Mortgage 4% Bonds, Series A, dated September 1, 1948, due September 1, 1973 (\$360,000 par value at redemption price of 101.8) . . . . .	366,480
3.	To pay estimated expenses of new bond issue . . . . .	4,000
4.	To reimburse treasury for construction expenditures . . . . .	<u>139,520</u>
	Total	<u>\$860,000</u>

Applicant reports that its interest cost on long-term debt has increased from 4% per annum in 1948 to 5-1/4% in 1962. It asserts that under the package plan proposed, financing of its immediate capital requirements at a rate of 5% per annum over a twenty-five year period will result in an over-all lower financial cost which will ultimately benefit the utility and its subscribers.

The company's capital ratios, as of June 30, 1964, and as adjusted to give effect to the new bond issue are as follows:

	<u>June 30,</u> <u>1964</u>	<u>Pro</u> <u>Forma</u>
Long-term debt	44%	60%
Short-term notes payable	11	-
Preferred stock	12	10
Common stock equity	<u>33</u>	<u>30</u>
Total	<u>100%</u>	<u>100%</u>

A review of applicant's financial statements for the year 1963 and for the six months ended June 30, 1964, discloses that its income available for fixed charges was approximately 3.3 times such charges in both periods.

The Commission has considered this matter and finds that: (1) the proposed bond issue is for proper purposes; (2) applicant's resources are sufficient to enable it to service the proposed indebtedness; (3) applicant will be required to pay a lower interest rate than it would in the absence of a restricted redemption provision; (4) the money, property or labor to be procured or paid for by the issue of the bonds herein authorized is reasonably required for the purposes specified herein; and (5) such purposes, except as otherwise authorized, are not, in whole or in part, reasonably chargeable to operating expenses or to income. On the basis of these findings we conclude that the application should be granted. A public hearing is not necessary.

The authorization herein given is for the issue of bonds and the execution of a supplemental indenture, and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. Kern Mutual Telephone Company, on or after the effective date hereof and on or before December 31, 1964, may execute a loan agreement with Pacific Mutual Life Insurance Company and a Fourth Supplemental Indenture in the same form, or in substantially the same form, as those filed in this proceeding.

2. Kern Mutual Telephone Company, on or after the effective date hereof and on or before December 31, 1964, may issue and sell not to exceed \$860,000 of its First Mortgage 5% Bonds, Series E, due July 1, 1989, at not less than the principal amount, plus accrued interest, and shall use the proceeds for the purposes specified in the application.

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

4. This order 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 \$500.

Dated at San Francisco, California,  
this 25<sup>th</sup> day of AUGUST, 1964.

Frederick B. Hallock  
President  
[Signature]  
George H. Hoover  
William L. Bennett  
Commissioners

PUBLIC UTILITIES COMMISSION  
STATE OF CALIFORNIA  
AUG 28 1964  
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By \_\_\_\_\_