A. 48722 IS

ORIGINAL

Decision No. 71356

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of:

KERN MUTUAL TELEPHONE COMPANY,
SAN JOAQUIN TELEPHONE COMPANY,
GILROY TELEPHONE COMPANY,
SANGER TELEPHONE COMPANY,
ENTERPRISE TELEPHONE COMPANY,
SNELLING TELEPHONE COMPANY,
all California corporations,

for an order or orders authorizing (1) the merger of San Joaquin Telephone Company, Gilroy Telephone Company, Sanger Telephone Company, Enterprise Telephone Company and Snelling Telephone Company into Kern Mutual Telephone Company, with Kern Mutual Telephone Company continuing as the surviving corporation under the name "Golden State Telephone Company", (2) Golden State Telephone Company, the surviving corporation, (i) to issue $1,335,000 principal amount of its First Mortgage 5-3/8% Bonds, Series F, due September 1, 1986, and $5,250,000 principal amount of its First Mortgage 5-5/8% Bonds, Series G, due October 1, 1991, (ii) to execute and deliver a Fifth Supplemental Indenture, dated as of September 1, 1966, and a Sixth Supplemental Indenture, dated as of October 1, 1966, amending and supplementing its First Mortgage Indenture dated as of September 1, 1948, as heretofore amended and supplemented, (iii) to issue and sell 40,000 shares of its 6-1/4% Cumulative Preferred Stock, $25 par value, and (iv) to issue and sell 102,000 shares of its common stock, $10 par value.

Application No. 48722
Filed August 18, 1966

Orrick, Dahlquist, Herrington & Sutcliffe, by
James F. Crafts, Jr., for applicants;
W. Knecht, for California Farm Bureau Federation, interested party;
Sidney J. Webb, for the Commission staff.

OPINION

This application involves (a) the proposed merger of San Joaquin Telephone Company, Gilroy Telephone Company, Sanger Telephone Company, Enterprise Telephone Company and Snelling Telephone Company into Golden State Telephone Company (formerly Kern Mutual Telephone Company), and (b) proposed stock and bond issues and related transactions by the latter corporation.

After due notice, a public hearing in this matter was held before Examiner Donovan in San Francisco, on September 14, 1966, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicants are California corporations operating as public utility telephone companies furnishing communication services in various portions of the State. All are subsidiaries of Continental Telephone Corporation, a Delaware corporation. The reported aggregate number of telephones in service at December 31, 1965, for the six applicants amounts to 32,142.

In this proceeding, Continental Telephone Corporation proposes to contribute to Golden State Telephone Company all the outstanding common stock of San Joaquin Telephone Company, Gilroy Telephone Company, Sanger Telephone Company, Enterprise Telephone Company and Snelling Telephone Company. Pursuant to the provisions of Section 4124 of the California Corporations Code, applicants intend to accomplish a merger with Golden State Telephone Company as the surviving corporation.

The application shows that Gilroy Telephone Company and Sanger Telephone Company have outstanding balances aggregating $1,335,000 on previously authorized mortgage notes in favor of Pacific Mutual Life Insurance Company. Concurrently with the proposed merger, Golden State Telephone Company will issue $1,335,000 principal amount of its First Mortgage 5-3/8% Bonds, Series F, due September 1, 1986, pursuant to a Fifth Supplemental Indenture. The bonds will replace said notes. In view of the later maturity date of the bonds to be issued as compared with the average maturity date of the notes to be refunded, the interest rate on the bonds will be slightly higher than the average interest rate applicable to the notes. The bonds will be subject to a five-year restricted redemption provision similar to that frequently employed at the present time.

According to the application, prior to the time of the first serious consideration of the proposed merger, four of the applicants, namely, Golden State Telephone Company (under its former name of Kern Mutual Telephone Company), San Joaquin Telephone Company, Sanger Telephone Company and Gilroy Telephone Company, had obtained commitments for borrowing an aggregate amount of $5,250,000 from Pacific Mutual Life Insurance Company. In view of the contemplated merger, Golden State Telephone Company proposes to issue $5,250,000 principal amount of its First Mortgage 5-5/8%

Bonds, Series G, due October 1, 1991, pursuant to a Sixth Supplemental Indenture. It appears that the terms of the bonds were negotiated on the basis of the average interest rate on the commitments applicable to the four individual corporations. The Series G bonds will be subject to a five-year restricted redemption provision similar to that which will apply to the Series F Bonds.

The proceeds to be derived from the $5,250,000 principal amount of Series G bonds will be allocated in general to areas served by four of the applicants, as follows:

Golden State Telephone Company	$1,200,000
San Joaquin Telephone Company	2,750,000
Sanger Telephone Company	700,000
Gilroy Telephone Company	600,000
Total	$5,250,000

The record in this proceeding shows that $1,900,000 of said $5,250,000 will be used for redeeming $1,700,000 principal amount of outstanding 6% Non-Cumulative Income Debentures due June 1, 1994, of San Joaquin Telephone Company, and for repaying $200,000 of previously authorized promissory notes of Gilroy Telephone Company. Applicants' witness testified that $250,757.50 of the remaining $3,350,000 of such bond proceeds will be used for repaying a demand note issued by San Joaquin Telephone Company for obtaining funds to redeem its previously outstanding preferred stock, and that the balance of $3,099,242.50 will be used for construction purposes including the repayment of outstanding bank loans incurred to finance completed and proposed construction projects.

In support of the request for an exemption from the Commission's competitive bidding rule with respect to the Series G bonds, the record shows that the commitment pertaining thereto was obtained in substitution for, and as a combination of, four separate commitments previously obtained by four of the applicants, and that prevailing interest rates indicate that if it were practicable to employ competitive bidding, the resulting interest rate probably would be at least 6-3/4% per annum.

Pacific Mutual Life Insurance Company, as a condition for purchasing said Series F and Series G bonds, will require Golden State Telephone Company to sell $1,000,000 aggregate par value of its preferred stock and also a sufficient amount of its common stock so that the long-term debt will not exceed 60% of total capitalization. In order to fulfill such condition, the surviving corporation plans to issue and sell, at par, to Connecticut Mutual Life Insurance Company, 40,000 shares of 6-1/4% Cumulative Preferred Stock, $25 par value, and to issue and sell to Continental Telephone Corporation, at a price of $13.25 per share, 102,000 shares of common stock, $10 par value, in addition to having received $600,000 as a contribution to equity capital from the parent corporation. The proceeds of said preferred and common stock issues will be used for meeting capital expenditures and for repaying outstanding loans and open account indebtedness incurred for such purpose.

The evidence is convincing that the proposed merger will result in a telephone company which will be stronger than any of the six existing separate companies, with the advantages resulting therefrom. Among other things, the merger should enable the surviving corporation to carry on more expeditiously the extensive construction programs in the areas to be served, which programs are estimated to aggregate $4,000,000 during the forthcoming year.

From a review of the application, testimony and exhibits we find that:

1. The proposed transactions will not be adverse to the public interest.

2. Golden State Telephone Company will have need for funds from external sources for the purposes set forth in this proceeding.

3. The proposed stock and bond issues are for proper purposes.

4. Golden State Telephone Company will be required to pay interest at a lower rate than it would in the absence of restricted redemption provisions.

5. The sale of the proposed issue of Series G bonds should not be required to be through competitive bidding.

6. The money, property or labor to be procured or paid for by the issue of the stock and bonds herein authorized is reasonably required for the purposes specified herein, which purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

On the basis of the foregoing findings, we conclude that the application should be granted. In issuing our order herein, we place Golden State Telephone Company and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return the company should be allowed to earn on its investment in plant and that the authorization herein granted is not to be construed as a finding of the value of its stock or properties nor 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. Golden State Telephone Company may acquire all the outstanding capital stock of San Joaquin Telephone Company, Gilroy Telephone Company, Sanger Telephone Company, Enterprise Telephone Company and Snelling Telephone Company, and thereafter may merge said companies into itself pursuant to the provisions of Section 4124 of the California Corporations Code. Said transactions may be made effective as of September 30, 1966, for accounting purposes.

2. Golden State Telephone Company may execute and deliver a Fifth Supplemental Indenture and a Sixth Supplemental Indenture in the same form, or in substantially the same form, as those attached to the application as Exhibit E and Exhibit H, respectively.

3. The issue by Golden State Telephone Company of $5,250,000 principal amount of its First Mortgage 5-5/8% Bonds, Series G, due October 1, 1991, hereby is exempted from the provisions of the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended by Decision No. 49941, dated April 20, 1954, in Case No. 4761.

4. Golden State Telephone Company may issue and sell, at their principal amount, $1,335,000 of its First Mortgage 5-3/8% Bonds, Series F, due September 1, 1986 and, at their principal amount plus accrued interest, $5,250,000 of its First Mortgage 5-5/8% Bonds, Series G, due October 1, 1991.

5. Golden State Telephone Company may issue and sell 40,000 shares of its 6-1/4% Cumulative Preferred Stock, $25 par value, at a price equal to the par value thereof, and not to exceed 102,000 shares of its common stock, $10 par value, at a price of $13.25 per share.

6. Golden State Telephone Company shall use the proceeds, other than accrued interest, to be derived from said bonds, preferred stock and common stock, for the purposes set forth in this proceeding. The accrued interest may be used for such purposes or for general corporate purposes.

7. Golden State Telephone Company, after the consummation of the merger herein authorized, shall maintain its records in such form as to show separately the investment in properties, operating revenues and operating expenses, for each of the six areas represented by the applicants in this proceeding.

8. Golden State 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.

9. Within thirty days after consummating the merger herein authorized, Golden State Telephone Company shall notify the

Commission, in writing, of that fact.

10. Within five days after the effective date of the merger herein authorized, Golden State Telephone Company shall file with the Commission, by advice letters, notices of adoption of the presently filed tariff schedules of each company merged into it.

11. The respective tariff schedules of the companies so merged, now on file with this Commission, shall be refiled within thirty days after the effective date of the merger under the name of Golden State Telephone Company, in accordance with the requirements of General Order No. 96-A, except that Golden State Telephone Company may withdraw such of each corporation's rules and standard forms as are substantially identical with those of Golden State Telephone Company, and the withdrawal of which will not result in increases in rates or more restrictive conditions than the presently filed tariffs of each respective corporation merged into it.

12. Within sixty days after the consummation of such merger, Golden State Telephone Company shall file with the Commission a copy of each journal entry used to record the merger on its books of account.

13. On or before the end of the third month after the consummation of the merger herein authorized, Golden State Telephone Company shall cause to be filed with the Commission, in such form as the Commission may prescribe, an annual report, or reports, related to the respective operations of each company merged

into it, for the period commencing with the first day of the current year to and including the effective date for accounting purposes of the merger.

14. This order shall become effective when Golden State Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is $2,175. Any authority herein granted and not exercised will expire on June 30, 1967.

Dated at San Francisco, California, this 4th day of OCTOBER, 1966.

President

Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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By