

Decision 93366

AUG 4 1981

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)  
KERMAN TELEPHONE CO. for an Order )  
authorizing it to issue notes in an )  
aggregate amount not exceeding )  
\$5,508,450 and to execute a related )  
agreement and original and supple- )  
mental security instruments. )

Application 60686  
(Filed June 25, 1981)

O P I N I O N

Kerman Telephone Co. (Kerman) requests authority, under Sections 817 and 818 of the Public Utilities Code, for the following:

1. To enter into a Telephone Loan Contract (Loan Contract) with the Rural Electrification Administration (REA) and the Rural Telephone Bank<sup>1/</sup> (Telephone Bank),
2. To enter into a Mortgage and Security Agreement (Agreement) with the REA and the Telephone Bank,
3. To issue, to the REA and the Telephone Bank, Mortgage Notes in the aggregate principal amount of up to \$5,508,450, and
4. To execute and deliver one or more supplemental mortgages and other security instruments as may be required in the future by the terms of the Loan Contract.

1/ The Rural Telephone Bank is an agency of the United States of America and is subject to the supervision and direction of the Secretary of Agriculture. The bank's general purpose is to provide assured and viable sources of financing to supplement the telephone loan program administered by the REA.

Notice of the filing of the application appeared on the Commission's Daily Calendar of June 30, 1981. No protests have been received.

Kerman, a California corporation, operates as a telephone utility under the jurisdiction of this Commission. Kerman engages in the business of providing telephone service in a portion of Fresno County.

For the calendar year 1980, Kerman reported it generated total operating revenues of \$1,805,242 and net income of \$195,094 shown as part of Exhibit F attached to the application.

Also shown as part of Exhibit F is Kerman's Balance Sheet as of December 31, 1980 which is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Telephone Plant	\$2,331,941
Current Assets	466,438
Other Assets	14,464
Total	<u>\$2,812,843</u>
 <u>Liabilities and Common Equity</u>	
Common Equity	\$1,355,941
Long-Term Debt	889,000
Current and Accrued Liabilities	567,902
Total	<u>\$2,812,843</u>

Kerman is experiencing the need to upgrade its telephone plant to meet the increasing demands being placed on its present service. These demands result in the need to make required improvements and replacements of portions of the telephone plant.

The company will require an estimated \$5,508,450 or more to pay for modifications, replacements and additions to plant facilities, and for refinancing of its existing debt in connection with its new borrowings. A summary of the approximate anticipated allocation of these funds is as follows:

<u>Item</u>	<u>Amount</u>
Central Office Equipment	\$1,116,000
Outside Plant & Station Equipment	2,006,000
Removal Costs	17,000
Land	30,000
Buildings	137,000
Engineering	421,000
Vehicles and Work Equipment	70,000
Acquisition of Headquarters - Central Office Building, Warehouse and Pole Yard	277,250
Class B Stock - Telephone Bank	151,450
Debt Refinancing with Loan Funds	1,164,250
Debt Retirement with Company Funds	53,000
Contingencies & Allocable Costs in above Categories	118,500
SUBTOTAL	<u>\$5,561,450</u>
Less Application of Company Funds to Retire Debt	<u>(53,000)</u>
	<u>\$5,508,450</u>

(Red Figure)

Kerman states it is unable to finance its large construction program from its current earnings or resources and has, therefore, negotiated a Loan Contract with the United States Government acting through REA and the Telephone Bank to provide for long-term borrowing in an amount up to \$5,508,450. The form of the Loan Contract is attached to the application as Exhibit A. The loan will

be secured by an Agreement of substantially all of Kerman's property to the REA and the Telephone Bank. The form of Agreement is attached to the application as Exhibit B.

Under the terms of the Loan Contract, money will be advanced to Kerman from time to time after the execution of the Mortgage Notes in substantially the form attached to the application as Exhibits C, D, and E. The Mortgage Notes in the amount of \$5,508,450 to be given to the REA and the Telephone Bank by the utility will bear interest at a composite rate of approximately 8.6% per annum and are repayable in quarterly installments over a period of 35 years. From time to time, Kerman will be required under the terms of the Loan Contract to execute a supplemental mortgage or mortgages and other security instruments in favor of its secured lenders.

Under the Loan Contract, Kerman will also be required to purchase and will purchase \$151,450 of Class B stock of the Telephone Bank.

Kerman has previously made long-term borrowings from Pacific Mutual Life Insurance Company, under authority granted by the Commission. These borrowings are presently outstanding and are secured by a mortgage on the assets of Kerman. These previously authorized long-term loans totaled \$889,000 as of December 31, 1980 and consisted of the following notes:

<u>Amount</u>	<u>Interest Rate</u>	<u>Due</u>
\$ 47,500	5-3/8%	1983
105,000	5-1/4	1988
348,500	9-1/4	1999
388,000	9-7/8	1998
<u>\$889,000</u>		

These loans must be refinanced by the proposed loan before the REA will authorize the proposed loan because the U.S. Government will not take second mortgages. In addition, the loan proceeds will be used, together with \$53,000 of company funds, to repay Kerman's outstanding short-term notes in the amount of \$328,250 and payable to various individuals.

SS Kerman requests that competitive bidding not be required in connection with the issuance of the proposed Mortgage Notes. The reason<sup>x</sup> Kerman believes the request to dispose with competitive bidding is reasonable, is that the interest rate of the proposed borrowing is so clearly below the prevailing market rates for similar borrowings that there is no possibility that competitive bidding will result in a lower interest rate. In addition, Kerman's management has inquired of several sources of potential loan funds and has determined that there are no funds available for lending at or near the composite rate of the proposed Mortgage Notes.

The Commission's Revenue Requirements Division and the Communications Division have reviewed the application and the utility's proposed construction program. The Divisions conclude that

the proposed financing is necessary to implement Kerman's proposed construction program; however, the Divisions reserve the right to reconsider the reasonableness of any construction expenditures in future rate proceedings.

Findings of Fact

1. Kerman, a California corporation, operates as a telephone utility subject to the jurisdiction of this Commission.
2. Kerman has need for external funds for the purposes set forth in the application.
3. The execution of the proposed Loan Contract, Agreement, and the Mortgage Notes would not be adverse to the public interest.
4. The issuance of the proposed Mortgage Notes is for proper purposes.
5. The issuance and sale of the proposed Mortgage Notes should not be required to be through competitive bidding.
6. The execution of supplemental mortgage or mortgages and other security agreements as is required by the Loan Contract would not be adverse to the public interest.
7. The money, property, or labor to be procured or paid for by the proposed Mortgage Notes is reasonably required for the purposes specified in the application.
8. There is no known opposition and there is no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.
2. The application should be granted to the extent set forth in the order which follows.

The proposed security issue is for lawful purposes and the money, property, or labor to be obtained by it are required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

The following order should be effective on the date of signature to enable Kerman to issue debt securities expeditiously.

O R D E R

IT IS ORDERED that:

1. Kerman Telephone Co., on or after the effective date of this order and on or before December 31, 1981 may, for the purposes set forth in the application, enter into a Telephone Loan Contract with the United States of America acting through the Rural Electrification Administration (REA) and with Rural Telephone Bank (Telephone Bank) under a document which shall be in substantially the same form as set forth in Exhibit A attached to the application.
2. Kerman Telephone Co. may, in conjunction with entering into the Telephone Loan Contract, further enter into a Mortgage and Security Agreement with the REA and the Telephone Bank, under a document which shall be in substantially the same form as set forth in Exhibit B attached to the application.

3. Kerman Telephone Co. may, for the purposes specified in the application, issue Mortgage Notes in the aggregate principal amount of up to \$5,508,450 in substantially the same forms as set forth in Exhibits C, D, and E attached to the application.

4. Kerman Telephone Co. may execute and deliver supplemental mortgages and other security instruments as are required by the terms of the Telephone Loan Contract.

5. The proposed loan is exempt from the Commission's competitive bidding rule set forth in Decision 38614, dated January 15, 1946 as amended in Case 4761.

6. Kerman Telephone Co. shall file the reports required by General Order Series 24.



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7. This order shall become effective upon payment of the \$5,620 fee set by Section 1904(b) of the Public Utilities Code after taking credit for the retirement of \$889,000 principal amount of long-term loans being refunded.

Dated AUG 4 1981, at San Francisco, California.

John E. Burton  
President

Richard D. ...

Thomas ...

Antonio ...

Francis ...  
Commissioners

