

EC/KLE

Decision 87 11 042

NOV 25 1987

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of BAY AREA CELLULAR)
TELEPHONE COMPANY for authority)
under Sections 816 through 830)
and 851 of the Public Utilities)
Code to issue evidences of indebt-)
edness in the principal amount of)
up to \$32,000,000 and to encumber)
public utility property.)
(U-3007-C))

Application 85-11-011
(Filed November 7, 1985;
Petition for Modification
Filed October 22, 1987)

SUPPLEMENTAL OPINION

Summary of Decision

This decision grants Bay Area Cellular Telephone Company (BACTC) the authority requested in its petition for modification of Decision (D.)85-12-078 as amended by D.86-08-038.

BACTC received authority from this Commission, under D.85-12-078 dated December 18, 1985 as amended by D.86-08-038 dated August 6, 1986 in Application (A.)85-11-011 (a) to issue evidences of indebtedness (to be referred to as Debt Securities) in the aggregate principal amount of up to \$32,000,000 under a Term Loan Agreement with Ericsson, Inc. (Ericsson) and (b) to encumber its public utility property under the terms of its security agreement.

BACTC filed its petition to modify D.85-12-078 as extended by D.86-08-038 under Public Utilities (PU) Code Sections 816 through 830 and 851 for the following:

1. To increase its authority granted under D.85-12-078 to issue Debt Securities from \$32,000,000 to \$50,000,000, an increase of \$18,000,000 aggregate principal amount;

2. To encumber public utility property as security for payment of such Debt Securities; and
3. To extend the time for authority from December 31, 1987 as authorized by D.86-08-038 to December 31, 1991.

Notice of the filing of the petition appeared on the Commission's Daily Calendar of October 26, 1987. No protests have been received.

BACTC, a general California partnership, is a certificated provider of cellular telephone service in the San Francisco and San Jose metropolitan areas. BACTC is authorized to operate as a reseller of cellular telephone service in the Napa-Fairfield-Vallejo, Santa Rosa-Petaluma and Santa Cruz metropolitan areas.

BACTC's partnership consists of the following partners with the following interests:

1. PacTel Cellular	37.6%
2. Affiliates of McCaw Cellular Communications, Inc.	32.9
3. Intrastate Radio Telephone of San Francisco, Inc., A PacTel Cellular affiliate and	23.5
4. California Celcom Communications Corp.	<u>6.0</u>
Total	100.0%

For the eight months ended August 31, 1987, BACTC reports it generated total revenues of \$20,912,621 and net income

of \$3,558,625 as shown in its Profit and Loss Statement attached to the petition as part of Exhibit A.

Also shown as part of Exhibit A is BACTC's Balance Sheet as of August 31, 1987 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$31,782,000
Net FCC Licenses	19,000
Current Assets	<u>11,258,000</u>
Total	\$43,059,000
<u>Liabilities and Partnership Equity</u>	
Net Partnership Deficit	\$(2,676,000)
Long-Term Debt	32,000,000
Current Liabilities	<u>13,735,000</u>
Total	\$43,059,000

BACTC proposes in this petition to increase its Debt Securities under either (a) the existing financial agreements that BACTC has with Ericsson, which this Commission has previously approved under D.85-12-078 or (b) to enter into a new financing arrangement whereby BACTC could negotiate with any major American bank to secure the loan.

BACTC's Need to Expand Its Cellular System

BACTC's present facilities consist of a network of 34 individual cell sites where radio transmitting and receiving equipment is used to send and receive signals to and from cellular telephones. These cell sites consist of antennae, which may be mounted on 100-foot to 200-foot towers, on rooftops or on established telecommunications sites. The radio equipment is

housed in separate shelters or, in the case of previously existing sites, equipment rooms. The cell sites are connected with the wire line telephone system, either directly by means of cables, or indirectly, through microwave lengths. The Main Telephone Switching Office (MTSO) routes all telephone calls through the system and provides billing information. Cellular telephones are primarily used in automobiles.

BACTC proposes to increase the number of cell sites from 34 to approximately 50 in 1988 and plans to add more cell sites in subsequent years. BACTC also anticipates spending approximately \$2,000,000 to expand the capacity of its MTSO by the end of 1988. The increase in the number of cell sites will support a system reconfiguration through cell splitting that will serve a larger number of customers than was anticipated in the initial configuration. The reconfiguration of the system will also improve the overall performance of the system to all customers. BACTC has already proceeded with much of the engineering design and equipment installation necessary for cell splitting, and the addition of these new cell sites will continue the expansion of its system reconfiguration.

BACTC asserts that the number of cell sites must be increased to accommodate the unexpected rapid growth rate of BACTC's customer base. In its petition, BACTC states that by mid-1987 its customer base exceeded the 18,600 customers which it had projected to have by the end of 1987. It also alleges that

it anticipates reaching 38,000 customers by the end of 1988; it had originally projected a target of 30,600 customers by the end of 1989.

BACTC's Proposed Financing Arrangements

Under the authority previously granted in D.85-12-078, BACTC has issued Debt Securities to date totaling \$32,000,000. As of August 31, 1987, BACTC had also issued short-term indebtedness of about \$6,136,000. BACTC was required to undertake the additional short-term debt in order to accommodate the rapid growth in its customer base. BACTC proposes to increase its maximum debt limit to \$50,000,000 in order to continue its system expansion during the year 1988 and beyond. It proposes to finance this additional borrowing through either its current arrangements with Ericsson or through a new financing arrangement with a major American bank.

BACTC's Financing Arrangements with Ericsson

Ericsson is a Delaware Corporation which provides, among other things, cellular mobile telephone systems and accessory items to cellular telephone companies. BACTC has purchased from Ericsson a CMS 8800 Cellular Mobile Telephone System which Ericsson has configured and installed as the essential component of BACTC's cellular telephone system. A detailed summary of the purchase financing arrangements was attached to the initial application in this proceeding as Appendix A. The term loan agreement

allows BACTC to borrow from Ericsson under three types of loans, as follows:

1. Equipment loans sufficient to finance the purchase and installation of the essential equipment needed to initiate and expand the system;
2. RF (radio frequency) loans sufficient to finance the purchase and installation of the equipment and services needed to build and operate the cell sites; and
3. Working capital loans - to pay for other construction costs and to discharge obligations.

The maximum term of these loans is ten years. The interest rate will be 1% above the prime rate of the bank to which Ericsson has assigned the loan. The commencement of interest payments varies with each loan. The repayment of principal for the equipment of RF loans is deferred for three years. Loan payments for both interest and principal are to be paid quarterly.

BACTC has issued a series of promissory notes under the Term Loan Agreement up to a current level of long-term indebtedness of \$32,000,000 and short-term indebtedness of about \$6,136,000. As of August 31, 1987, the long-term and short-term indebtedness collectively covered about \$15,729,000 for equipment loans, \$13,407,000 for RF loans and \$9,000,000 for working capital.

As part of the financing arrangement, Ericsson will require that BACTC execute mortgages on its real property owned and used as part of the system, assign all leasehold interests and similarly used real property and execute an agreement granting

Ericsson a security interest in all equipment delivered to BACTC for use in providing the cellular carrier services in the Bay Area and in the proceeds and products of this equipment.

Bank Financing

The essential terms and conditions which BACTC anticipates receiving under the revolving credit/term loan from a major American bank are as follows:

1. Amount - \$50,000,000
2. Term - Four-year revolving credit to convert to a six-year term loan with the following amortization schedule:

Year 5	- 10%
Year 6	- 10%
Year 7	- 15%
Year 8	- 20%
Year 9	- 20%
Year 10	- 25%
3. Interest Rate - The interest rate will vary depending upon the ratio of the debt outstanding at the end of a particular quarter to the operation's cash flow for the prior three months' annualized. BACTC anticipates obtaining an interest rate that matches or is lower than the major American bank's prime rate.
4. Prime Rate Cap - BACTC's interest rate shall not exceed 9.25% during year 1, 10.50% during years 2-3 and 11% during years 4-5.
5. Unused Commitment Fee - During the revolving period, a fee equal to one quarter of one percent shall be charged on the unused daily balance of the commitment, payable quarterly.
6. Prepayment Penalty - None.

7. Security - None. BACTC will be required, however, to agree not to pledge assets or partnership interests to another party.

BACTC anticipates concluding negotiations with a major American bank before the end of this year and will promptly advise the Commission Advisory and Compliance Division (CACD) formerly the Evaluation and Compliance Division of the final terms and conditions of the arrangements. In the event that BACTC selects the major American bank financing arrangement rather than continue with the financing arrangement that it has had with Ericsson, it may only do so upon the express condition that the terms and conditions of the financing arrangement for the American bank are equal to or more favorable than the terms and conditions that it now has with Ericsson under the Term Loan Agreement.

Use of Net Proceeds

The proceeds of the additional loans will be used to purchase equipment, construct additional cell sites, expand the capacity of the MTSO and discharge obligations. While the Term Loan Agreement with Ericsson refers to "working capital loans", BACTC states that these loans will be used to pay for construction costs, within the meaning of PU Code Section 817(b).

Assuming that BACTC negotiates favorable terms and conditions with a major American bank, BACTC will use the proceeds from this loan to pay off its existing obligations under the Ericsson Term Loan Agreement, purchase equipment, construct additional cell sites, expand the capacity of the MTSO and discharge other

obligations. These proceeds will not be used to meet operating expenses.

CACD has reviewed the petition and concludes that BACTC's proposed Debt Securities and encumbrances of property are necessary to purchase, construct and finance the proposed expanded cellular system. BACTC is placed on notice, by this decision, that the Commission does not find that BACTC's expanded construction program is necessary or reasonable for ratemaking purposes. These are issues normally tested in general rate or rate base offset proceedings.

Findings of Fact

1. BACTC, a general California partnership, operates as a certificated provider of cellular telephone service under this Commission.

2. BACTC's proposed issuance of Debt Securities to finance its expansion through either (a) its existing financing arrangements with Ericsson or (b) a new financing package from a major American bank would not be adverse to the public interest.

3. BACTC has need for external funds for the purposes set forth in the petition.

4. The proposed encumbrances of property as security for the various loans under the Ericsson financing are not adverse to the public interest.

5. The Commission does not, by this decision, determine that BACTC's construction program is necessary or reasonable for

ratemaking purposes. These issues are normally tested in general rate or rate base offset proceedings.

6. There is no known opposition to this petition and there is no reason to delay granting the authority requested.

Conclusions of Law

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

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

The following order should be effective on the date of signature and payment of the fee set by PU Code Section 1904(b) to enable BACTC to borrow the money and encumber its property expeditiously.

SUPPLEMENTAL ORDER

IT IS ORDERED that:

1. Bay Area Cellular Telephone Company (BACTC), a general California partnership, on or after the effective date of this order and on or before December 31, 1991, may issue Debt Securities in the aggregate principal amount of up to \$50,000,000 under either (a) a Term Loan Agreement and related financial documents pertaining to the purchase and financing arrangements with Ericsson, Inc. (Ericsson) or (b) terms and conditions with a

major American bank having substantially the same or more favorable interest rate, maturity and other financial provisions as the Ericsson financing arrangement.

2. BACTC may encumber the additional property included in its expansion under the terms set forth in the security agreement between BACTC and Ericsson which was approved in Decision 85-12-078 dated December 18, 1985.

3. BACTC shall use the net proceeds from the financing arrangements for the purposes set forth in the petition.

4. BACTC shall file three copies of the pertinent financing documents with the Commission.

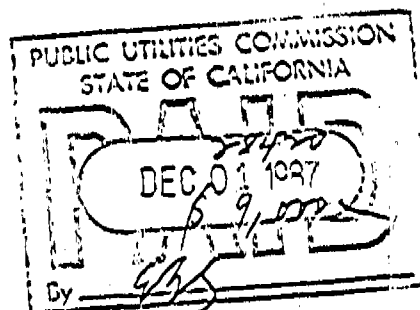
5. BACTC shall file the reports required by General Order Series 24.

6. The petition is granted as set forth above.

The authority granted by this order to issue Debt Securities will become effective when BACTC pays \$9,000, the fee set by Public Utilities Code Section 1904(b). In all other respects, this order is effective today.

Dated NOV 25 1987, at San Francisco, California.

STANLEY W. EULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners



I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.

Victor Weiss
Victor Weiss, Executive Director

ps

7. Security - None. BACTC will be required, however, to agree not to pledge assets or partnership interests to another party.

BACTC anticipates concluding negotiations with a major American bank before the end of this year and will promptly advise the Commission's Evaluation and Compliance Division (E&C Division) of the final terms and conditions of the arrangements. In the event that BACTC selects the major American bank financing arrangement rather than continue with the financing arrangement that it has had with Ericsson, it may only do so upon the express condition that the terms and conditions of the financing arrangement for the American bank are equal to or more favorable than the terms and conditions that it now has with Ericsson under the Term Loan Agreement.

Use of Net Proceeds

The proceeds of the additional loans will be used to purchase equipment, construct additional cell sites, expand the capacity of the MTSO and discharge obligations. While the Term Loan Agreement with Ericsson refers to "working capital loans", BACTC states that these loans will be used to pay for construction costs, within the meaning of PU Code Section 817(b).

Assuming that BACTC negotiates favorable terms and conditions with a major American bank, BACTC will use the proceeds from this loan to pay off its existing obligations under the Ericsson Term Loan Agreement, purchase equipment, construct additional cell sites, expand the capacity of the MTSO and

discharge other obligations. These proceeds will not be used to meet operating expenses.

The E&C Division has reviewed the petition and concludes that BACTC's proposed Debt Securities and encumbrances of property are necessary to purchase, construct and finance the proposed expanded cellular system. BACTC is placed on notice, by this decision, that the Commission does not find that BACTC's expanded construction program is necessary or reasonable for ratemaking purposes. These are issues normally tested in general rate or rate base offset proceedings.

Findings of Fact

1. BACTC, a general California partnership, operates as a certificated provider of cellular telephone service under this Commission.

2. BACTC's proposed issuance of Debt Securities to finance its expansion through either (a) its existing financing arrangements with Ericsson or (b) a new financing package from a major American bank would not be adverse to the public interest.

3. BACTC has need for external funds for the purposes set forth in the petition.

4. The proposed encumbrances of property as security for the various loans under the Ericsson financing are not adverse to the public interest.

5. The Commission does not, by this decision, determine that BACTC's construction program is necessary or reasonable for

ratemaking purposes. These issues are normally tested in general rate or rate base offset proceedings.

6. There is no known opposition to this petition and there is no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The petition should be granted to the extent set forth in the order that follows.

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

The following order should be effective on the date of signature and payment of the fee set by PU Code Section 1904(b) to enable BACTC to borrow the money and encumber its property expeditiously.

SUPPLEMENTAL ORDER

IT IS ORDERED that:

1. Bay Area Cellular Telephone Company (BACTC), a general California partnership, on or after the effective date of this order and on or before December 31, 1991, may issue Debt Securities in the aggregate principal amount of up to \$50,000,000 under either (a) a Term Loan Agreement and related financial documents pertaining to the purchase and financing arrangements with Ericsson, Inc. (Ericsson) or (b) terms and conditions with a