

Decision 90 05 028 MAY 04 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of SANTA CRUZ CELLULAR TELEPHONE)
INC. [I.D. No. U-3019-C] for)
authority under Sections 816)
through 830 and 851 of the Public)
Utilities Code to issue additional)
evidences of indebtedness and)
to encumber public utility)
property.)

Application 90-02-024
(Filed February 8, 1990)

O P I N I O N

Summary of Decision

This decision grants Santa Cruz Cellular Telephone, Inc. (Santa Cruz) the authority requested in the application.

Santa Cruz requests authority, under Public Utilities (PU) Code Sections 816 through 830 and 851-854, to do the following:

1. Issue evidences of indebtedness (Debt Securities) in principal amounts totalling not more than \$4.750 million in order to retire the indebtedness authorized by Decision (D.) 89-01-050, and in order to finance the capital expenditures described herein, and
2. Encumber Santa Cruz's public utility property as provided by Exhibit B to the application, and as already authorized by D.89-01-050, and
3. A credit against the fee described in PU §1904(b) amounts already paid pursuant to D.88-07-065.

Notice of the filing of the application appeared on the Commission's Daily Calendar of February 16, 1990. No protests have been received.

Santa Cruz, a California corporation, operates as a public utility subject to the jurisdiction of this Commission. Santa Cruz is engaged in the business of providing facilities-based cellular service in the Santa Cruz Cellular Geographic Service Area ("CGSA"). For the twelve months ended December 31, 1989, Santa Cruz reported total operating revenues of \$590,654 and a net operating loss of \$1,642,339, as shown in Santa Cruz's 1989 Annual Report to the Commission.

Santa Cruz's Balance Sheet as of December 31, 1989 for Total Company Operations, as indicated in their 1989 Annual Report, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$ 2,092,984
Current Assets	1,256,130
Other Assets	7,716
Deferred Charges	<u>1,144,220</u>
Total	\$ 4,501,050
<u>Liabilities and Equity</u>	<u>Amount</u>
Common Equity	\$(976,012)
Long-Term Debt	3,099,980
Other Long-Term Liab.	825,462
Current Liabilities	<u>1,551,620</u>
Total	\$ 4,501,050

Proposed Financing

Santa Cruz proposes to issue evidences of indebtedness in principal amounts not to exceed \$4.750 million in order to retire the indebtedness authorized by D.89-01-050 in the form of a new credit facility from Provident National Bank (Provident). Exhibit C to the application is a copy of a letter from Provident indicating approval of the credit facility and listing all pertinent terms and conditions.

Santa Cruz states that its shareholders will contribute an additional \$1 million in equity funding as part of the new credit facility with Provident. This decision is not an authorization for equity financing; Santa Cruz will be required to make a separate request for that authority. In lieu of the 2.5 year revolving credit and 4.5 year term loan approved by D.89-01-050, Santa Cruz and Provident propose to substitute a two-year revolving loan, and a six-year term loan.

Santa Cruz will pay interest ranging from prime plus 1/2 percent to prime plus 1-1/2 percent, depending on the ratio between the total amount advanced and Santa Cruz's annualized cash flow.

Use of Proceeds

Santa Cruz proposes to use the proceeds of the Debt Securities to fund additional capital expenditures to expand the system. Santa Cruz notes in its application that this need for expansion has been caused by a variety of factors, including:

- o The higher than anticipated demand for its services experienced by Santa Cruz;
- o The earthquake of October, 1989, which had its epicenter in Santa Cruz County, and which necessitated an immediate expansion of the system; and
- o Unanticipated interference from neighboring systems which required that Santa Cruz establish additional cell sites, and otherwise modify the design of its initial system.

Capital Ratios

Santa Cruz's capital ratios as of December 31, 1989 are shown below as recorded and as adjusted to give pro forma effect to the proposed financing and additional \$1,000,000 in equity:

	<u>December 31, 1989</u>	<u>Pro Forma</u>
Common Equity	-46.0%	0.5%
Long-Term Debt	<u>146.0</u>	<u>99.5</u>
Total	100.0%	100.0%

Santa Cruz is placed on notice, by this decision, that the Commission does not find that Santa Cruz's Capital Ratios are necessary or reasonable for ratemaking purposes. These are issues normally tested in general rate cases or rate base offset proceedings.

Construction Budgets

Santa Cruz's construction budgets for calendar years 1989 and 1990 amount to approximately \$1,706,500, estimated as of February 8, 1990, and summarized as follows:

<u>Site</u>	<u>1989</u>	<u>1990</u>	<u>Total</u>
Watsonville	\$373,500	\$ 0	\$ 373,500
Vineyard	360,500	0	360,500
KZSC	0	429,500	429,500
Empire Grade	5,000	192,500	197,500
Mid-County	<u>0</u>	<u>345,500</u>	<u>345,500</u>
Total	\$739,000	\$967,500	\$1,706,500

The CACD has made note of Santa Cruz's construction budgets and finds that the financing is necessary to fund the proposed construction and to partially reimburse Santa Cruz's treasury for capital improvements and additions. The CACD has no objection to Santa Cruz's proposed Debt Securities as requested in the application; however, Santa Cruz is placed on notice, by this decision, that the Commission does not find that Santa Cruz's construction program is necessary or reasonable for ratemaking purposes. These are issues normally tested in general rate cases or rate base offset proceedings.

Cash Requirements Forecasts

Santa Cruz's cash requirements, for the years 1989 and 1990, estimated as of February 8, 1990 and shown as part of the supplemental data furnished to the CACD, are shown as follows:

	<u>1989</u>	<u>1990</u>
Funds used and/or Required for Construction Expenditures	\$ 739,000	\$ 967,000
Less: Estimated Cash from Internal Sources ^{1/}	<u>(1,026,523)</u>	<u>(964,305)</u>
Additional Funds Required From Outside Sources	\$ 1,765,523	\$1,931,305

^{1/}Santa Cruz suffered a net loss in 1989 and projects a net loss for 1990.

The CACD notes that for Santa Cruz's cash requirements forecasts for 1989 and 1990, internally generally funds will not provide any of the needed funds for capital requirements in 1989 or 1990. Santa Cruz will require additional funds from outside sources of approximately \$1.765 million in 1989 and \$1.931 million in 1990. CACD concludes that Santa Cruz's proposed Debt Securities are necessary to help meet forecasted cash requirements.

Findings of Fact

1. Santa Cruz, a California corporation, operates as a public utility under the jurisdiction of this Commission.

2. Santa Cruz has need for external funds for the purposes set forth in the application.

3. The proposed Debt Securities are for proper purposes and not adverse to the public interest.

4. The money, property, or labor to be procured, or paid for, by the proposed Debt Securities is reasonably required for the purposes specified in the application.

5. The Commission does not, by this decision, determine that Santa Cruz's cost of debt is necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate cases or rate base offset proceedings.

6. The Commission does not, by this decision, determine that Santa Cruz's construction budget is necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate cases or rate base offset proceedings.

7. There is no known opposition to this proceeding and 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 that follows.

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

4. The following order should be effective on the date of signature, to enable Santa Cruz to proceed with its financing expeditiously.

The fee due or payable under PU Code §1904(b) is \$2,650, after taking into account the credits described in the application.

O R D E R

IT IS ORDERED that:

1. Santa Cruz, on or after the effective date of this order and on or before December 31, 1991, is authorized to issue additional evidences of indebtedness and encumber utility property in the aggregate principal amount of \$4.750 million on terms and conditions substantially consistent with those described in or contemplated by the application and such additional terms and conditions to be negotiated by Santa Cruz for an issue such as the Debt Securities.

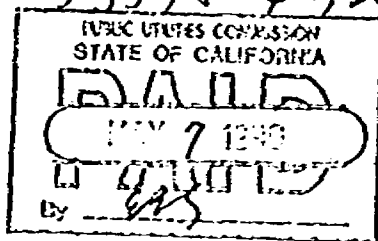
2. Santa Cruz shall file the reports required by General Order No. 24.

3. Santa Cruz shall apply the proceeds from the Debt Securities to the purposes set forth in the application.

4. The application is granted as set forth above.

The authority granted by this order to issue the Debt Securities will be effective when Santa Cruz pays \$2,650, the fee determined under Public Utilities Code §1904(b). In all other respects, the order is effective today.

Dated May 4, 1990, at San Francisco, California.



G. MITCHELL WILK
President
FREDERICK R. GUDA
STANLEY W. HULETT
JOHN B. CHANIAN
PATROIA M. ECKERT
Commissioners

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

Neal J. Schulman
NEAL J. SCHULMAN, Executive Director
JB