

CACD/BVC

Decision 90-12-095 December 19, 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of SANTA CRUZ CELLULAR TELEPHONE,
INC. (U-3019-C) for authority
under Sections 816 through 831
and 851 of the Public Utilities
Code to issue additional shares of
stock.

ORIGINAL
Application 90-10-043
(Filed October 17, 1990)

O P I N I O N

Summary of Decision

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

Santa Cruz has requested authorization under Public Utilities Code (PU Code) §816 through 831 and §851 to issue additional shares of common stock in an amount not to exceed \$1 million.

Notice of the filing appeared on the Commission's Daily Calendar of October 26, 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

By Decision (D.) 90-05-028, Santa Cruz was authorized to issue evidences of indebtedness and encumber utility property in the aggregate principal amount of \$4.75 million. Such authorization was required to permit Santa Cruz to enter into a loan agreement with Provident National Bank (Provident). As noted in D.90-05-028, the Provident loan was dependent, in part, upon Santa Cruz's shareholders contributing \$1 million in equity financing. D.90-05-028 expressly refrained from authorizing Santa Cruz to secure this equity financing, and instead it directed Santa Cruz to "make a separate request for that authority." Accordingly, Santa Cruz's current application requests authority to raise \$1 million of equity financing through a common stock offering to Santa Cruz's current shareholders as contemplated by the Provident loan agreement.

Exhibit B attached to the application is a summary of the contemplated common stock offering. According to the application, the material provisions of the offering will include:

- a. A sufficient number of shares will be made available for sale pro rata to Santa Cruz's shareholders such that \$1 million will be raised, assuming a full subscription to the offering; and
- b. The amount of shares to be offered and the price to be asked will depend upon market conditions at the time of the offering.

Use of Proceeds

Santa Cruz proposes to use the proceeds of the equity financing for the funding of the capital expenditures that were caused by the same variety of factors as noted in D.90-05-028, 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 equity financing: ^{1/}

	<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%

^{1/} The debt authorized in D.90-05-028 not issued as of this date.

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 1991 and 1992 amount to approximately \$1,609,000, estimated as of December 7, 1990, and summarized as follows:

<u>Site</u>	<u>1991</u>	<u>1992</u>	<u>Total</u>
Watsonville	\$ 88,000	\$135,000	\$ 223,000
Vineyard	56,000	150,000	206,000
KZSC	100,000 ^{1/} 100,000	175,000	375,000
Empire Grade	190,000	90,000	280,000
Mt. Chual	50,000	100,000	150,000
Mid-County	<u>275,000</u>	<u>100,000</u>	<u>375,000</u>
Total	\$859,000 ^{1/}	\$750,000	\$1,609,000

^{1/} Assumes sectorization is required.

The Commission Advisory and Compliance Division (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. CACD has no objection to Santa Cruz's proposed financing 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 1991 and 1992, estimated as of December 7, 1990 and shown as part of the supplemental data furnished to CACD, are shown as follows:

	<u>1991</u>	<u>1992</u>
Funds used and/or Required for Construction Expenditures	\$ 859,000	\$750,000
Less: Estimated Cash from Internal Sources	<u>(400,000)</u>	<u>618,212</u>
Additional Funds Required From Outside Sources	\$1,259,000	\$131,788

CACD notes that for Santa Cruz's cash requirements forecasts for 1991 and 1992, internally generally funds will not provide any of the needed funds for capital requirements in 1991, but will provide 82.4% in 1992. Santa Cruz will require additional funds from outside sources of approximately \$1.259 million in 1991 and \$131,788 in 1992. 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 equity financing is 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 financing 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 financing is 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 and payment of a fee of \$2,000 set by §1904(b) of the PU Code, to enable Santa Cruz to proceed with its financing expeditiously.

ORDER

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 shares of common stock in an amount not to exceed \$1 million.

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

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

4. The application is granted as set forth above.

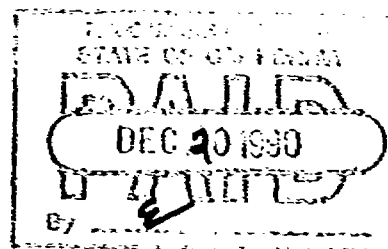
The authority granted by this order to issue the additional shares of common stock will be effective when Santa Cruz pays \$2,000, the fee determined under Public Utilities Code §1904(b). In all other respects, the order is effective today.

Dated December 19, 1990 at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

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

[Signature]
MANAGER, REGULATORY DIVISION



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