

Decision No. 76189**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SOUTHERN CALIFORNIA EDISON COMPANY,)
 a corporation: for authority to)
 issue and sell not to exceed)
 \$100,000,000 aggregate principal)
 amount of its First and Refunding)
 Mortgage Bonds, Series Y, Due 1994,)
 to execute and deliver a Thirty-)
 First Supplemental Indenture and)
 to execute and deliver an Instrument)
 of Further Assurance; for the ex-)
 emption of such proposed issue of)
 Bonds from the requirements of the)
 competitive bidding rule established)
 in the Commission's Decisions)
 Nos. 38614, 49941 and 75556; and)
 for consent to issue, renew or)
 refund, under certain circumstances,)
 certain short-term notes.)

Application No. 51336
 Filed August 25, 1969

Robert J. Cahall and H. Robert Barnes and
O'Melveny & Myers, by Edward J. McAniff,
 for applicant.
Sidney J. Webb, for the Commission staff.

O P I N I O N

Southern California Edison Company seeks an order of the Commission authorizing it to execute and deliver a Thirty-First Supplemental Indenture and an Instrument of Further Assurance, and to issue, sell and deliver, preferably exempt from competitive bidding, not exceeding \$100,000,000 aggregate principal amount of its First and Refunding Mortgage Bonds, Series Y, Due 1994. In

addition, the company asks the Commission, in the event of an unanticipated delay in issuing the bonds, to consent to the issuance of refunding notes in an aggregate principal amount of not exceeding \$26,500,000, and to the issuance, renewal and re-funding of new notes in an aggregate principal amount of not exceeding \$189,000,000.

Following due notice, including special notification to all leaders of bidding groups for recent offerings of the company's securities, a public hearing in the above-entitled matter was held before Examiner Donovan in San Francisco on September 5, 1969, at the conclusion of which the matter was taken under submission. The application was amended at the hearing so as to increase the consent request pertaining to new notes from \$186,000,000 to \$189,000,000. The Commission has received no protests in the proceeding.

After payment and discharge of obligations incurred for expenses incident to the issuance and sale of said bonds, applicant proposes to use the bond proceeds, other than accrued interest,

- (a) to retire and discharge short-term promissory notes, and
- (b) to reimburse itself for moneys actually expended by it from income or other moneys in its treasury not secured by or obtained from the issuance of securities, for the acquisition of property, or for the construction, completion, extension or improvement of its facilities, exclusive of maintenance of service and replacements.

The accrued interest will be used for said purposes or for general corporate purposes.

The utility reports uncapitalized expenditures of \$475,420,366 as of July 31, 1969, and estimated gross expenditures in excess of \$658,000,000 for its construction program during the years 1969 and 1970.

Applicant's capital ratios as of July 31, 1969, and as adjusted to give effect to the proposed bond issue, are summarized from the application, as follows:

	<u>July 31, 1969</u>	<u>Pro Forma</u>
Long-term debt	53.0%	54.7%
Preferred and preference stock	10.2	9.9
Common stock equity	<u>36.8</u>	<u>35.4</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The company contemplates selling the new bonds to a nationwide group of investment banking firms. On October 20, 1969, applicant, through its Board of Directors, intends to determine the price and interest rate at which it will sell the bonds. The record shows that said date will be shortly prior to the time of the proposed public offering, and that the price and interest rate will reflect market conditions prevailing at that time. The bonds will be subject to a five-year restricted redemption provision similar to that frequently employed in bond offerings at the present time.

The utility's chief financial officer expressed the opinion that the coupon rate for the bonds will not exceed 8-1/2%, the price to the company will not be less than 98% of par nor more than 102%, and the underwriting spread will not exceed 1-1/2% of par. Such officer testified that the coupon rate should be closer to 8% on the basis of market trends at the time of the hearing, and the underwriting spread should be in the neighborhood of .875% on the basis of preliminary discussions with The First Boston Corporation.

The witness expressed the further opinion that negotiation provides applicant with greater opportunity than competitive bidding for obtaining a lower cost of money under current market conditions by making possible the following:

- a. Very important market preparation by the prospective underwriters.
- b. Maximum flexibility in arranging the timing of the issue.
- c. A significantly larger number of underwriters.

In relating currently high interest rates to the request for an exemption from competitive bidding, applicant's chief financial officer testified as follows:

"They lead us to believe that, in order to provide reasonable assurance of a successful offering, a great deal of market preparation effort will have to be made by the underwriters, a process which simply is not available under a competitively bid offering. Through the pre-offering marketing process, underwriters can determine in advance of the negotiation date both the degree of investor interest and the probable risk that must be assumed in underwriting our issue. This advance information minimizes the need for the underwriters to add to their spread an amount for an unknown risk factor, as they would need to do if they had no advance knowledge of the demand for our issue. This principle seems to have been given increased recognition in recent years, during which time a significant trend toward negotiated debt issues by utilities is developing."

Such officer emphasized the company's policy of generally relying on competitive bidding for its bond issues, as follows:

"On this subject, let me make it abundantly clear, however, that the reasons I have recited for favoring a negotiated bond issue have their most compelling urgency only in the context of a money market such as exists today. In seeking this exemption from competitive bidding, we are asking this Commission to take an unprecedented action, but in doing so, we are directing its attention to what is, after all, an unprecedented market. We are not asking it to establish policy. When the bond market improves, and in the absence of other conditions we do not now foresee which may be peculiar to a point in time, we would expect and hope to return to reliance upon competitive bidding for the pricing of our bond issues."

In the event applicant does not issue the proposed bonds by the early part of next November, the company anticipates that it will need to issue renewal or refunding short-term promissory notes, the term or terms of which, when combined with the terms of the respective original and previously issued notes renewing or refunding the same, will exceed a total of 12 months. Assuming that adverse conditions cause a delay until March 15, 1970, for the permanent financing, applicant estimates that by such date it will have issued an aggregate principal amount of up to \$26,500,000 of such notes requiring Commission authorization. The record shows that the notes will mature no later than March 15, 1970, and will bear interest rates not exceeding 1/2 of 1% over the commercial bank prime rate in effect at the time of issuance.

Moreover, the record shows that a delay until March 15, 1970 for the permanent financing would require applicant to borrow additional moneys in connection with its continuing construction program. For such purpose and to renew or refund short-term notes previously issued, the company anticipates that it would need to issue additional promissory notes payable at periods of not more than 12 months after their respective dates of issuance.

As amended by Chapter 700 of the California Statutes of 1969, Section 223 of the Public Utilities Code prohibits applicant, without our consent, from issuing "notes payable at periods of not more than 12 months after the date of issuance of the notes

if such notes and all other notes payable at periods of not more than 12 months after the date of issuance of such notes on which such public utility is primarily or secondarily liable would exceed in aggregate amount 5 percent of the par value of the other securities then outstanding."

Without the anticipated permanent financing the company's outstanding securities on March 15, 1970 will aggregate roughly \$2,000,000,000 par value, of which 5% is \$100,000,000. According to the application, the estimated outstanding short-term notes on or about November 1, 1969 will aggregate approximately \$82,000,000. Exhibit No. 13, filed in this proceeding, shows that applicant intends to issue \$15,000,000 of short-term notes on November 3, 1969, resulting in an outstanding balance until November 15, 1969, of \$97,000,000, which is below the 5% limitation. By Decision No. 76106, dated August 26, 1969, in Application No. 50363, the Commission authorized Southern California Edison Company to increase rates, one finding being to the effect that the utility is entitled to increased gross intrastate revenues in the amount of \$46,668,000 based upon a 1969 test year. Therefore, applicant has available sources of funds for carrying on its construction program without obtaining additional short-term note authorization at this time pursuant to said Chapter 700.

After consideration of the application, testimony and exhibits, and noting the absence of any opposition, we find that:

1. The proposed bond and note issues are for proper purposes.
2. Applicant has need for funds from external sources for the purposes set forth in this proceeding.
3. Applicant will be required to pay interest at a lower effective rate than it would in the absence of the proposed restricted redemption provision.
4. The proposed Thirty-First Supplemental Indenture and Instrument of Further Assurance will not be adverse to the public interest.
5. The money, property or labor to be procured or paid for by the issue of the bonds and notes 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.
6. The issue and sale of the proposed bonds should not be required to be at competitive bidding.
7. The maximum permissible interest rate for applicant's notes should be 1/2 of 1%, instead of the requested 1%, over the commercial bank prime rate.
8. In the event applicant does not sell the proposed bonds prior to November 15, 1969, nevertheless, it will have available sources of funds for carrying on its construction program at least until such date without exceeding the 5% limitation set forth in Section 823(c) of the Public Utilities Code.

On the basis of the foregoing findings we conclude that: (1) insofar as consenting to the issuance, renewal and refunding of short-term notes under Section 823(c) of the Public Utilities Code is concerned, the application should be dismissed effective November 15, 1969; (2) applicant should be authorized to issue notes under Section 823(d) of said code with maximum interest rates of $1\frac{1}{2}$ of 1%, instead of the requested 1%, over prime; and (3) in all other respects the application should be granted including the request for exemption from the competitive bidding rule.

The action taken herein is for the purpose of this proceeding only and is not to be construed as a precedent for exempting large debt issues from competitive bidding, nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

Applicant is hereby placed on notice that, if the Commission believes that the negotiated price or interest rate pertaining to the proposed bond issue will result in an excessive effective interest cost, it will take into consideration only that which it deems reasonable in future rate proceedings.

O R D E R

IT IS ORDERED that:

1. The issue and sale by Southern California Edison Company of not exceeding \$100,000,000 aggregate principal amount of its First and Refunding Mortgage Bonds, Series Y, Due 1994 are hereby exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended, in Case No. 4761.

2. Southern California Edison Company may execute and deliver a Thirty-First Supplemental Indenture and an Instrument of Further Assurance in the same form, or in substantially the same form, as those filed in this proceeding as Exhibits Nos. 3 and 4, respectively.

3. Southern California Edison Company may issue, sell and deliver not exceeding \$100,000,000 aggregate principal amount of its First and Refunding Mortgage Bonds, Series Y, Due 1994, at a price not less than 98% of the principal amount thereof, plus accrued interest from October 15, 1969, to the date of issue and delivery thereof, bearing interest at a rate of not exceeding 8-1/2% per annum, with redemption prices determined in the manner set forth in this proceeding.

4. Southern California Edison Company shall apply the proceeds from the sale of said bonds to the purposes referred to in the application.

5. Southern California Edison Company, for the purpose set forth in the application, may issue renewal or refunding promissory notes in an aggregate principal amount not exceeding \$26,500,000, with terms not extending beyond March 15, 1970, and bearing interest rates not in excess of 1/2 of 1% per annum over the commercial bank prime rate in effect at the time of issuance.

6. Immediately upon determination by its Board of Directors of the proposed price and interest rate pertaining to the bonds herein authorized, Southern California Edison Company shall notify the Commission thereof by telegram.

7. Within thirty days after the issue and sale of the bonds herein authorized, Southern California Edison Company shall file with the Commission three copies of its prospectus pertaining to said bonds.

8. Within three months after such issue and sale, Southern California Edison Company shall file with the Commission a statement, in lieu of a report under General Order No. 24-B, disclosing the purposes for which the bond proceeds were used.

9. The application herein, insofar as it pertains to new notes subject to Section 823(c) of the Public Utilities Code, is hereby dismissed effective November 15, 1969.

10. This order shall become effective on the day of payment by Southern California Edison Company of the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$28,000, or on the fifth day after the date hereof, whichever day is later.

Dated at San Francisco, California,
this 16th day of SEPTEMBER, 1969.

William L. Stanger
President

Philip J. [illegible]

Thomas [illegible]

Verma L. Stanger
Commissioners

