

EC/KLH/TCG/WPSC

ORIGINAL

Decision 84 10 048 OCT 17 1984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA )  
 EDISON COMPANY, for Authorization )  
 to Issue, Sell and Deliver one or )  
 more Series of Not to Exceed )  
 \$142,000,000 Aggregate Principal )  
 Amount of its First and Refunding )  
 Mortgage Bonds, Debentures, Notes )  
 and/or other Evidences of Indebt- )  
 edness or, in the alternative, )  
 Guarantee Obligations of Another )  
 in respect of the Issuance of )  
 Securities, pursuant to an )  
 Agreement to be Executed and )  
 Delivered in connection therewith; )  
 Execute and Deliver one or more )  
 Supplemental Indentures; Sell )  
 Utility Plant; and for an Exemption )  
 from the Competitive Bidding )  
 Requirements of the California )  
 Public Utilities Commission. )

Application 84-09-033  
(Filed September 14, 1984)

O P I N I O N

Southern California Edison Company (Edison) requests authority, under Public Utilities (PU) Code Sections 816-818, 830, and 851, for the following:

1. To issue, sell, and deliver to the California Pollution Control Financing Authority (Authority) one or more series of Edison's First and Refunding Mortgage Bonds, debentures, notes, and/or other evidences of indebtedness (collectively referred to as Debt Securities) in the aggregate principal amount not to exceed \$142,000,000 or, in the alternative, to unconditionally guarantee or otherwise secure the Authority's obligations in respect of its issuances of debt under the terms of an agreement to be executed by Edison and the Authority;

2. To sell to the Authority certain pollution control facilities located at Edison's San Onofre Generating Station;
3. To execute and deliver one or more supplemental indentures; and
4. To have the Debt Securities exempted from the Commission's competitive bidding requirements.

Summary of Decision

This decision grants to Edison the authority requested in its application.

Notice of the filing of the application was published on the Commission's Daily Calendar of September 18, 1984. No protests have been received.

Edison, a California corporation, operates as a public utility subject to the jurisdiction of this Commission. Edison generates, purchases, transmits, distributes, and sells electric energy for light, heat, and power in portions of Central and Southern California.

For the 12 months ended June 30, 1984, Edison reports it generated total operating revenues of \$4,597,474,000 and net income of \$717,427,000 shown as part of Exhibit A attached to the application.

Also shown as part of Exhibit A is Edison's Balance Sheet as of June 30, 1984 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$ 9,434,186,000
Other Property and Investments	136,187,000
Current Assets	1,673,158,000
Deferred Charges	<u>212,255,000</u>
Total	\$11,455,786,000
 <u>Liabilities and Common Equity</u>	
Common Equity	\$ 3,991,604,000
Preferred/Preference Stock	895,058,000
Long-Term Debt	4,193,142,000
Current Liabilities	1,647,933,000
Deferred Credits and Reserves	<u>728,049,000</u>
Total	\$11,455,786,000

Edison proposes to engage in a California pollution control financing by executing an installment sale agreement, loan agreement, financing agreement, or other security agreement with the Authority pursuant to which the Authority would sell not to exceed \$142,000,000 aggregate principal amount of bonds, notes, debentures or other securities (Authority Debt) to a group of underwriters who would ultimately market the Authority Debt to the general public. If an installment sale agreement is entered into, concurrently with the sale and delivery of the Authority Debt, Edison would sell to the Authority the pollution control facilities, and the Authority would purchase the same at a price equal to Edison's cost of acquisition or construction of the facilities.

The pollution control project consists of pollution control facilities acquired and constructed at Edison's San Onofre Generating Plant. A description of the facilities is attached to the application as Exhibit B.

In consideration for the conveyance back to Edison of title to the constructed facilities, Edison would issue, sell, and deliver to the Authority up to \$142,000,000 aggregate principal amount of its Debt Securities or, in the alternative, would guarantee or otherwise secure the Authority's obligations in respect of the Authority Debt. The terms and conditions of this indebtedness, including aggregate principal amount, interest rate, sinking fund provisions, maturity date, redemption provisions (if any), and prepayment provisions would be consistent with the terms and conditions of the Authority Debt. Edison's First and Refunding Mortgage Bonds would be issued in conformity with the provisions of, and secured by, Edison's existing Trust Indenture, as amended and supplemented by supplemental indentures.

The Authority Debt may be issued in the form of long-term fixed rate securities (for a period of up to 30 years). However, if interest rates are favorable to Edison and its ratepayers, Edison would finance on an intermediate term basis (for a period of three years or less). Also, under certain market conditions, it may be advantageous to issue one or more series of the Authority

Debt in the form of floating rate short-term demand bonds, or notes, or some other variable interest rate debt instrument. Edison contemplates that the structure of this variable rate financing would be substantially as follows, with such changes as circumstances may dictate. The holders of these instruments would have the right to require their redemption on certain periodic dates, generally at 100% of their principal amount, plus accrued interest. The redeemed debt instrument would be remarketed by a Remarketing Agent. The interest rate, on the floating rate Authority Debt, would be adjusted periodically, based upon a short- or intermediate-term tax exempt index. Edison would have the option at a certain time, or times, to change from a floating rate to a fixed rate. This arrangement is described in more detail in Edison's application and is substantially similar to that authorized in this Commission's Decision (D.) 83-09-012 dated September 7, 1983 in Application (A.) 83-07-55 (Sierra Pacific Power Company) and D.83-11-066 dated November 22, 1983 in A.83-10-48 (Southern California Edison Company).

Savings to Benefit Ratepayers

Since the interest payable on the Authority Debt is anticipated to be exempt from present federal income taxes, the Authority Debt will be sold at an annual interest rate substantially less than would be realized if Edison were to issue

and sell taxable debt obligations. In order for Edison to take advantage of the favorable interest rates applicable to the Authority Debt, Edison must issue its own Debt Securities to the Authority. The interest rates payable by Edison will be the same as that required by the tax-exempt Authority Debt. The lower interest rates on Edison's Debt Securities will result in a lower embedded cost of debt than if Edison were to issue taxable debt to finance the pollution control facilities. This lower embedded cost of debt will be reflected in a lower overall cost of capital and a reduced revenue requirement which will be passed on to Edison's ratepayers in future rate proceedings.

Request for Exemption from Competitive Bidding

Edison seeks an order, from this Commission, granting an exemption for the proposed issues and sales of Edison's Debt Securities for pollution control facilities from the Commission's competitive bidding rule established by its D.38614 dated January 15, 1946 in Case 4761 as amended by D.49941 and D.75556. These decisions contemplate that under appropriate circumstances the Commission will not require competitive bidding.

Given the nature and structure of the California statutory pollution control financing mechanism and the benefits to be gained from participating in such financing activity, we are of the opinion that Edison must issue and sell the indebtedness to the Authority. Therefore, the application of the Commission's

competitive bidding requirements would not, in this proceeding, be in the best interest of Edison or its ratepayers as it would not operate in a manner so as to allow Edison's sale of the debt at the most favorable available cost of money.

Edison's capital ratios as of June 30, 1984 are shown below as adjusted to give pro forma effect to the transactions that follow:

	<u>June 30, 1984</u>	<u>Pro Forma</u>
Long-Term Debt	45.0%	45.6%
Short-Term Debt	<u>2.5</u>	<u>2.5</u>
Total Debt	47.5%	48.1%
Preferred/Preference Stock	9.6	9.4
Common Equity	<u>42.9</u>	<u>42.5</u>
Total	100.0%	100.0%

1. The proposed issuance of Edison's pollution control Debt Securities in the aggregate principal amount of \$142,000,000;
2. The increase in Edison's short-term debt in the amount of \$1,788,000;
3. The issuance of 255,716 shares of Edison's Common Stock, \$4-1/6 par value under its Employee Stock Ownership Plan on July 2 and August 1, 1984 (D.83-03-006 dated March 2, 1983 in A.83-01-43); 617,034 shares of Common Stock, \$4-1/6 par value, under Edison's Stock Savings Plus Plan on July 2, 1984 (D.82-06-058 dated June 15, 1982 in A.82-04-231; and 1,524,724 shares of Common Stock, \$4-1/6 par value, under Edison's Dividend Reinvestment and Stock Purchase Plan on August 1, 1984 (D.82-11-055 dated November 17, 1982 in A.82-09-38) which produced total net proceeds of \$44,232,000.

Edison proposes to sell its pollution control Debt Securities for the acquisition of property and for the construction, completion, extension, or improvement of its facilities and/or to reimburse Edison for moneys actually expended from its treasury for these purposes. This is a continuing construction on San Onofre Nuclear Generating Station, Units 2 and 3, pollution control, solid waste disposal, and sewage disposal facilities. A detailed listing of the facilities to be financed is attached to application as Exhibit B.

The Commission's Evaluation and Compliance Division has reviewed the application and has concluded that the proposed pollution control financing is reasonable and should be exempted from the Commission's competitive bidding requirements.

The Commission's Evaluation and Compliance Division has reviewed Edison's budget and finds that the Debt Securities are necessary to reimburse Edison's treasury for past expenditures for pollution control facilities and to fund the planned future pollution control construction expenditures involving future improvement to the Radwaste Facilities. The Commission is not finding that the construction is necessary or reasonable nor that the expenditures are reasonable in amount. These are issues normally tested in general rate or ratebase offset proceedings.



Findings of Fact

1. Edison, a California corporation, operates as a public utility subject to the jurisdiction of this Commission.

2. The proposed agreement requiring Edison to provide security for the purchasers of the Authority Debt would not be adverse to the public interest.

3. The proposed indebtedness would be for proper purposes.

4. The proposed sale and delivery of the pollution control facilities would not be adverse to the public interest.

5. The money, property, or labor to be procured, or paid for, by the indebtedness is reasonably required for the purposes specified in the application.

6. The sale of the proposed indebtedness should not be required to be through competitive bidding.

7. There is no known opposition and there is no reason to delay granting the relief 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 is 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 and payment of the fee set by PU Code Section 1904(b) to enable Edison to issue its Debt Securities expeditiously.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company (Edison) may issue, sell, and deliver not to exceed \$142,000,000 aggregate principal amount of one or more series of its First and Refunding Mortgage Bonds, debentures, notes, and/or other evidences of indebtedness (Debt Securities), at the price and upon the terms and conditions as set forth in, or contemplated by, the application or, in the alternative, unconditionally guarantee, or otherwise secure, the Authority's obligations in respect of the issuance of debt securities under the provisions of an agreement to be executed by Edison and the California Pollution Control Financing Authority (Authority) in connection with construction of pollution control facilities.
2. Edison may sell and deliver to the Authority the pollution control facilities under the terms and conditions set forth in, or contemplated by, the application.
3. Edison shall issue its Debt Securities for the purpose of acquiring property and for the purpose of construction, completion, extension, or improvement of its facilities and/or to reimburse its treasury for moneys actually expended for these purposes.

4. The lower cost of capital and reduced revenue requirements resulting to Edison from the issuance of tax-exempt pollution control indebtedness shall be passed on to Edison's ratepayers in future rate proceedings.

5. Edison shall file with the Commission the reports required by General Order Series 24-B.

6. This order shall become effective when Edison pays \$77,000, the fee set by PU Code Section 1904(b). In all other respects, this order is effective today.

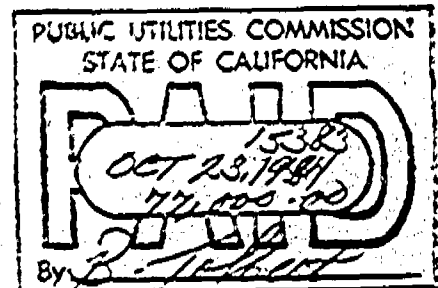
Dated \_\_\_\_\_ at San Francisco, California.

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6. This order shall become effective when Edison pays \$77,000, the fee set by PU Code Section 1904(b). In all other respects, this order is effective today.

Dated OCT 17 1984 at San Francisco, California.

VICTOR CALVO  
PRISCILLA C. GREW  
DONALD VIAL  
WILLIAM T. BAGLEY  
Commissioners



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

[Signature]  
Joseph E. Bodovitz, Executive Director