

ORIGINALDecision 84 - 11 - 021 Dated Nov. 07 84

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA)
EDISON COMPANY to issue, sell and)
deliver one or more series of its)
First and Refunding Mortgage Bonds,)
debentures, convertible debentures,)
debentures with warrants,)
promissory notes and/or other)
evidences of indebtedness in an)
aggregate principal amount)
outstanding at any one time not)
exceeding \$150,000,000; to execute)
and deliver one or more supplemen-)
tal indentures; to guarantee the)
obligations of another in respect)
of the issuance of securities; to)
issue shares of its Common Stock)
upon conversion of another's)
convertible debentures; and for an)
exemption from the Commission's)
Competitive Bidding Rule.)

Application 84-09-069
(Filed September 26, 1984)

O P I N I O N

Southern California Edison Company (Edison) requests an amendment to Decision (D.) 83-08-011 dated August 3, 1983 in Application (A.) 83-06-23 as extended by D.84-05-050 dated May 16, 1984 to allow Edison to do the following:

1. To issue, sell and deliver on a negotiated basis to foreign investors, one or more series of Edison's First and Refunding Mortgage Bonds (Bonds), debentures, convertible debentures, debentures with warrants, promissory notes, and/or other evidences of indebtedness (collectively referred to as Debt Securities) in the aggregate principal amount outstanding at any one time up to \$150,000,000;

2. To guarantee unconditionally borrowings by affiliates or subsidiaries of Edison in connection with the making of capital contributions to the Southern California Edison Finance Company N.V. (Finance);
3. To execute and deliver a supplemental indenture in connection with each proposed series of Bonds;
4. To issue the number of shares of Edison's common stock, in exchange for and upon retirement of Edison's convertible debentures, or upon conversion of these debentures, as may be required from time to time for this purpose under provisions governing such conversions; and
5. To have each proposed issue of Edison's Debt Securities exempted from the requirements of the Commission's competitive bidding rule.

Summary of Decision

This decision grants Edison the authority requested in the application. This decision modifies the authority granted by D.83-08-011 by permitting Edison to issue and sell its Debt Securities directly in the Eurodollar market instead of through its subsidiary, Finance, or another corporation organized under the laws of the Netherlands Antilles. It also permits Edison to guarantee unconditionally borrowings by affiliates or subsidiaries of Edison in connection with the making of capital contributions to Finance.

Notice of the filing of the application appeared on the Commission's Daily Calendar of September 28, 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 in portions of central and southern California.

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

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 Investment	136,187,000
Current Assets	1,673,158,000
Deferred Debits	212,255,000
Total	\$11,455,786,000
<u>Liabilities and 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
Reserves and Deferred Credits	728,049,000
Total	\$11,455,786,000

In the application, Edison states that it proposes to issue, sell, and deliver up to \$150,000,000 aggregate principal amount of the Debt Securities previously authorized in D.83-08-011 in connection with foreign debt offerings, to be issued at times and upon terms as determined by Edison's board of directors, at or prior to their date of issuance, in light of the existing market conditions at time of issuance.

Edison presently contemplates that it will issue and sell, through one or more offerings to foreign investors, bonds, debentures, convertible debentures, debentures with warrants, promissory notes, and/or other evidences of indebtedness. The maturity date, interest rate, and other terms and conditions of Edison's Debt Securities will be negotiated at the time of offering because Edison is informed that there is no effective competitive bidding market for foreign debt offerings.

Because of the volatility of the Eurodollar market, Edison states that it is impractical at this time to provide the Commission with a meaningful estimate of interest rates or other terms of the contemplated issue(s) of Edison's Debt Securities. However, Edison states that its Debt Securities would be issued and sold only when the issuances are designed to result in an overall cost of money to Edison lower than issuances of comparable debt in the U.S. financial market.

Edison contemplates that Edison's Debt Securities will bear call provisions more favorable than those typically found in domestic debt. Call restrictions will be for a period not greater than five years, and the initial call price will command a premium over par of less than one full year's interest payments. Edison's Debt Securities will mature between 3 and 20 years from its date of issuance.

In addition, Edison requests authorization to guarantee unconditionally up to \$150,000,000 principal amount of notes or other evidences of indebtedness of subsidiaries, or affiliates, of Edison, together with interest and premium (if any) in connection with borrowings for the purpose of making, or refinancing, capital contributions to Finance. Edison states that in order for Finance to maintain the debt-to-equity ratio which has been recommended by legal counsel, capital contributions have been made and may be made, to Finance by Edison or its subsidiaries. Edison states that it may be advantageous for Edison to cause one of its subsidiaries to borrow moneys to be contributed as capital to Finance. Edison is informed that a guarantee of these borrowings may be required and may result in a lower interest rate. The borrowings could be used as a means of replacing, or refinancing, the equity arrangements in prior Eurodollar financings. | ✓

Each series of Bonds, if issued, would be issued in accordance with the provisions of Edison's Trust Indenture dated as of October 1, 1923, executed and delivered by Edison to certain trustees, and amendatory and supplemental indentures. The forms of these have been filed with the Commission. A supplemental indenture would be executed and delivered with each series of Bonds. Each supplemental indenture will set forth (among other things) the aggregate principal amount, interest rate, and the maturity date of that series of Bonds. Each supplemental indenture will be in a form similar to prior forms of supplemental indentures filed with the Commission. We authorize Edison to execute and deliver each supplemental indenture in a form which Edison believes appropriate and which reflects an aggregate principal amount, interest rate, and final maturity date of each series of Bonds.

Edison requests authority to issue shares of its common stock. Edison's Debt Securities may be in the form of convertible debentures, which would be convertible into shares of Edison's common stock. Edison would effect any necessary registration of the common stock under federal securities laws which may be required before Edison can deliver the common stock upon conversion of the debentures.

Edison indicates that its Debt Securities may also be issued as debentures with warrants attached. The warrants would entitle the bearer to purchase, during a one-year period, an

additional debenture under the same terms and conditions as the original debenture. This one-year period would commence on or about the issue date of the original debentures. Edison is informed that under certain conditions, in the European market, investors may over-value warrants, resulting in the possibility of additional interest savings as compared to an offering of debentures without warrants. If debentures with warrants are issued, the total principal amount of debentures originally issued plus debentures to be issued upon exercise of warrants would not exceed \$150,000,000.

Requests for Exemption from the Commission's Competitive Bidding Rule

The nature, mechanics, and timing of Eurobond offerings require an exemption for Edison's issuances of its Debt Securities from the Commission's competitive bidding rule established by Commission D.38614 dated January 15, 1946 in Case 4761, as amended by D.49941, D.75556, and D.81908 which generally require California Public Utilities to obtain competitive bids for the purchase of their debt securities.

Because the interest rate and other terms and conditions of Edison's Debt Securities must be determined on a negotiated basis, unless the Commission authorizes an exemption from the rule, Edison will be precluded from participating in foreign debt financings.

In D.91934 dated July 2, 1980 in A.59633 (San Diego Gas & Electric Company), we discussed the granting of exemptions from the competitive bidding rule; we clarified the nature of the compelling showing that must be made to warrant an exemption from the rule, and we stated that it must be in the best interest of the ratepayers. We are satisfied that Edison has made this compelling showing. The Commission believes that granting an exemption from the competitive bidding requirements will be in the best interests of Edison's ratepayers because Edison's Debt Securities issued to foreign purchasers will result in an overall cost of money to Edison's ratepayers lower than that obtainable from comparable competitively bid securities in the domestic market. These issues will also provide a new source of capital to Edison which results indirectly in lowering the costs of other Edison financings for the benefit of its ratepayers.

In Edison's A.60773 filed July 18, 1981, as amended July 31, 1981, Edison demonstrated that there are compelling reasons why foregoing debt offerings should be exempted from the competitive bidding requirements. These reasons include the availability of needed sources of additional capital at favorable interest rates during "window" periods in the foreign market, the need to act swiftly to take advantage of the opportunities, the availability of more favorable call provisions, and the absence of certain

restrictive financial covenants. In D.93486 dated September 1, 1981, the Commission recognized the need for an exemption from the competitive bidding rule in order to allow Edison to obtain the benefits of Eurodollar offerings and granted it an exemption.

The Commission has previously encouraged utilities to explore innovative financing methods to give their ratepayers the lowest cost of money available. It is not the intent of the Commission, or its competitive bidding rule, to preclude proven methods of innovative financing which provides an innovative method of raising capital. In view of the reasons already mentioned, this is one of the instances where it is appropriate to grant an exemption from the competitive bidding rule.

Edison is put on notice that in its next general rate proceeding before the Commission, the reasonableness of the resulting interest rate and cost of money to Edison will be scrutinized closely and may result in a disallowance of interest expense if it is determined that the cost of money incurred was not the most prudent at the time of the financing. We will also require Edison to provide us with a showing that the resulting interest rate and cost of money were the most advantageous to Edison and its ratepayers. We will require this showing within a reasonable period after the issuance and sale of the proposed securities.

Edison is engaged in an extensive construction program and, as of June 30, 1984, Edison's unreimbursed construction expenditures amounted to about \$2,273,719,000. Edison estimates that the gross expenditures required for its proposed construction program during calendar years 1984, 1985, and 1986 will be about \$2,768,000,000 as summarized below:

<u>Purpose</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Electric Generating Plant	\$ 689,000,000	\$ 665,000,000	\$403,000,000
Electric Transmission Lines and Substations	169,000,000	138,000,000	87,000,000
Electric Distribution Lines and Substations	268,000,000	285,000,000	313,000,000
Other Expenditures	113,000,000	89,000,000	59,000,000
Total	\$1,239,000,000	\$1,177,000,000	\$862,000,000

In view of these construction expenditures, it is important that Edison have access to the broadest possible range of capital markets in addition to the domestic market.

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

	<u>June 30, 1984</u>	<u>Pro Forma</u>
Long-Term Debt	45.6%	46.2%
Short-Term Debt	<u>2.4</u>	<u>2.4</u>
Total Debt	48.0%	48.6%
Preferred/Preference Stock	9.7	9.5
Common Stock Equity	<u>42.3</u>	<u>41.9</u>
Total	100.0%	100.0%

1. The proposed issuance and sale of up to \$150,000,000 aggregate principal amount of Edison's Debt Securities in connection with foreign financings;
2. The sale of 617,034 shares of Common Stock, \$4-1/6 par value, producing net proceeds of \$11,464,399 under Edison's Stock Savings Plus Plan on July 2, 1984 (D.82-06-058 dated June 15, 1982 in A.82-04-23;
3. The sale of 255,716 shares of Common Stock, \$4-1/6 par value, producing net proceeds of \$4,889,310 under Edison's Employee Stock Ownership Plan on July 2 and August 1, 1984 (D.83-03-006 dated March 2, 1983 in A.83-01-43); and
4. The sale of 1,524,724 shares of Common Stock, \$4-1/6 par value, producing net proceeds of \$27,877,955 under Edison's Dividend Reinvestment and Stock Purchase Plan on May 2, 1983 (D.82-11-055 dated November 17, 1982 in A.82-09-38).

Use of Proceeds

After payment and discharge of obligations incurred for expenses incidental to the issuance and sale of Edison's Debt Securities, Edison proposes to use the proceeds to reimburse Edison for moneys expended previously from income or other moneys in its treasury not secured by, or obtained from, the issuance of stock, stock certificates, or other evidence of indebtedness for the acquisition of property or for the construction, completion, extension, or improvement of its facilities (exclusive of maintenance of service and replacements) and/or discharge or lawfully refund Edison's debt obligations. The amounts so reimbursed will become a part of Edison's general treasury funds. Edison proposes to use a portion of the general treasury funds to repay a portion of its short-term borrowings, commercial paper, and bankers' acceptances outstanding at the time of Edison's receipt of the proceeds.

The Commission's Evaluation and Compliance Division has reviewed Edison's 1984, 1985, and 1986 construction budget and finds that the proposed issue and sale of Edison's Debt Securities is necessary to fund the planned construction expenditures. The Division is not finding that Edison's construction is necessary and reasonable nor that the expenditures are reasonable in amount. These are issues normally tested in general rate or rate base proceedings.

The Evaluation and Compliance Division has analyzed Edison's cash requirement forecast and has concluded that internally generated funds will provide only about 61% of capital expenditures for the year 1984, 51% for 1985, and 62% for 1986. The Division has concluded that the proposed debt issue will be necessary to help meet forecasted cash requirements.

Findings of Fact

1. Edison, a California corporation, operates as a public utility subject to the jurisdiction of this Commission.
2. The proposed Debt Securities and common stock would be for proper purposes.
3. Edison has need for external funds for the purposes set forth in the application.
4. The money, property, or labor to be procured or paid for by the proposed Debt Securities and common stock is reasonably required for the purposes specified in the application.
5. The issue(s) of the proposed Debt Securities is not required to be by competitive bidding.
6. There is no known opposition to the application 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 which follows.

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

The following order should be effective on the date of signature; the fees set by PU Code Sections 1904(b) and 1904, having been previously paid in connection with D-83-08-011.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company (Edison), on or after the effective date of this order and/or on or before June 30, 1985, may issue, sell, and deliver to foreign investors, on a negotiated basis, one or more series of its First and Refunding Mortgage Bonds (Bonds), debentures, convertible debentures, debentures with warrants, promissory notes, and/or other evidences of indebtedness (Debt Securities), or any combination of them, in an aggregate principal amount outstanding at any one time not to exceed \$150,000,000, with all issues and sales of Edison's Debt Securities being upon terms and conditions substantially consistent with those set forth, or contemplated, in the application and documents filed in connection with these proceedings.

2. Edison may guarantee unconditionally or otherwise secure up to \$150,000,000 aggregate principal amount of notes or other evidences of indebtedness of subsidiaries or affiliates of Edison, plus premium (if any), interest, and any other debt service obligations attendant thereto, such notes or other evidences of indebtedness representing borrowings the proceeds of which will be used to effect, to repay, or reimburse Edison or any of its subsidiaries for borrowings the proceeds of which were used to effect, capital contributions to the Southern California Edison Finance Company N.V.

3. Edison's proposed issue or issues of its Debt Securities is exempted from the Commission's competitive bidding rule as set forth in D.38614 dated January 15, 1946 in Case 4761, as amended.

4. Edison may execute and deliver a supplemental indenture in connection with each series of Bonds issued under this order.

5. Edison may issue shares of its common stock in exchange for and upon retirement of convertible debentures, as may be required from time to time for this purpose.

6. Promptly after Edison ascertains the number of its common shares that may be issued upon conversion of the proposed Debt Securities and ascertains the conversion price and ratio applicable to the conversion, it shall notify the Commission in writing.

7. Within 30 days after the issuance and sale of its Debt Securities, Edison shall file with the Commission a report showing why the resulting interest rate and cost of money were the most advantageous to the company and its ratepayers.

8. Edison shall issue the Debt Securities authorized by this order to reimburse itself for moneys expended previously from income or other moneys in its treasury not secured by, or obtained from, the issuance of stock, stock certificates, or other evidence of indebtedness for the acquisition of property or for the construction, completion, extension, or improvements of its facilities (exclusive of maintenance of service and replacements) and/or to discharge or lawfully refund Edison's obligations.

9. Edison shall file the reports required by General Order Series 24.

10. The authority granted by this order to issue Debt Securities and common stock shall supersede and replace Decision 83-08-011.

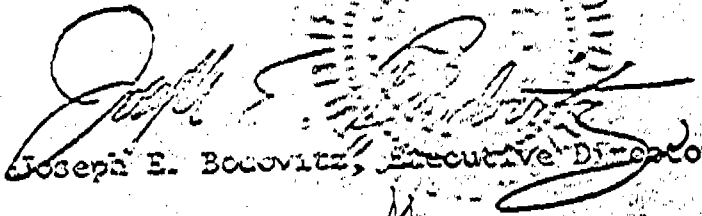
11. This application is granted as set forth above.

This order is effective today.

Dated NOV 7 1984 at San Francisco, California.

VICTOR CALVO
FRISCILLA C. GREW
DONALD VIAL
WILLIAM T. RAGLEY
Commissioners

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


Joseph E. Bocovitz, Executive Director