

Decision 88 07 069 JUL 22 1988

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA EDISON)
 COMPANY for an Order authorizing Edison to)
 issue Debt Securities, and/or to guarantee) Application 88-03-024
 the Debt Securities of an Edison affiliate,) (Filed March 10, 1988)
 to finance its Fuel Oil, Nuclear Fuel, and)
 Coal Inventories in an aggregate principal)
 amount not to exceed \$900,000,000)
 (U 338-E))

O P I N I O N

Summary of Decision

This decision grants Southern California Edison Company (Edison) the authority requested in its application and related proceedings to issue, sell and deliver one or more series of Debt Securities and to guarantee the obligations of others in connection with the issuance of Debt Securities.

Edison requests authority, under Public Utilities (PU) Code, Sections 816-818, 821 and 830, for the following:

1. To issue, sell and deliver commercial paper, other floating rate debt, debentures, overseas indebtedness, foreign securities and notes and to enter into loans (to be collectively referred to as Debt Securities) through public offerings or private placements;
2. To fully guarantee the Debt Securities of a direct or indirect subsidiary of Edison (Affiliate) that is engaged in activities regulated by the Commission where the proceeds of such indebtedness may be loaned at cost to Edison or to Affiliate;
3. To provide that the aggregate principal amount of the Debt Securities issued by Edison and/or issued by Affiliate and guaranteed by Edison shall not exceed \$900,000,000;
4. To use the net proceeds from the Debt Securities to reimburse Edison's treasury for moneys previously expended for capital improvements and to retire or refund securities previously issued;

5. To renew and/or refund commercial paper and other floating rate debt issued under the application so that the combined term of the obligations may exceed 12 months without the need for further authorization from the Commission;
6. To arrange Credit Agreements or other credit facilities as may be necessary for the purpose of issuing the securities as set forth in, or contemplated by, the application or such other documents filed, or to be filed, with the Commission in connection with these proceedings and to modify these credit facilities in the manner set forth in the application without further authorization from the Commission;
7. To execute and deliver an indenture or supplemental indenture in connection with any proposed issue of Debt Securities;
8. To have the issuance of certain Debt Securities exempt from the requirements of the Commission's competitive bidding requirements;
9. To be authorized a further modification of the Commission's competitive bidding requirements to permit Edison to shorten the period of time between the issuance of an invitation for bids and the scheduled receipt of bids to a period which is the shortest time reasonably required in order to obtain a sufficient number of bids from underwriters, purchasers or groups thereby; to accelerate, postpone or cancel the scheduled date and time for the receipt of bids; to reject all bids submitted; to request the resubmission of bids; reschedule subsequent receipt of bids and to vary the amount, terms and conditions of the Debt Securities submitted for bids, all without newspaper publication; and
10. To provide that the present decision will replace and supersede Decision (D.)87-01-014 dated January 14, 1987 as modified by D.87-08-001 dated August 12, 1987 in Application (A.) 86-12-007 and D.87-05-059 dated May 29, 1987 in A.87-03-008 and that the fee paid for the authority granted under D.87-01-014 in the amount of \$55,250 be applied to this decision.

Notice of the filing of the application appeared on the Commission's Daily Calendar of March 16, 1988. No protests have been received.

Edison, a California corporation, operates as a public utility under 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 December 31, 1987, Edison reports in its Statement of Income that it generated total operating revenues of \$5,492,669,000 and net income of \$788,626,000 shown as part of Exhibit A attached to the application.

Also shown as part of Exhibit A is Edison's Balance Sheet as of December 31, 1987 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$11,632,000,000
Other Property and Investments	346,546,000
Current Assets	1,566,502,000
Deferred Charges	<u>673,522,000</u>
Total	\$14,218,570,000
 <u>Liabilities and Equity</u>	
Common Equity	\$ 5,022,940,000
Preferred/Preference Stock	642,776,000
Long-Term Debt	4,561,032,000
Long-Term Obligations	467,644,000
Current Liabilities	2,565,703,000
Deferred Credits	<u>958,475,000</u>
Total	\$14,218,570,000

Debt Securities

Edison seeks authorization to issue Debt Securities directly and/or to fully guarantee Debt Securities issued by Affiliate to finance Edison's fuel oil, nuclear fuel and coal inventories (to be collectively referred to as Fuels). If Debt Securities are issued by Affiliate, the proceeds may be loaned to Edison or to another Affiliate. The principal amount and the terms and conditions of each issue of Debt Securities will be determined by Edison's management and/or board of directors according to market conditions at the time of sale.

With the exception of commercial paper, each issue of Debt Securities may contain a provision allowing it to be redeemed or repaid prior to maturity. An early redemption provision may allow the Debt Securities to be redeemed or repaid at any time, or it may allow the Debt Securities to be redeemed or repaid only after a certain restrictive period. In either case, the Debt Securities would be redeemable at a premium over par or at a stated price.

Debt Securities may bear a fixed or floating rate of interest and may be issued at par or with an original issue discount or premium. Edison will notify the Commission by letter, promptly after the date of issuance of any Debt Securities, of the terms and conditions of those Debt Securities.

With the exception of commercial paper, other floating rate debt and notes, each series of Debt Securities is expected to

have a maturity of between one year and 40 years. Commercial paper may be issued with maturities of less than one year, but will be rolled over for periods exceeding 12 months. Notes are expected to have a maturity of between nine months and 40 years. The maturities of other floating rate debt will be determined at the time of issue.

With the exception of commercial paper, other floating rate debt and loans, each issue of Debt Securities may be issued under an indenture to be delivered to the trustee for that issue. The indenture may be a supplemental indenture to a previous indenture. The indenture would set forth the terms and conditions of each issue of Debt Securities.

The following describes in greater detail the types of Debt Securities that may be issued:

A. Commercial Paper

Edison anticipates it and/or Affiliate may issue Commercial Paper with maturities of less than one year. Previously issued commercial paper may be refunded or rolled over. The Commercial Paper may be sold privately or publicly in the domestic or foreign capital markets. The Commercial Paper may be sold through placement agents who market Commercial Paper on a reasonable efforts basis, or may be sold directly to investors. Edison anticipates it or Affiliate (acting at Edison's direction) will arrange a long-term credit agreement (Credit Agreement) with banks or other financial institutions to provide liquidity support

for the Commercial Paper indebtedness. Edison or Affiliate (acting at Edison's direction) may, from time to time, make modifications to the Credit Agreement to improve the terms and conditions. In addition, one or more new financial institutions may be added to, or substituted for, the institutions initially participating in the Credit Agreement, and one or more of these institutions may be removed or have their respective percentage participation adjusted. At the expiration of the Credit Agreement, Edison and/or Affiliate may renew or replace it.

The Commercial Paper interest rate will include the effective yield plus any expenses associated with issuing Commercial Paper. These expenses include, but are not limited to, dealer commissions, issuing and paying agent fees and Credit Agreement fees.

B. Other Floating Rate Debt

Opportunities may arise, from time to time, for Edison and/or Affiliate to use Other Floating Rate Debt which may lower the overall cost of financing its Fuels. The types of Other Floating Rate Debt include, but are not limited to, debt instruments bearing interest based on the prime rate of banks, bankers acceptances, Eurocommercial paper, and new short-term variable rate instruments which may become available in the capital markets at attractive rates. In advance of the date of issuance, Edison will notify the Commission, by letter, of the nature of any such Other Floating Rate Debt.

C. Unsecured Debt Securities (Debentures)

Debentures may be sold to either domestic or foreign investors. Debentures may be sold to underwriters who in turn will offer the Debentures to investors or may be sold directly to investors either with, or without, the assistance of a placement agent. The Debentures may be registered with the Securities and Exchange Commission. The Debentures may be listed on a stock exchange.

D. Overseas Indebtedness

Overseas Indebtedness will be issued and sold ultimately to foreign investors and will likely be denominated in U.S. dollars. This type of financing can be advantageous when foreign demand for dollar-denominated securities is high. Overseas Indebtedness would be issued and sold only when these issuances result in an overall cost of money to Edison and/or Affiliate lower than issuances of comparable domestic debt securities in the U.S. market.

E. Foreign Currency Denominated Securities (Foreign Securities)

Edison and/or Affiliate may issue Foreign Securities with the payment of interest or principal, or both, denominated in a foreign currency. Foreign Securities may be sold to foreign, or domestic, investors and may be denominated in any major foreign currency, including, but not limited to Dutch guilders, Austrian schillings, British pounds, French francs, German marks,

Australian, New Zealand or Canadian dollars, Japanese yen, Swiss

francs or European Currency Units. Foreign Securities will be issued only if the borrowing costs, including all transaction and foreign exchange contract costs, are lower than comparable U.S. dollar financing.

Edison and/or Affiliate will enter into one or a series of forward contracts by which a counterparty would be obligated to pay Edison and/or Affiliate the foreign currency for debt servicing. In exchange, Edison and/or Affiliate will pay a counterparty U.S. dollars based on a predetermined formula. This contract would be with a major financial intermediary, like a commercial bank, or directly with a principal in need of U.S. dollars. The cost of the forward contracts will be included for determining the overall cost of Foreign securities.

F. Medium-Term Notes (Notes)

Notes may be offered on a continuous or periodic basis. Notes may be sold privately or publicly in the domestic or foreign capital markets. If sold in foreign capital markets, Notes may be denominated in U.S. dollars or in a foreign currency. If Notes are denominated in a foreign currency, Edison and/or Affiliate will enter into a separate contract whereby its debt servicing would be converted to U.S. dollars.

Notes may require registration under the federal securities laws by the filing of a registration statement which includes a prospectus, an indenture and other pertinent documents. Notes may be issued as part of a program on a continuous or periodic

basis. Edison and/or Affiliate may sell Notes through a placement agent who markets Notes on a reasonable efforts basis. Edison and/or Affiliate also may sell Notes to underwriters who in turn offer Notes directly to investors. Notes may be listed on a stock exchange.

If Notes are sold through a placement agent, at least two agents will be used to ensure competitive pricing. Based on market conditions and consultation with the placement agents, Edison and/or Affiliate would determine the interest rates at which it would be willing to issue Notes of various maturities. The placement agents would be notified of those interest rates. The rates can be continuously updated to reflect changing market conditions and Edison's or Affiliate's demand for funds.

G. Direct Loans (Loans)

Edison and/or Affiliate anticipate that, from time to time, it may be advantageous to borrow directly from banks, insurance companies or other financial institutions. Edison and/or Affiliate would enter into these Loans only when the Loans were designed to result in a lower overall cost of money than that available through the issuance of alternative debt securities.

Features to Enhance Debt Securities

Edison requests authorization to include at its discretion one or a combination of the following additional features in Edison's or Affiliate's Debt Securities. These features will be used as appropriate to improve the terms and conditions of

Edison's and/or Affiliate's Debt Securities and to lower Edison's overall cost of money for the benefit of its ratepayers.

A. Put Option

Edison anticipates that, from time to time, the cost of Edison's and/or Affiliate's Debt Securities may be reduced by the inclusion of a "put" option. This would allow the holders of Debt Securities to require Edison and/or Affiliate to repurchase all or a portion of each holder's securities. This is the reverse of a "call" provision whereby Edison and/or Affiliate would have the right to force the debtholder to sell the Debt Securities back to the company. Debtholders are willing to accept a lower interest rate in exchange for the protection that a put option offers them.

B. Warrants

Edison anticipates that, from time to time, the cost of Edison's and/or Affiliate's Debt Securities may be reduced by attaching warrants to their securities. Each warrant would entitle the holder to purchase an additional unit of the Debt Security with pre-established term and conditions (Debt Warrants), or to purchase a share of common stock (Stock Warrants). The Debt Security to be issued upon exercise of a Debt Warrant would bear interest at a pre-established rate and would mature at a pre-established time. No additional underwriting fees would be incurred upon exercise of the warrants. Debt Warrants would most likely be exercised if interest rates decline below the pre-established rate and would most likely expire unexercised if

rates remain above the pre-established rate. Stock Warrants would most likely be exercised if the common stock price rose above a pre-established price and would most likely expire unexercised if the common stock price remained below the pre-established price. Edison believes there are intervals when investors over-value warrants to the advantage of the issuer. The higher the value placed on the warrants, the greater the potential savings to ratepayers. Even if the warrants are exercised, ratepayers could still realize savings on the premium received from the sale of the warrants.

Interest Rate Caps, Collars and Swaps

In normal market conditions, variable interest rate debt initially carries a lower interest rate than comparable fixed rate debt. However, there is the possibility that the variable rate could increase so that the average variable rate is higher than the fixed rate. In order to reduce ratepayers' exposure to interest rate risk, Edison and/or Affiliate may negotiate some type of maximum rate, usually called a "cap". In that case, if variable rates increase above the cap or "ceiling" rate, Edison and/or Affiliate would only pay the ceiling rate. In addition to the ceiling rate, sometimes the counterparty to the contract desires to have a "floor" rate. In the event that the variable rate falls below the floor rate, Edison and/or Affiliate would pay the floor rate. The floor and ceiling rates are called "interest rate collars" because the interest rate

fluctuates within a band which is negotiated between Edison and/or Affiliate and the counterparty. The protection for variable rate obligations is similar to the protection negotiated by consumers for variable rate home mortgages.

From time to time, Edison states that it and/or its Affiliate may be able to reduce its borrowing costs by issuing fixed or floating rate debt and entering into one or a series of interest rate swap (Swap) contracts with expirations matching the term of the debt issue to convert fixed interest payments into favorable floating rate payments. The Swap contracts would require Edison and/or Affiliate to make floating interest payments to a counterparty and would require the counterparty to pay Edison and/or its Affiliate the interest payments on its fixed-rate Debt Security. These contracts would be with a major financial intermediary (like a commercial bank) or directly with a principal seeking the other side of the Swap transaction.

The application states that Edison and/or its Affiliate will enter into these Swap contracts only when such arrangements provide an overall cost of money lower than that available through the issuance of alternate Debt Securities. It is anticipated that Edison and/or Affiliate may issue fixed-rate debt and swap the fixed interest payments into floating interest payments tied to a short-term index. The terms and conditions of this Swap will be determined by Edison or Affiliate (acting at

Edison's direction) according to market conditions at the time the Swap is negotiated. Caps, collars or Swaps entered into by Affiliate may be guaranteed by Edison.

CACD's Analysis of Interest Rate Swaps

The CACD has met with Edison and other utilities on several occasions and has reviewed a variety of documentations on interest rate swaps. The CACD takes the position that interest rate swaps should be classified as a security. They are clearly enforceable contracts for the payment of money in exchange of a right or obligation between two parties. The swaps are simply a "second tier" contract to the underlying financial instrument issued by both parties. Further, the primary purpose of swaps would be to contract for an exchange of interest rates by Edison for an extended period well in excess of 12 months. Contracts for money whether in a "primary" or "secondary" tier are still of valid concern to the Commission. Regardless of PU Code Sections 816 through 830, the Commission should exercise its authority through its broader powers under PU Sections 701 and 703.

One significant use of swaps is as a hedging device against interest rate changes. Hedging is a form of protection against change where, for some market-priced fee, a slightly higher price is paid for protection against dramatic unfavorable market price changes. In commercial paper, this risk is rising rates for the borrower when notes must be "rolled-over".

Edison is immune from the need to hedge by the rate setting mechanisms currently used by this Commission. Edison is compensated in rates for various items such as fuel oil inventories at the published 90-day commercial paper rate as reported in the Federal Reserve Bulletin. Rates are set to reflect these levels regardless of Edison's actual cost of borrowing and Edison is not obligated to justify the rate or attempt to mitigate that rate with attendant risks of loss of opportunities for profit.

Interest rate swaps could relieve Edison of at least two costs associated with commercial paper: firstly, the transaction costs and secondly, requirements for liquidity support lines of credit necessary to sustain short-term borrowing. Thus, when Edison issues commercial paper at 7.00%, it's all-in costs could amount to about 7.25%. Edison is compensated, at least partially, for these costs in its base rates set in general rate proceedings or through recovery in its balancing accounts. Edison, in fact, profits or loses regularly to the extent that the ratemaking Federal Reserve rate plus base rate allowances for other costs exceeds, or is smaller than, Edison's actual rate plus actual costs.

The CACD notes that the Commission's usage of the Federal Reserve Board's 90-day interest rate is intended to be a fair and reasonable benchmark of costs to be allowable in rates. Attendant is the slight opportunity for profit or loss through the careful financial management practices of the utility

compared to the market as a whole. Accordingly, the CACD recommends that interest rate swaps be provisionally authorized within the following parameters and their equity and effectiveness be evaluated in conjunction with Edison's next rate application.

The CACD believes that the ratepayers should benefit from any cost savings which are realized by Edison from interest rate swaps for expenses which were previously authorized. Edison recovers in its rates an allowance for the fees charges by banks for lines of credit necessary to support its short term debt issues. Interest rate swaps will reduce Edison's requirement for such credit support.

The CACD recommends that Edison be required to maintain a memorandum account which will estimate the weighted average cost of Edison's lines of credit applicable to a balance equal to the principal amount of interest rate swap securities. In Edison's next general rate case, Edison should be required to make a substantial showing justifying its lines of credit costs. The Division of Ratepayer Advocates (DRA) should critically examine this memorandum account with a view to recommending the appropriate level of refund to ratepayers. Such refund would be based upon the actual or the reasonably necessary lines of credit after any interest rate swaps and the base rate allowance for these costs in Edison's last proceedings. These costs are not normally adjusted in attrition proceedings. The CACD further

recommends that Edison should not enter into interest rate swaps for a value greater than 80% of the items currently given rate recovery based upon the Federal Reserve Board's 90-day interest rate and that the balancing accounts and memorandum accounts be excluded from this balance. These latter items are more volatile and subject to regulatory change than are fuel oil inventories, etc.

1. Limited Amount

Swaps should not exceed 80% of the authorized value at December 31, 1987 of all utility related items excluding balancing accounts and memorandum accounts accorded the Federal Reserve Board's 90-day interest rate treatment.

2. Reports

- a. Within 15 days of entering into a swap agreement, Edison shall furnish to the CACD a report analyzing the swap including all costs associated with the swap in comparison to a projection of "all-in cost" without a swap.
- b. Within 15 days of entering into a swap agreement, Edison shall provide the CACD with a complete copy of the executed agreement and all associated documentation.
- c. Edison shall separately report all interest income and/or expenses arising from all swaps in all monthly and annual financial reports to the Commission.
- d. Edison shall provide copies of the accounting entries made in the memorandum account to the CACD on a quarterly basis.

3. Limit on Rate Recovery

- a. Any interest rate swap transaction which results in an increase in embedded debt

cost shall not be recognized for ratemaking purposes. Edison shall not record any cost increases on the swap memorandum account as to "net" against any cost savings.

- b. If Edison elects to terminate the swap before the original maturity or the swap partner terminates the swap, all costs associated with the termination shall be borne by Edison's stockholders.
- c. Edison shall place into a memorandum account all of the costs associated with the underlying liquidity supports or lines of credit equal to the value of the swap agreement. This amount is to be offset against subsequent base rate changes in general rate or attrition proceedings and refunded to ratepayers based upon the DRA's review of actual and reasonable levels of lines credit.
- d. Regardless of the interest rate specified in the swap agreement, Edison will continue to receive recovery only at the Federal Reserve Board's 90-day interest rate plus the other adopted costs in rates after reduction for (c) above.

4. Limits on Type of Swaps

- a. All swaps shall be denominated in US dollars with no other associated hedging devices.
- b. Swaps shall be restricted to an exchange of Edison's medium or long-term obligation.

The Commission has considered the CACD's recommendations above and, finding them reasonable, will adopt them as stated above.

Exemption from Competitive Bidding

Exhibit A to Commission Resolution F-616 dated October 1, 1986 states, "Securities privately placed with specific lenders and bank term loans obviously must be negotiated. Competitive bidding is not presently available in European or Japanese markets . . . Variable interest rate debt is normally completed on a negotiated basis. It is reasonable that these types of debt instruments should be exempt from the Competitive Bidding Rule." Moreover, Notes are sold through a placement agent on a reasonable efforts basis in a manner analogous to that used for commercial paper. Therefore, Edison requests an exemption from the Competitive Bidding Rule with respect to obtaining Loans, issuing variable rate Debt Securities and Overseas Indebtedness, Foreign Securities and Notes. However, fixed-rate Bonds and Debentures sold publicly in the domestic market will be offered through competitive bidding.

In addition, to provide added flexibility to take advantage of market opportunities, Edison requests that the Commission modify its Competitive Bidding Rule to permit Edison to use the following procedures:

1. To shorten the period of time between the issuance of an invitation for bids and the scheduled receipt of bids to a period which is the shortest time reasonably required in order to obtain a sufficient number of bids from underwriters or purchasers or groups thereof (which time period may be as short as a few hours) and

2. To further modify the Competitive Bidding Rule to permit Edison to do the following:
 - a. To accelerate, postpone or cancel the scheduled date and time of receipt of bids;
 - b. To reject all bids submitted;
 - c. To request the resubmission of bids,
 - d. To reschedule subsequent receipt of bids and
 - e. To vary the amount, terms and conditions of the Debt Securities submitted for bids.

All of the above to be without newspaper publication. The CACD agrees with this exemption and recommends its acceptance. The Commission accepts CACD's recommendation.

Use of Proceeds

Edison proposes to use the proceeds of these securities to consolidate its Fuels financing by retiring existing securities authorized by a number of other decisions, namely, D.87-08-001, D.87-05-059, and D.87-01-014 with a single authority. Issuance of securities under this authority may also be used to reimburse Edison's treasury for funds used to finance Fuels as previously authorized but not funded by earlier Commission decisions. This authority is not to be used to fund Edison's construction programs, routine operating expenses other than costs, or for the payment of dividends.

Capital Ratios

Edison's capital ratios reported as of December 31, 1987 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

<u>Component</u>	<u>December 31, 1987</u>	<u>Pro Forma</u>
Long-Term Debt	42.2%	45.8%
Short-Term Debt	<u>6.1</u>	<u>5.4</u>
Total Debt	48.3	51.2
Preferred/Preference Stock	6.0	6.0
Common Equity	<u>45.7</u>	<u>42.8</u>
Total	100.0%	100.0%

Debt Securities

1. The proposed sale of up to \$900,000,000 aggregate principal amount of Debt Securities.
2. The authorized but unissued \$244,700,000 aggregate principal amount of Edison's Debt Securities (authorized by D.86-06-056 dated June 25, 1986 in A.86-05-004);
3. The issuance and sale of \$150,000,000 First and Refunding Mortgage Bonds, Series 88A in February 1988 (authorized by D.86-02-037 dated February 20, 1986 and D.86-06-056 dated June 25, 1986 in A.85-12-049 and A.86-05-004, respectively);
4. The redemption of up to \$98,200,000 of Commercial paper issued from the \$250,000,000 originally authorized by the Commission under D.87-01-014

dated January 14, 1987 as modified by D.87-08-001 dated August 12, 1987 in A.86-12-007 for the financing of fuel oil inventory;

5. The retirement of \$12,000,000 of Calectric First Mortgage Bonds, 4-1/2% Series, in March 1988. (authorized by D.56223 dated February 10, 1988 in A.39746);
6. The redemption of \$58,802,000 First and Refunding Mortgage Bonds, Series UU, in March 1988 (authorized by D.82-05-074 dated May 18, 1982 in A.82-03-23);

Preferred/Preference Stock

7. The authorized but unissued \$100,000,000 aggregate principal amount of Preferred/Preference Stock (authorized by D.92933 dated April 21, 1981 extended by D.87-05-001 dated May 13, 1987 in A.60333);
8. The redemption of \$62,000,000 of Preference Stock, 7.375% Series, in February 1988, which includes \$29,863,000 to be redeemed in 1988 and the redemption of \$33,136,350 recorded in 1985, 1986 and 1987 (authorized by D.86930 dated February 1, 1977 in A.57012);

Common Stock

9. The authorized but unissued \$189,750,000 aggregate amount of 6,000,000 shares of Edison's Common Stock (authorized by D.93677 dated November 3, 1981 as extended by D.86-12-012 dated December 3, 1986 in A.60926) and
10. The potential sale of up to \$47,437,500 aggregate amount of 1,500,000 shares of Edison's Common Stock under a Long-Term Incentive Plan (authorized by D.87-07-010 dated July 8, 1987 in A.87-05-005).

Edison is placed on notice, by this decision, that the Commission does not find that its capital ratios and the inclusion of short-term debt in its capital structure are necessary or reasonable for ratefixing purposes. These are issues which are normally tested in general rate or rate base offset proceedings.

Transfer of Fees

The CACD and the Legal Division have reviewed Edison's request that this decision replace and supersede D.87-01-014 as modified by D.87-08-001 and D.87-08-059 and that the fee paid for the authority granted under D.87-01-014 in the amount of \$55,250 be transferred to this decision. The CACD and the Legal Division recommend this request be denied and that the company is not entitled to a refund or transfer of fees paid under authority of D.87-01-014. This position is stated in Legal Division's memo dated May 13, 1988, as follows:

" . . . militating against transfer is the fact that Edison has enjoyed the right and privilege to issue securities in the amount it requested and for which a correct fee was assessed. The Commission responded favorably to Edison's applications and issued the first three orders within a six month period from January 14, 1987 to June 19, 1987. Now comes Edison nine months later on March 10, 1988, and files A.88-03-024. Edison's management could have exercised greater forethought and prudence in planning how many securities it would need to issue before having the Commission act on three separate applications, and now a fourth one which would encompass the first three. The fact that Edison did not anticipate its funding needs accurately in its long-range planning does not impose a duty on the Commission to transfer or refund fees which were correctly extracted in the first instance."

However, Edison should be allowed a credit for the redemption of \$98,200,000 covering the short-term commercial paper issued for fuel oil inventory which will be refinanced under the authority

granted in the present decision. The Commission accepts the recommendations of the CACD and the Legal Division.

The CACD has reviewed the application and has concluded that the proposed sale of Edison's Debt Securities is reasonable and that the authority should be granted.

The following order should be effective on the date of signature and payment of the fee due under PU Code Section 1904(b) after taking credit for the other redemptions and retirements detailed in the capital ratios and the following order.

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 are for proper purposes.
3. Edison has need for external funds for the purposes set forth in the application.
4. The use of interest rate swaps is reasonable within the limitations proposed by the CACD.
5. 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.
6. Transactions which relate to obtaining Loans, issuing variable rate Debt Securities and Overseas Indebtedness, Foreign Securities and Notes should not be required to be made through the Commission's Competitive Bidding Rule. With respect to

fixed-rate Debentures sold publicly in the domestic market, it is in the public interest to modify the Commission's competitive bidding requirements to permit Edison to shorten the period of time between the issuance of an invitation for bids and the scheduled receipt of bids to a period which is the shortest time reasonably required in order to obtain a sufficient number of bids from underwriters, purchasers or other groups. Edison may accelerate, postpone or cancel the scheduled date and time for receipt of bids, request the resubmission of bids, reschedule subsequent receipt of bids and vary the amount, terms and conditions of the Debt Securities submitted for bids, all of the above to be without newspaper publication.

7. It is proper to amortize the unamortized costs associated with any refunded securities and the premiums paid for the refunded securities over the life of the new Debt Securities.

8. It is proper to determine the reasonableness of the effective interest rate incurred for any Debt Security issued in a foreign-denominated currency and to use that rate for ratemaking purposes as the maximum embedded cost of money in future rate proceedings.

9. It is proper for ratemaking purposes that any reduction in the effective cost of money resulting from currency value fluctuations on Debt Securities issued in a foreign-denominated currency be passed on to ratepayers in future rate proceedings as a reduction in the cost of money for all debt securities.

10. There is no known opposition and there is 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 Debt Securities are for lawful purposes and the money, property or labor to be obtained, or paid for, by them is required for these purposes. Proceeds from the Debt Securities 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.

ORDER

IT IS ORDERED that:

1. Southern California Edison Company (Edison), at any time or times after the effective date of this order and prior to June 30, 1991, may issue, sell and deliver Other Floating Rate Debt, Commercial Paper, Debentures, Overseas Indebtedness, Foreign Securities, Notes and Loans (collectively referred to as Debt Securities). Edison may also fully guarantee such Debt Securities if issued by its Affiliate. The proceeds of these sales may be loaned, at cost, to Edison or to another Edison affiliate. Those Debt Securities may include one or a combination of features to enhance Debt Securities as set forth in

greater detail in the application and may be issued upon terms and conditions substantially consistent with those set forth in, or contemplated by, the application and any letters, documents, exhibits or information submitted to the Commission Advisory and Compliance Division (CACD) in connection with this proceeding. The total aggregate principal amount of issuances of Debt Securities and guarantees which may be made under the application shall not exceed \$900,000,000.

2. Edison's proposed issuance and sale of its Debt Securities are exempt from the requirements of the Commission's Competitive Bidding Rule.

3. Edison may issue, sell and deliver its Debt Securities by negotiated public offerings, negotiated private placements or by means of competitive bidding.

4. Edison may shorten the period of time between the issuance of an invitation for bids and the scheduled receipt of bids to a period which is the shortest time reasonably required in order to obtain a sufficient number of bids from underwriters, purchasers or other groups. Edison may accelerate, postpone or cancel the scheduled date and time for receipt of bids, reject all bids submitted, request the resubmission of bids, reschedule subsequent receipt of bids and vary the amount, terms and conditions of the Debt Securities submitted for bids, all of the above to be without newspaper publication.

5. If the Debt Securities are sold by means of a public offering, Edison shall file with CACD three copies of its final prospectus pertaining to the Debt Securities, as soon as practicable, after the prospectus is available.

6. Edison may execute and deliver an indenture or one or more supplemental indentures in connection with the issuance and sale of any Debt Securities hereunder.

7. Edison may renew and/or refund Commercial Paper and Other Floating Rate Debt issued under the application so that the combined term of the obligation may exceed 12 months without the need for further authorization from the Commission.

8. Edison may arrange Credit agreements or other credit facilities as may be necessary for the purpose of issuing the securities as set forth in, or contemplated by, the application or such other documents filed or to be filed with CACD in connection with these proceedings and may modify these credit facilities in the manner set forth in the application without further authorization from the Commission.

9. Edison shall file copies of all interest rate swap agreements and other swap related reports as described in this decision with the CACD.

10. Edison shall submit an original and four copies of the reports required by ordering paragraph 9 to the CACD with a transmittal letter stating the application and decision numbers. Parties need not be served with copies of the reports unless they

request this service in writing. When service is made on parties who request copies of the report, Edison shall attach to its report a certificate showing service by mail upon all those requesting copies. The director of CACD shall send the original and one copy to the Docket Office for filing.

11. Edison shall apply the proceeds of the indebtedness authorized solely for the purposes of financing its Fuel inventories as specified in the application and shall not use the funds for other operating expenses, capital additions or payment of dividends.

12. Edison may amortize costs associated with the reacquisition of Debt Securities and include such amounts as part of the financing expense related to Fuels.

13. Within 30 days after awarding the contract for the sale of its Debt Securities by competitive bidding, Edison shall file a written report with the CACD, showing for each bid received, the name of the bidder, the price, the interest rate and the cost of money to Edison based on the price and interest rate.

14. Within 30 days after the issuance and sale of any series of Debt Securities by means of negotiated underwritten public offerings or negotiated private placements, including commercial bank borrowings, in either the domestic or foreign markets, Edison shall file with the CACD a report showing why the resulting interest rate and cost of money were the most advantageous to Edison and its ratepayers.

15. For any Debt Securities sold by competitive bidding, Edison shall file a written report with the CACD showing, for each bid received, the name of the bidder, the price, interest rate, and cost to Edison based on the price and interest rate within five business days.

16. If the Debt Securities are sold in a public offering, Edison shall file, with the CACD, three copies of its final prospectus pertaining to the Debt Securities as soon as it is available.

17. If Edison enters into contractual agreements to induce third parties to provide credit enhancements in conjunction with the issue and sale of Debt Securities, within 30 days after the issuance and sale of any series of Debt Securities, Edison shall file with the CACD a detailed listing of the costs of the credit enhancements and a report showing why Edison believes the cost of money and cost of the credit enhancements were advantageous to Edison and its ratepayers.

18. This decision does not authorize Edison to engage in any transactions that would be prohibited by Commission Decision 88-01-063 dated January 28, 1988 authorizing Edison to form a holding company or by Senate Bill 1184 if this bill is enacted into law.

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

20. This decision does not replace or supersede D.87-01-014 as modified by D.87-08-001 and D.87-05-059. These decisions remain in full force and effect.

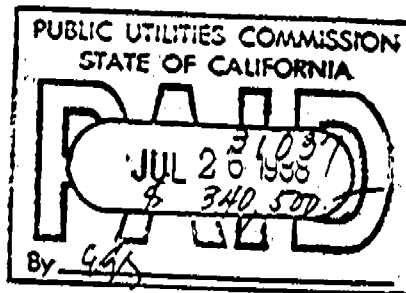
21. The application is granted as set forth above.

The authority granted by this order to issue Debt Securities to finance Edison's Fuels Inventories shall become effective when Edison pays \$340,500, the fee set by PU Code Section 1904(b) after taking credit for the redemption of \$62,000,000 of Preference Stock, 7.375% Series; the redemption of \$58,802,000 of First and Refunding Mortgage Bonds, Series UU; the retirement of \$12,000,000 of First Mortgage Bonds, 4-1/2% Series

and the redemption of up to \$98,200,000 in commercial paper issued for the purchase of fuel oil inventory. In all other respects, this order is effective today.

Dated JUL 22 1988, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners



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

Victor Weissert
Victor Weissert, Executive Director

10. There is no known opposition and there is 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 Debt Securities are for lawful purposes and the money, property or labor to be obtained, or paid for, by the them is required for these purposes. Proceeds from the Debt Securities 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), at any time or times after the effective date of this order and prior to June 30, 1991, may issue, sell and deliver Other Floating Rate Debt, Commercial Paper, Debentures, Overseas Indebtedness, Foreign Securities, Notes and Loans (collectively referred to as Debt Securities). Edison may also fully guarantee such Debt Securities if issued by its Affiliate. The proceeds of these sales may be loaned, at cost, to Edison or to another Edison affiliate. Those Debt Securities may include one or a combination of features to enhance Debt Securities as set forth in