

Decision 89-08-021 August 3, 1989

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Petition of)
SOUTHERN CALIFORNIA EDISON COMPANY)
for an Order Amending Decision)
88-07-069 modifying Edison's Authority)
for Interest Rate Swaps (U 338-E))

Application 88-05-012
(Filed May 6, 1988)

O P I N I O N

By Decision (D.) 88-07-069 dated July 22, 1988, the California Public Utilities Commission (Commission) authorized Southern California Edison Company (Edison) to enter into interest rate swap contracts subject to certain restrictions to finance a portion of the fuel oil, nuclear fuel and coal inventories (fuels) Edison uses for electric generation. In its Petition Edison seeks to clarify and to change that authority. By this decision the Commission grants in part, and denies in part, Edison's requests.

1. Item 2.c. on page 16 of D. 88-07-069 requires Edison to report separately all swap receipts and/or payments in all monthly and annual financial reports to the Commission. Edison requests that the requirement be modified so that Edison may submit one monthly report showing swap receipts and payments rather than including that information in every financial report filed with the Commission. This report would only be filed for months during which an interest rate swap is outstanding.

The Commission Advisory & Compliance Division (CACD) recommends and we concur that the interest rate swaps should be fully disclosed in Edison's financial statements filed before the Commission. A separate reporting of only the interest rate swaps' summary data would not provide reasonable disclosure for all users of Edison's financial statements.

2. Item 3.c. on page 17 of D. 88-07-069 states that the cost savings resulting from the reduction in the required backup lines of credit will be refunded to ratepayers through an offset against subsequent base rate changes.

However, Edison does not recover the cost of its backup lines for Fuels through base rates. Those backup lines are included as part of the commercial paper financing cost for each of Edison's Fuels, and those costs are recovered through ECAC. Therefore, Edison believes it is not appropriate that the savings from reduced backup lines be treated as an offset against subsequent base rate changes. Edison intends to reduce its backup lines when it enters into swaps, and the resulting cost savings will automatically be passed on to ratepayers through ECAC.

The CACD recommends and we concur that item 3.c. on page 17 of D. 88-07-069 be amended to reflect the reduction in rates caused by reduced lines of credit and commercial paper transaction costs in the energy cost adjustment clause (ECAC) rather than base rates. Such costs shall still be audited by the Division of Ratepayer Advocates (DRA).

3. Item 3.d. on page 17 of D. 88-07-069 states that 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.

However, Edison's recovery of financing costs for Fuels is not based on the Federal Reserve Board's 90-day interest rate. Edison's recovery is based on a forecast of its actual cost, pursuant to D. 87-11-013.

The CACD recommends and we concur that item 3.d. on page 17 of D. 88-07-069 be amended to indicate that Edison's recovery of financing costs for Fuels is based on a forecast of its actual cost, pursuant to D. 87-11-013.

4. Item 4.a. on page 17 of D. 88-07-069 states that all swaps shall be denominated in U.S. dollars with no other associated hedging devices.

Edison states that in its original Application (A. 88-05-012) it requested authority to enter into swap agreements for all of the types of financings set forth in the Application, including debt issued in a foreign currency.

The CACD has reviewed Edison's statement and has concluded and recommends that the restrictions set forth in Item 4.a. on page 17 of D. 88-07-069 should be deleted. We concur with their recommendation.

5. Edison requests that the Commission clarify that an interest rate swap will not be treated as additional debt for purposes of calculating the amount of authorization used.

The CACD recommends and we concur that D. 88-07-069 be amended to indicate that an interest rate swap for regulatory purposes is neither an increase nor a decrease in authorized levels of financing. If Edison wishes to swap \$100 million of medium term notes in lieu of issuing \$100 million of commercial paper it must first have authority for the commercial paper and for interest rate swaps and then the swap shall count against that commercial paper authority.

6. Edison stated in its original application that either Edison or a direct or an indirect subsidiary of Edison ("Affiliate") that is engaged in activities regulated by the Commission might enter into swaps, and that swaps entered into by an Affiliate might be guaranteed by Edison. Edison requests clarification that the Commission authorizes Edison to guarantee swaps entered into by an Affiliate.

It is noted that Ordering paragraph 1 of D. 88-07-069 states in part that "Southern California Edison Company (Edison), . . . may also fully guarantee such Debt Securities if issued by its 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, . . . in connection with this proceeding." Therefore, there is no need for further modification.

ORDER

IT IS ORDERED that the Petition to Amend D. 88-07-069 is hereby granted to the extent presented below.

1. D. 88-07-069 is modified as follows:

Item 3.c. on page 17 is modified to read "These cost savings are to be passed on to ratepayers through the normal ECAC proceeding."

2. D. 88-07-069 is modified as follows:

Item 3.d. on page 16 is modified to read "Regardless of the interest rate specified in the swap agreement, Edison will continue to receive recovery based on Edison's actual costs."

3. D. 88-07-069 is modified as follows:

Item 4.a. on page 17 is deleted from the decision.

This Order becomes effective today.

Dated August 3, 1989, at San Francisco, California.

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

Commissioner Stanley W. Hulett,
being necessarily absent, did
not participate.

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

Victor Weisser
Victor Weisser, Executive Director

Decision 89 08 021 AUG 3 1989

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Petition of)
SOUTHERN CALIFORNIA EDISON COMPANY)
for an Order Amending Decision)
88-07-069 modifying Edison's Authority)
for Interest Rate Swaps (U 338-E))

Application 88-05-612
(Filed May 6, 1988)

ORIGINALOPINION

By Decision (D.) 88-07-069 dated July 22, 1988, the California Public Utilities Commission (Commission) authorized Southern California Edison Company (Edison) to enter into interest rate swap contracts subject to certain restrictions to finance a portion of the fuel oil, nuclear fuel and coal inventories (fuels) Edison uses for electric generation. In its Petition Edison seeks to clarify and to change that authority. By this decision the Commission grants in part, and denies in part, Edison's requests.

1. Item 2.c. on page 16 of D. 88-07-069 requires Edison to report separately all swap receipts and/or payments in all monthly and annual financial reports to the Commission. Edison requests that the requirement be modified so that Edison may submit one monthly report showing swap receipts and payments rather than including that information in every financial report filed with the Commission. This report would only be filed for months during which an interest rate swap is outstanding.

The Commission Advisory & Compliance Division (CACD) recommends and we concur that the interest rate swaps should be fully disclosed in Edison's financial statements filed before the Commission. A separate reporting of only the interest rate swaps' summary data would not provide reasonable disclosure for all users of Edison's financial statements.

2. Item 3.c. on page 17 of D. 88-07-069 states that the cost savings resulting from the reduction in the required backup lines of credit will be refunded to ratepayers through an offset against subsequent base rate changes.

However, Edison does not recover the cost of its backup lines for Fuels through base rates. Those backup lines are included as part of the commercial paper financing cost for each of Edison's Fuels, and those costs are recovered through ECAC. Therefore, Edison believes it is not appropriate that the savings from reduced backup lines be treated as an offset against subsequent base rate changes. Edison intends to reduce its backup lines when it enters into swaps, and the resulting cost savings will automatically be passed on to ratepayers through ECAC.

The CACD recommends and we concur that item 3.c. on page 17 of D. 88-07-069 be amended to reflect the reduction in rates caused by reduced lines of credit and commercial paper transaction costs in the energy cost adjustment clause (ECAC) rather than base rates. Such costs shall still be audited by the Division of Ratepayer Advocates (DRA).

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However, Edison's recovery of financing costs for Fuels is not based on the Federal Reserve Board's 90-day interest rate. Edison's recovery is based on a forecast of its actual cost, pursuant to D. 87-11-013.

The CACD recommends and we concur that item 3.d. on page 17 of D. 88-07-069 be amended to indicate that Edison's recovery of financing costs for Fuels is based on a forecast of its actual cost, pursuant to D. 87-11-013.

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Edison states that in its original Application (A. 88-05-012) it requested authority to enter into swap agreements for all of the types of financings set forth in the Application, including debt issued in a foreign currency.

The CACD has reviewed Edison's statement and has concluded and recommends that the restrictions set forth in Item 4.a. on page 17 of D. 88-07-069 should be deleted. We concur with their recommendation.

5. Edison requests that the Commission clarify that an interest rate swap will not be treated as additional debt for purposes of calculating the amount of authorization used.

The CACD recommends and we concur that D. 88-07-069 be amended to indicate that an interest rate swap for regulatory purposes is neither an increase nor a decrease in authorized levels of financing. If Edison wishes to swap \$100 million of medium term notes in lieu of issuing \$100 million of commercial paper it must first have authority for the commercial paper and for interest rate swaps and then the swap shall count against that commercial paper authority.

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Item 4.a. on page 17 is deleted from the decision.

This Order becomes effective today.

Dated AUG 3 1989, at San Francisco, California.

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

Commissioner Stanley W. Hulett,
being necessarily absent, did not
participate.

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


Victor Weiss, Executive Director