

Decision 89-08-023 AUG 3 1989

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Applications of)
SOUTHERN CALIFORNIA EDISON COMPANY)
for Orders modifying Decision)
87-09-050 authorizing issuance of)
Debt Securities, and/or guaranteeing)
the Debt Securities of another, to)
finance Regulatory Balancing)
Accounts in an aggregate principal)
amount not to exceed \$700,000,000.)
(U 338-E))

ORIGINAL
Application 87-07-027
(Filed July 17, 1987)
Petitions for Modification
(Filed December 5, 1988
and April 7, 1989)

S U P P L E M E N T A L O P I N I O N

Summary of Decision

This decision grants Southern California Edison Company (Edison) modifications to Decision (D.) 87-09-050 requested in its applications to issue Medium-Term Notes, to enter into interest rate swap contracts and to increase the limit of Debt Securities financing its Balancing Accounts to an aggregate principal amount not to exceed \$700,000,000 at any one time.

By D. 91269 dated January 29, 1980, Edison was ordered to accrue carrying costs on its Balancing Accounts on the basis of the prime three-month commercial paper rate published in the Federal Reserve Statistical Release, G.13. By D. 87-09-050 dated September 23, 1987, Edison was authorized to issue Floating Rate Debt in an aggregate principal amount not to exceed \$400,000,000 at any one time.

Edison filed a petition to modify D. 87-09-050 December 5, 1988 in which it requests authority, under Public Utilities (PU) Code Sections 816-818, 821 and 830, for an increase in the limit on Balancing Account financing from \$400,000,000 to \$700,000,000. The application seeks authorization to expand the maturities of the debt securities to be issued and/or guaranteed. The maturity range

for Debentures, Overseas Indebtedness, Foreign Securities and Loans would be expanded from one to six years to a new range of one to forty years. The application also seeks authority to issue a new category of debt securities, Medium-Term Notes, with a maturity range of nine months to forty years.

Edison filed a second petition for modification to D. 87-09-050 April 7, 1989 in which it requests authority, under PU Code Sections 816-818, 821 and 830, to enter a broader variety of Interest Rate Swaps (Swaps) and to enter into Swaps denominated in foreign currencies.

Notice of the filing of the first petition appeared on the Commission's Daily Calendar of December 8, 1988. On December 22, 1988 the Division of Ratepayer Advocates (DRA) filed a response. The DRA urged denial of the application until Edison explained the cause of the growth in the Balancing Accounts, explained why no filing had been made under the Energy Cost Adjustment Clause (ECAC) or other regulatory remedy to reduce undercollections and indicated how the Balancing Accounts would be reduced in the future.

Edison's reply to DRA's Response was filed January 20, 1989 and explained that the majority of the Balancing Account undercollections had been reviewed by the Commission. As the majority of the undercollections had been ordered by the Commission, no filing for rate relief was appropriate for that portion and the undercollections were to be reduced in accordance with existing Commission decisions and an ECAC filing in May. The DRA filed a further response on February 28, 1989 stating that, in view of Edison's reply, it would not oppose approval of the petition on an ex parte basis. That position was subject to a "proposed commitment" by Edison being adopted by the Commission as part of the decision on this application. In its reply to DRA's initial response Edison stated that it intended, as part of the merger (with San Diego Gas & Electric Company, Application 88-12-035) proceeding to propose that each company's Balancing Account overcollections or undercollections remain a benefit or

obligation of the ratepayers of that company. DRA terms that statement a proposed commitment to retain the benefits and obligations of the various Edison Balancing Accounts for Edison's ratepayers.

Notice of the filing of the second petition appeared on the Commission's Daily Calendar of April 11, 1989. No protests have been received.

Medium-Term Notes (Notes)

In addition to the securities described in D. 87-09-050 Edison seeks authorization to issue and/or fully guarantee the issuance by a direct or indirect subsidiary of Edison (Subsidiary). Notes issued by a direct or indirect subsidiary would be for Edison's use in financing balancing accounts. Notes would be issued under the following conditions:

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 Subsidiary 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 Subsidiary may also sell Notes to underwriters who in turn offer Notes to investors or may sell 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 Subsidiary 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 and/or Subsidiary's demand for funds.

Competitive Bidding

Edison has requested that the issuance of Notes be exempt from the Commission's Competitive Bidding Rule, as modified by Resolution F-616 dated October 1, 1986. Edison states that competitive bidding is not viable in the private placement of notes either in foreign or domestic markets. The Commission Advisory and Compliance Division (CACD) has reviewed Edison's request and has recommended that an exemption from the Commission's Competitive Bidding Rule be granted to Edison.

Maturity Ranges

Edison has requested that the maturity range for Notes be between nine months and forty years and that Debentures, Overseas Indebtedness, Foreign Securities and Loans be issued with maturities up to forty years. The CACD has reviewed Edison's request and has recommended that ten years should be the maximum maturity for the Debt Securities noted above because, as the table of the amounts to be financed included in Edison's reply shows, amortization of the undercollections ordered by the Commission will be completed in January 1998.

Interest Rate Swaps (Swaps)

Edison has requested authority to enter into a broad variety of Swaps to finance a portion of the Balancing Account undercollections and to enter into Swaps denominated in foreign currencies. The CACD has reviewed Edison's request and has determined that the mechanics of financing Edison's Balancing Accounts are similar to Edison's financing of fuel inventories. The authority to enter into Swaps granted in D. 88-07-069 dated July 22, 1988 pursuant to Application 88-03-024 and as modified by D. 89-08-021 dated August 3, 1989 are appropriate for the financing of Balancing Accounts.

Aggregate Principal Not to Exceed \$700,000,000

Edison has requested that the maximum aggregate principal amount issued to finance Balancing Accounts be increased from \$400,000,000 to \$700,000,000. The CACD has reviewed Edison's request and recommends that the increase should be approved in order to meet anticipated undercollections in various Balancing Accounts.

Use of Proceeds

Edison proposes to use the proceeds from the issue and sale of its Debt Securities as set forth in D. 87-09-050.

Findings of Fact

1. Edison, a California corporation, operates as a public utility subject to the jurisdiction of this Commission.
2. The issue and/or guarantee of Medium-Term Notes with a maturity range of nine months to ten years to finance its Balancing Accounts is proper and reasonably required for the purposes specified in the petitions for modification.
3. The use of interest rate swap arrangements and swap arrangements denominated in foreign currencies may reduce the ratepayers' cost of financing Balancing Accounts.
4. It is proper for ratemaking purposes to determine the reasonableness of the effective interest rate incurred by Edison and/or Subsidiary on debt securities issued by Edison and/or Subsidiary to finance Edison's Balancing Accounts.
5. It is proper for ratemaking purposes that the maximum interest rate allowable to Edison to finance Edison's Balancing Accounts is the prime three-month commercial paper rate published by the Federal Reserve Bank, as ordered in D. 91269.
6. It is in the public interest to allow Edison an exemption from the Commission's Competitive Bidding Rule for issues of Medium-Term Notes.
7. There is no known opposition to granting the authority requested in the petitions for modification subject to Edison's proposing a mechanism in the Application 88-12-035

proceeding for retaining the benefits and obligations of the various Edison Balancing Accounts for Edison's ratepayers in the event the Commission should approve the merger requested in that proceeding. There is no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.
2. The petitions should be granted to the extent set forth in the order which follows.

The proposed issue of Debt Securities and/or the guarantee of the Debt Securities of another to finance Edison's Balancing Accounts is for lawful purposes and will not be adverse to the public interest.

The following order should be effective upon payment of the fee set by PU Code 1904(b) to enable Edison to proceed with the implementation of its financing expeditiously.

S U P P L E M E N T A L O R D E R

IT IS ORDERED that:

1. Decision 87-09-050 is modified to authorize Southern California Edison Company (Edison) to issue Medium-Term Notes (Notes) under the conditions set forth above.
2. Competitive bidding is not required for the Notes issued through private placements.
3. Edison is authorized to issue Notes with a maximum maturity of ten years because that is a reasonable period to expect that Balancing Account undercollections will need financing.
4. Edison is authorized to enter into Interest Rate Swaps (Swaps) and to enter into Swaps denominated in foreign currencies under the terms and conditions set forth in Decision 88-07-069 dated July 22, 1988 as modified by Decision 89-08-021 dated August 3, 1989.
5. Edison is authorized to issue Debt Securities in an aggregate principal amount not to exceed \$700,000,000.

6. Edison is directed to retain the benefits and obligations of Edison's Balancing Accounts for Edison's ratepayers and shall propose a mechanism for doing so in the Application 88-12-035 proceeding.

7. The petitions for modification are granted as set forth above. In all other respects Decision 87-09-050 remains in full force and effect.

The authority to issue additional securities granted by this supplemental order will become effective when Edison pays \$156,000, the fee set by Public Utilities Code Section 1904(b). In all other respects this order is 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.



Rec # 32965
\$ 156.000.00

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

Victor Weiss
Victor Weiss, Executive Director

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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 and/or Subsidiary's demand for funds.

Competitive Bidding

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4. Edison is authorized to enter into Interest Rate Swaps (Swaps) and to enter into Swaps denominated in foreign currencies under the terms and conditions set forth in Decision 88-07-069 dated July 22, 1988 as modified by Decision _____ dated _____, 1989.
5. Edison is authorized to issue Debt Securities in an aggregate principal amount not to exceed \$700,000,000.