

Decision 91-02-042 February 21, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA)
EDISON COMPANY, to issue and sell)
in one or more series an aggregate)
amount of not to exceed)
\$200,000,000 par or stated value of)
Cumulative Preferred Stock--\$100)
Par Value, Cumulative Preferred)
Stock--\$25 Par Value, Preference)
Stock--\$100 Par Value, Preference)
Stock--\$25 Par Value or any)
combination thereof. (U 338-E))

ORIGINAL

Application 90-11-016
(Filed November 8, 1990)

O P I N I O N

Summary of Decision

This decision grants Southern California Edison Company (Edison) the authority requested in Application (A.) 90-11-016, under §§816 through 818 and 851 of the Public Utilities (PU) Code, for the following:

1. To issue and sell in one or more series an aggregate amount of not to exceed \$200,000,000, par or stated value, of its Cumulative Preferred Stock--\$100 par value, Cumulative Preferred Stock--\$25 par value, Preference Stock--\$100 par value, Preference Stock--\$25 par value, or any combination thereof (New Stock), upon substantially the terms and conditions contemplated in the Application;
2. To determine the precise amount and timing of each series of New Stock, and;
3. To use the net proceeds from the New Stock to finance Edison's construction expenditures, acquisition of property, and/or retirement or refunding of previously issued securities.

Notice of the filing of the application appeared on the Commission's Daily Calendar of November 19, 1990. 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 nine months ended September 30, 1990, Edison reports as part of its supplementary data to the Commission, that it generated total operating revenues of \$5,280,259,000 and net income of \$567,714,000.

Edison's Balance Sheet, as of September 30, 1990, which is also part of the supplementary data, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$11,163,203,000
Other Property and Investments	442,807,000
Current Assets	1,816,374,000
Deferred Charges	<u>1,153,711,000</u>
Total	\$14,576,095,000
<u>Liabilities and Equity</u>	
Common Equity	\$ 4,591,937,000
Preferred Stock without Mandatory Redemption Requirements	358,755,000
Preferred Stock with Mandatory Redemption Requirements	212,292,000
Long-Term Debt	5,010,328,000
Other Long-Term Liabilities	159,041,000
Current Liabilities	3,155,164,000
Deferred Credits	<u>1,088,578,000</u>
Total	\$14,576,095,000

New Stock

The principal amount and the terms and conditions of each series of New Stock will be determined by Edison's Board of Directors according to market conditions at the time of issuance.

Since Edison's last preferred stock offering in 1982, the amount of preferred stock in Edison's capital structure, according to Edison, has declined from 11.1% of total capitalization in 1982 to 6.0% in 1990. Because of sinking fund requirements applicable to the outstanding series of Edison's preferred stock, Edison believes this trend is expected to continue, necessitating the issuance of New Stock in order to maintain an appropriate capital structure.

Edison proposes to issue and sell the New Stock through one or more negotiated private or public offerings. Edison also proposes that the offering or each offering of the New Stock will bear such terms and conditions as shall be approved by its Board of Directors at or immediately prior to the date of their negotiation in light of market conditions that may exist at that time or times. The rights, preferences and privileges applicable to each series of New Stock will be fixed by resolution(s) of Edison's Board of Directors, and a certificate of determination of preferences (Certificate), which will include the content of such resolution(s), will be filed with the California Secretary of State.

Edison proposes to offer, issue, and sell the New Stock at one or more offerings with the method of sale, price, dividend rate, liquidation preference and other rights, preferences, privileges and restrictions to be determined prior to each offering in consideration of then prevailing market conditions. Edison anticipates that the terms of the New Stock may include, but will not be limited to: (1) restrictive redemption provisions; (2) dividend rates which may be fixed, floating, or adjustable and which may be set by a market auction procedure; (3) mandatory sinking funds; and (4) such other provisions as Edison shall deem appropriate in connection with its issuance and sale of the New Stock.

Floating Rate, Adjustable, and Market Auction Preferred/
Preference Stock

Edison has stated that it anticipates that the terms of the New Stock may include, ". . . but will not be limited to: . . . (ii) dividend rates which may be fixed, floating, or adjustable and which may be set by a market auction procedure; . . ." After analysis of the Application, the Commission Advisory and Compliance Division (CACD) notes that New Stock which contains floating rate, adjustable, and market auction dividend rates (Adjustable Dividend Rates) are very similar in nature to those equity issues noted and discussed in D.90-07-024 (A.90-05-077) for Southern California Gas Company; and, therefore recommends that for the sake of consistency, New Stock containing Adjustable Dividend Rates should be treated the same way, with the same limitations placed on its use as was noted in D.90-07-024.

Therefore, CACD recommends, and we adopt the following limitations placed on Edison in relation to New Stock which contains Adjustable Dividend Rates:

1. Reports

- a. Within 15 days of issuing New Stock which contains Adjustable Dividend Rates, Edison shall furnish to the CACD a report analyzing all costs associated with the issuance of the New Stock with Adjustable Dividend Rates in comparison to a projection of "all-in cost" without the Adjustable Dividend Rates.
- b. Within 45 days of issuing New Stock with Adjustable Dividend Rates, Edison shall provide the CACD with complete copies of any and all associated documentation.

2. Limit on Rate Recovery

- a. If Edison elects to terminate a contract in which it agrees to issue New Stock with Adjustable Dividend Rates before the consummation of the contract or the other party(s) terminates the

contract, all costs associated with the termination shall be subject to review in Edison's next Cost of Capital proceeding.

3. Limit on Amount of Agreements

- a. Issuances of New Stock which contain Adjustable Dividend Rates shall not exceed more than \$250 million of Edison's total Preferred/Preference Stock outstanding at any one time.

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

Edison is placed on notice, by this decision, that the Commission will review the reasonableness of the effective dividend rates for the issuance of New Stock containing Adjustable Dividend Rates in conjunction with Edison's next Cost of Capital proceeding. Any reductions in the effective cost of money resulting from New Stock issued with Adjustable Dividend Rates will be passed on to Edison's ratepayers in future Cost of Capital proceedings as a reduction of the cost of money for all preferred securities in Edison's capital structure.

Use of Proceeds

Edison proposes to use the proceeds from the sale of the New Stock, after payment and discharge of expenses incident to their issuance and sale, to reimburse Edison for monies previously expended from income or any other money in its treasury not secured by or obtained from the issue of stocks or stock certificates or other evidences of interest or ownership, or bonds, notes or other evidences of interest or ownership, for the acquisition of property or for the construction, completion, extension or improvement of Edison's facilities exclusive of maintenance of service and replacement and/or for the retirement or the refunding of securities issued and upon which Edison paid the fees prescribed by PU Code §§1904 and 1904.1. The amounts so reimbursed will become a part of Edison's general treasury funds.

Capital Ratios

Edison's capital ratios as reported in its supplementary data and taken at September 30, 1990, are shown below as recorded and adjusted to give *pro forma* effect to the transactions that follow:

<u>Component</u>	<u>November 30, 1990</u>	<u>Pro Forma</u>
Long-Term Debt	44.8%	49.9%
Short-Term Debt	<u>8.5</u>	<u>7.4</u>
Total Debt	53.3%	57.3%
Preferred/Preference Stock	5.1	6.0
Common Equity	<u>41.6</u>	<u>36.7</u>
Total	100.0%	100.0%

1. The proposed issuance of debt securities related to fuel inventories (\$235,300,000);
2. The issuance of debt securities related to balancing accounts (\$193,100,000);
3. Authorized but unissued Debt Securities (\$554,700,000);
4. The proposed issuance of Debt Securities (\$250,000,000);
5. The issuance of the following Debt Securities:
 - a. Series 90D in December of 1990 (\$200,000,000)
 - b. Pollution Control in December of 1990 (15,000,000);
6. Redemption of Series 85C in December 1990 (52,500,000);
7. The proposed issuance of Preferred/Preference Stock (\$200,000,000);
8. The proposed issuance of Common Stock under the 1987 Long-term Incentive Plan (\$47,352,000).

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

Construction Budgets

Edison's estimated construction budgets for calendar years 1991 and 1992 amount to approximately \$1,890,000,000. Major classifications of the total budgeted construction are summarized as follows:

	(Millions)	
<u>Components</u>	<u>1991</u>	<u>1992</u>
Electric Generating Plant	\$ 321	\$ 289
Electric Transmission Lines and Substations	197	101
Electric Distribution Lines and Substations	408	404
Other Expenditures	<u>91</u>	<u>92</u>
Total	\$1,017	\$ 886
Less: Allowance for Funds Used During Construction	<u>24</u>	<u>23</u>
Funds Used/Required for Construction Expenditures	\$ 993	\$ 863
Add: Estimated Salvage Value	<u>17</u>	<u>17</u>
Cash Required for Construction Expenditures	\$1,010	\$ 880

Edison is placed on notice, by this decision, that the Commission does not find that Edison's construction budgets are necessary or reasonable for ratemaking purposes. These are issues normally tested in general rate or rate base offset proceedings.

Cash Requirements Forecasts

	(Thousands)	
<u>Components</u>	<u>1991</u>	<u>1992</u>
Cash Required for Construction Expenditures	\$1,010,000	\$ 880,000
Maturities of Long-Term Debt	163,000	180,000
Sinking Fund Requirements	6,230	6,300
High Coupon Refunding	-0-	82,400
Preferred and Preference Stock Retirements	11,738	37,460
Maturities/Refundings -- Fuels Financing	79,700	-0-
Maturities/Refundings -- Balancing Account Financing	-0-	56,000
General Purpose Short-Term Debt Outstanding as of Beginning of Year	<u>(18,000)</u>	<u>3,468</u>
Subtotals	\$1,252,668	\$1,245,628
Less: Estimated Net Cash Available from Internal Sources	<u>922,000</u>	<u>923,000</u>
Additional New Funds Required from External Sources	\$ 330,668	\$ 322,628

The CACD has analyzed Edison's cash requirements forecast for 1991 and 1992 as provided in Edison's Supplemental Data as summarized above. The CACD has concluded that internally generated funds will provide about 73.6% or \$922,000,000 of the capital requirements in 1991, and 74.1% or \$923,000,000 in 1992. The CACD concludes that the proposed sale of Edison's New Stock is necessary to help meet forecasted cash requirements which includes capital expenditures.

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

Findings of Fact

1. Edison, a California corporation, operates as a public utility subject to the jurisdiction of this Commission.
2. The proposed New Stock would be for proper purposes.
3. Edison has need for external funds for the purposes set forth in the Application.
4. It is proper for ratemaking purposes that any reduction in the effective cost of money resulting from the issuance of New Stock with Adjustable Dividend Rates be passed on to ratepayers in future Cost of Capital proceedings as a reduction in the cost of money for all debt and equity securities.
5. The money, property, or labor to be procured, or paid for, by the proposed New Stock is reasonably required for the purposes specified in the Application.
6. The issuance of New Stock with Adjustable Dividend Rates is reasonable within the limitations proposed herein.
7. 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.

In issuing our order, we place Edison and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares or the dividends paid as measuring the return it should be allowed to earn on its

investment in plant. The authorization, granted herein, is not to be construed as a finding of the value of the company's stock or properties or as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

Edison is hereby placed on further notice that if the Commission should believe the negotiated price, dividend rate, underwriters' compensation, redemption and sinking fund provisions would result in excessive costs, it would take into consideration, in future rate proceedings, only that which it deems reasonable.

The following order will be effective on the date of signature and payment of the fee set by PU Code \$1904.1 to enable Edison to proceed with its financings expeditiously.

ORDER

IT IS ORDERED that:

1. Southern California Edison Company, on or after the effective date of this order and on or prior to December 31, 1992, is authorized to do the following:

- a. To issue, sell and deliver, in one or more series, an aggregate principal amount not to exceed \$200,000,000, par or stated value, of Edison's Cumulative Preferred--\$100 Par Value, Cumulative Preferred Stock--\$25 Par Value, Preference Stock--\$100 Par Value, Preference Stock--\$25 Par Value or any combination thereof (New Stock) upon substantially the terms and conditions contemplated in the Application.
- b. To issue, sell and deliver, in one or more series New Stock with dividend rates which may be fixed, floating, or adjustable and which may be set by a market auction procedure (Adjustable Dividend Rates) consistent with the limitations and restrictions provided herein.

- c. To determine the precise amount and timing of each series of Edison's New Stock.

2. Edison shall apply the proceeds from the sale of its New Stock for the purposes set forth in the application.

3. Within 15 days of execution, Edison shall file with the Commission copies of the agreements with the party or parties to whom such agreements have been made for the purchase of the shares of its New Stock, certificate(s) of determination of preferences and copies of its final Prospectus pertaining to the its New Stock.

4. Edison shall file copies of all reports regarding issues of New Stock which contain Adjustable Dividend Rates as described in this decision.

5. Edison shall file the reports required by General Order No. 24.

6. The Application is granted as set forth above.

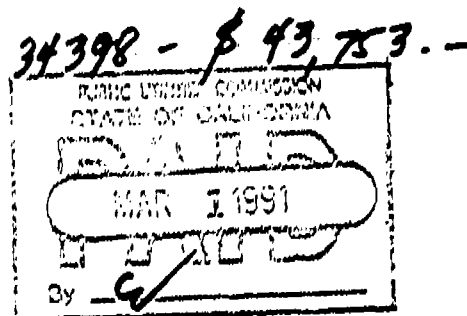
The authority granted by this order to issue Cumulative Preferred or Preference Stock will become effective when Edison pays \$43,753, the fee set by Public Utilities Code §1904.1. In all other respects this order is effective today.

Dated February 21, 1991, at San Francisco, California.

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

I abstain.
DANIEL WM. FESSLER
Commissioner

I abstain
NORMAN D. SHUMWAY
Commissioner



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

[Handwritten signature]
Secretary