CACD/BVC

Decision 91-09-030 September 6, 1991

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 Debt Securities and to guarantee the obligations of others in respect of the issuance of Debt Securities, the total aggregate principal amount of such indebtedness and guarantees not to exceed $850,000,000; to execute and deliver one or more indentures; to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property; and for an exemption from the Commission's Competitive Bidding Rule. (U 338-E)	ORIGINAL Application 90-11-017 (Filed November 8, 1990)

OPINION

Summary of Decision

This decision grants in part and denies in part the authority requested by Southern California Edison Company (Edison) in Application (A.) 90-11-017 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 those Debt Securities.

Edison requests authority, under Public Utilities (PU) Code Sections 816-818, 821, 830 and 851, for the following:

1. To issue First and Refunding Mortgage Bonds, Debentures, Overseas Indebtedness, Foreign Securities, Notes, Commercial Paper, and Other Floating Rate Debt through public offerings or private placements and to enter into Loans;

2. To fully guarantee the Debentures, Overseas Indebtedness, Foreign Securities, Notes, Commercial Paper, Other Floating Rate Debt, and Loans of a regulated direct or indirect subsidiary (Subsidiary), the proceeds of which indebtedness may be lent to Edison or to another Edison Subsidiary;

3. To provide that the aggregate principal amount of First and refunding Mortgage Bonds (Bonds), Debentures, Overseas Indebtedness, Foreign Securities, Notes, Commercial Paper, Other Floating Rate Debt, and Loans (to be collectively referred to as Debt Securities) issued by Edison or issued by a Subsidiary and guaranteed by Edison shall not exceed $850,000,000;

4. To use the net proceeds from the Debt Securities to reimburse its treasury for moneys previously expended for capital improvements and to retire or refund securities previously issued by Edison and by San Diego Gas & Electric Company (SDG&E) in the event of a merger between Edison and SDG&E;

5. To guarantee unconditionally or otherwise secure the obligations of one or more political subdivisions (Authority) in respect of their issuances of debt for pollution control, sanitary and solid waste disposal or other eligible facilities financings;

6. To renew and/or refund Commercial Paper and Other Floating Rate Debt issued pursuant to A.90-11-017, so that the combined term of the obligations may exceed twelve (12) months without the need for further authorization from the Commission;

7. To arrange Credit Agreements or other credit facilities as may be necessary for the purpose of issuing securities, and to modify such credit facilities in the manner set forth in A.90-11-017 without further authorization from the Commission;

8. To execute and deliver an indenture or supplemental indenture in connection with any proposed issue of Debt Securities;

9. To sell, lease, assign, mortgage or otherwise dispose of or encumber utility property;

10. To have the issuance of certain Debt Securities exempted from the requirements of the Commission's Competitive Bidding Rule;

11. To be allowed a 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 of underwriters or purchasers; 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, to 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

12. To utilize at Edison's and/or Subsidiary's discretion the optional features to enhance Debt Securities as described in A.90-11-017, and to enter into Caps, Collars, and Swaps as described in A.90-11-017.

13. To defease and/or redeem certain Industrial Development Bonds (IDB's), issued by the City of San Diego on behalf of SDG&E by the issuance of approximately $600,000,000 of the total aggregate principal amount of $850,000,000 of the Debt Securities by Edison concurrent with or immediately after consummation of the merger.

Notice of the filing of A.90-11-017 appeared on the Commission's Daily Calendar of November 15, 1990. No protests have been received.

Partial Denial of Application

By Decision (D.) 91-05-028, dated May 8, 1991, we denied Edison's request for authority to merge with SDG&E. Therefore, Edison's request for the authority to issue up to $600,000,000 to defease and/or redeem certain Industrial Development Bonds issued by the City of San Diego on behalf of SDG&E, concurrent with or within 180 days after consummation of the merger is denied. We will now address all other parts of the application.

Background

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, also submitted as part of the supplementary data provided to the Commission, is summarized as follows:

Assets	Amount
Net Utility Plant	$11,163,203,000
Other Property and Investments	442,807,000
Current Assets	1,816,374,000
Deferred Charges	1,153,711,000
Total	$14,576,095,000
Liabilities and Equity	
Common Equity	$ 4,591,937,000
Preferred/Preference Stock	571,047,000
Long-Term Debt	5,010,328,000
Other Long-Term Liabilities	159,041,000
Current Liabilities	3,155,164,000
Deferred Credits	1,088,578,000
Total	$14,576,095,000

Debt Securities

Edison seeks authorization to issue Debt Securities directly and/or to fully guarantee Debt Securities issued by its Subsidiary. If Debt Securities are issued by its Subsidiary, the proceeds may be lent to Edison or to another Subsidiary. 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 Notes, Commercial Paper, and Other Floating Rate Debt, each series of Debt Securities is expected to have a maturity of between one (1) year and forty (40) years. Commercial Paper may be issued with maturities of nine (9) months or less, but may be rolled over for periods exceeding twelve (12) months. Notes are expected to have a maturity of between nine (9) months and forty (40) years. The maturities of Other Floating Rate Debt will be determined at the time of issue.

With the exception of First and Refunding Mortgage Bonds (as defined below), Loans, Commercial Paper, and other Floating Rate Debt, each issue of Debt Securities may be issued under an indenture or a supplement to an existing indenture to be delivered to the trustee for such issue. The indenture or supplemental 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. Secured Debt Securities (Bonds)

Security for Bonds may be included in the form of a lien on property (First and Refunding Mortgage Bonds), a letter of credit, a standby bond purchase agreement, an insurance policy provided by a third party, or through other credit enhancement arrangements. Such credit enhancements may be included to reduce interest costs or improve other credit terms and the cost of such credit enhancements would be included in the cost of the Bonds.

First and Refunding Mortgage Bonds will be issued in accordance with Edison's trust indenture dated as of October 1, 1923, as amended and supplemented and which has already been filed with the Commission. The supplemental indenture delivered in connection with each series of First and Refunding Mortgage Bonds will be in a form consistent with supplemental indentures previously filed with the Commission.

Bonds may be sold to underwriters who in turn will offer the Bonds to investors, or may be sold directly to investors either with or without the assistance of a private placement agent. Bonds may be registered with the Securities and Exchange Commission (SEC), depending on the method of offering and sale. Bonds may be listed on a stock exchange.

In conjunction with the issuance of Bonds, Edison may enter into contractual agreements whereby a third party will provide appropriate credit facilities as security for Bonds. The cost of the credit facilities will be included in determining the overall cost of the Bonds.

B. Unsecured Debt Securities (Debentures)

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 SEC and may be listed on a stock exchange.

C. Overseas Indebtedness

Overseas Indebtedness will be issued and sold ultimately to foreign investors and will likely be denominated in U.S. dollars. Overseas Indebtedness may be sold to underwriters who in turn will offer the Overseas Indebtedness to investors or may be sold directly to investors either with or without the assistance of a placement agent. 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 such issuances result in an overall cost of money to Edison and/or Subsidiary lower than issuances of comparable domestic debt securities in the U.S. market.

D. Foreign Currency Denominated Securities (Foreign Securities)

Edison and/or Subsidiary 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. Foreign Securities will be issued only if the borrowing costs, including all transaction and foreign exchange contract costs, are lower than a comparable U.S. dollar financing.

Edison and/or Subsidiary will enter into one or a series of forward contracts by which a counterparty would be obligated to pay Edison and/or Subsidiary the foreign currency necessary to make principal, premium, if any, and interest payment (Debt Service Payments) on the foreign security. In exchange, Edison and/or Subsidiary would pay a counterparty U.S. dollars based on a pre-determined formula. The forward contract would be with a major financial intermediary, such as 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.

E. <u>Medium-Term Notes (Notes)</u>

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 Service Payments would be converted to U.S. dollars.

Notes may require registration under the federal securities laws. Notes may be issued as part of a program on a continuous or periodic basis. Edison and/or Subsidiary may sell Notes through a placement agent who markets Notes on a reasonable efforts 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.

F. Direct Loans (Loans)

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

G. Commercial Paper

Edison anticipates it and/or Subsidiary may issue Commercial Paper with maturities of nine (9) months or less. 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 Subsidiary (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 Subsidiary (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 Subsidiary 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.

H. Other Floating Rate Debt

Opportunities may arise from time to time for Edison and/or Subsidiary to use Other Floating Rate Debt which may lower the overall cost of money. 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, 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 such Other Floating Rate Debt.

I. Notice Regarding Foreign Securities and Notes Denominated in a Foreign Currency

Edison is placed on notice, by this decision, that the Commission will review the reasonableness of the effective interest rates for Foreign Securities and Notes issued by Edison and/or Subsidiary in a foreign denominated currency. Any reductions in the effective cost of money resulting from currency value fluctuation will be passed on to Edison's ratepayers in future ratemaking proceedings as a reduction of the cost of money for all debt securities in Edison's capital structure. Any losses incurred by Edison and/or Subsidiary as a result of currency value fluctuations on the redemption, refunding or conversion of any of its debt securities will not be passed on to the ratepayers in future rate proceedings as increases on the cost of money of all debt securities in Edison's capital structure.

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 Subsidiary's Debt Securities. These features will be used as appropriate to improve the terms and conditions of Edison's and/or Subsidiary'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 Subsidiary'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 Subsidiary to repurchase all or a portion of each holder's securities. This is the reverse of a "call" provision whereby Edison and/or Subsidiary would have the right to force the debtholders 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. Sinking Fund

Edison anticipates that, from time to time, the cost of Edison's and/or Subsidiary's Debt Securities may be reduced by the use of a "sinking fund." At times, for issuers of high credit standing, the financial marketplace has not valued the sinking fund option sufficiently for its use. However, Edison and Subsidiary wish to preserve the ability to use this option should a market preference develop again.

C. Tax-Exempt Feature

Edison anticipates that, from time to time, the cost of Edison's Debt Securities may be reduced by placing such securities with one or more political subdivisions (Authority) and unconditionally guaranteeing or otherwise securing such Authority's obligations in respect of its issuances of tax-exempt debt in connection with the financing of Edison's facilities. Edison anticipates using the tax-exempt option whenever its facilities qualify for tax-exempt financing under federal law. In order to obtain the benefits of tax-exempt financing, Edison proposes to engage in one or more financings with an Authority. It is currently contemplated that such proposed financings would be structured substantially as follows:

(1) An Authority would issue and sell one or more series of its bonds, notes, debentures or other securities (Authority Bonds) plus accrued interest, to a group of underwriters who would ultimately market such Authority Bonds to investors;

(2) Concurrently with the sale and delivery of these Authority Bonds, Edison would enter into a loan agreement or other security agreement with the Authority, or would enter into an Installment Sale Agreement with the Authority under which pollution control facilities would be conveyed to the Authority in consideration for the proceeds of the Authority Bonds, and the facilities would subsequently be reconveyed to Edison in consideration for Edison's Debt Securities. The operation and control of the facilities would remain with Edison or the project operator at all times; and

(3) Concurrently with the sale and delivery of the Authority Bonds, Edison would issue and deliver to the Authority, in consideration of the Authority's obligations set forth in (2) above, Edison's Debt Securities, plus accrued interest, with the terms and conditions of such Authority Bonds, or would unconditionally guarantee or otherwise secure the Authority's obligations in respect of the Authority Bonds. All rights, title, and interest of such Authority in Edison's Debt Securities

> would be assigned to a trustee under an indenture pursuant to which the Authority Bonds would have been issued, as security for the purchasers of the Authority Bonds.

D. Warrants

Edison anticipates that, from time to time, the cost of Edison's and/or Subsidiary's Debt Securities may be reduced by attaching warrants to the securities. Each warrant would entitle the holder to purchase an additional bond or debenture with pre-established terms 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 because of 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 Subsidiary may negotiate some type of maximum rate, usually called a "cap." In that case, even if variable rates increase above the cap or "ceiling" rate, Edison and/or Subsidiary 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 Subsidiary 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 Subsidiary and the counterparty. Such protection for variable rate obligations is not unlike protection negotiated by consumers for variable rate home mortgages.

From time to time, Edison and/or Subsidiary 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 to convert fixed interest payments into favorable floating payments or vice versa, or to convert floating rate payments tied to one index (e.g., the London Interbank Offering Rate (LIBOR)) into floating rate payments tied to another index (e.g., the Federal Reserve Composite Rate for Commercial Paper). Examples of possible Swap transactions are as follows:

(1) Instead of issuing fixed rate debt, it may at times be advantageous for Edison to issue Commercial Paper and enter into a Swap with a financial institution (Institution) such that the Institution pays Edison the Federal Reserve Composite Rate for Commercial Paper and Edison pays the Institution a fixed rate. Edison's Commercial Paper financing combined with the Swap results in a fixed rate financing for Edison. If this fixed rate is lower than the rate at which Edison could issue fixed rate debt directly, then the result is a savings for ratepayers.

(2) Instead of issuing floating rate debt, it may at times be advantageous for Edison to issue fixed rate Notes and enter into a Swap with an Institution such that the Institution pays Edison a fixed rate and Edison pays the Institution a floating rate. Edison's fixed rate financing combined with the Swap results in a floating rate financing for Edison. If this floating rate is lower than the rate at which Edison could issue floating rate debt directly, then the result is a savings.

(3) Instead of issuing floating rate debt with an interest rate tied to the Commercial Paper rate, it may at times be advantageous for Edison to borrow at a floating rate based on another index (e.g., LIBOR) and enter into a Swap with an Institution such that the Institution pays Edison a LIBOR-based floating rate and Edison pays the Institution a Commercial Paper-based floating rate. Edison's LIBOR-based borrowing combined with the Swap results in a Commercial Paper-based financing for Edison. If this rate is lower than the rate at which Edison could obtain Commercial Paper-based funding directly, then the result is a savings.

Swaps may be denominated in U.S. dollars or in a foreign currency. If Edison and/or Subsidiary enters into a Swap denominated in a foreign currency, any exchange risk will be hedged through one or more forward contracts or through a currency swap. Swaps would be negotiated with a major financial intermediary (such as a commercial bank) or directly with a principal seeking the other side of the Swap transaction. The Swap contract may specify that the exchange of interest payments will commence either immediately or at a future date. For example, if an advantageous Swap transaction were available currently, but Edison did not need funds until some future date, Edison might enter into the Swap with the exchange of interest payments commencing on that future date.

Edison and/or Subsidiary 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. The terms and conditions of Swaps will be determined by Edison or Subsidiary (acting at Edison's direction) according to market conditions at the time a Swap is negotiated. Caps, collars, or Swaps entered into by Subsidiary may be guaranteed by Edison.

By letter to the Commission Advisory and Compliance Division (CACD) dated April 24, 1991, Edison requests authority to enter into Swap transactions not to exceed $250,000,000 which may be applied to any of Edison's debt. This is to be in addition to the $250 million in authority granted by the Commission in D.90-04-029.

According to A.90-11-017, Edison had total Long-Term Debt outstanding, as of September 30, 1990, of approximately $5.0 billion. If Edison is granted the full authority of entering into $250 million in Swap transactions, it would represent approximately 5% of Edison's total Long-Term debt outstanding. This is well below the 20% maximum that was authorized to PG&E in D.90-12-094, and is reasonable given Edison's financial position.

CACD recommends that within 15 days after entering into a Swap, Edison will furnish the Commission with a report comparing the all-in cost of the Swap with the all-in cost of money without a Swap. In addition, Edison will submit a semiannual report to the Commission showing all Swap receipts and payments. This report would be filed only for periods when a Swap is outstanding.

The following restrictions and limitations shall be placed on Edison in relation to Swaps:

1. <u>Reports</u>

   a. Within 15 days of entering into a Swap, Edison will furnish to CACD a report comparing the all-in cost of the Swap with the all-in cost of money without a Swap.

   b. Within 45 days of entering into a Swap, Edison will provide 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.

2. <u>Limit on Rate Recovery</u>

   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 subject to review in Edison's next Cost of Capital proceeding.

3. <u>Limit on Amount of Swaps</u>

   a. Edison shall not issue more than $250 million in Swap agreements for purposes of this authorization and subject to 3.b. below.

   b. Edison may enter into Swap agreements, the total of which shall not exceed $250 million at any one time, and which may be applied to any of Edison's Long-Term debt.

The Commission has considered 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 interest rates for Swaps issued by Edison and/or Subsidiary in conjunction with Edison's next Cost of Capital proceeding. Any reductions in the effective cost of money resulting from Swap transactions will be passed on to Edison's ratepayers in future Cost of Capital proceedings as a reduction of the cost of money for all debt securities in Edison's capital structure.

Exemption from Competitive Bidding

Exhibit A to Commission Resolution No. 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. Certain tax-exempt pollution control bonds have terms which are specifically negotiated. 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."

Edison alleges that because Notes are sold through a placement agent on a reasonable efforts basis in a manner analogous to that used for Commercial Paper, Notes should likewise be exempt from the Commission's Competitive Bidding Rule. Therefore, Edison requests an exemption from the Competitive Bidding Rule with respect to obtaining Loans, issuing variable rate Debt Securities, and issuing Overseas Indebtedness, Foreign Securities, and Notes. However, fixed rate Bonds and Debentures (other than tax-exempt securities) 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 of underwriters or purchasers (which time period may be as short as a few hours).

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 for 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.

Edison seeks permission to take all of the above actions without notice by newspaper publication.

CACD has reviewed Edison's request and reasons for further modification of the Competitive Bidding Rule as modified by Resolution F-616. CACD has determined that Edison has made a compelling showing that the exemptions requested are warranted and recommends that Edison's requests be granted. We will accept CACD's recommendation.

We place Edison on notice that in its next Cost of Capital proceeding before the Commission, the reasonableness of the interest rate and cost of money resulting from the issue of Edison's and/or Subsidiary's Debt Securities will be closely scrutinized and may result in a disallowance of the interest expense, if it is determined that the cost of money incurred was not prudent. We will also require Edison to provide us with a showing of why Edison believes that the resulting interest rate and cost of money were advantageous to Edison and its ratepayers. We will require this showing within a reasonable period of time after issuance of its Debt Securities.

Capital Ratios

Edison's capital ratios reported in its supplementary data to the Commission as of March 31, 1991, are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

Component	March 31, 1991	Pro Forma
Long-Term Debt	50.2%	54.2%
Preferred/Preference Stock	5.6	6.6
Common Equity	44.2	39.2
Total	100.0%	100.0%

1. Authorized but unissued Debt Securities related to fuel inventories ($280,900,000);
2. Authorized but unissued Debt Securities related to balancing accounts ($210,200,000);
3. Authorized but unissued Debt Securities ($250,200,000);
4. The proposed issuance of Debt Securities ($250,000,000);

5. The issuance of the following Debt Securities:

   a. Series 91A in April 1991 ($104,000,000)
   b. Series 91B in May 1991 ($200,000,000);

6. Partial redemption of the following Debt Securities:

   a. Series VVP in April 1991 ($33,240,000)
   b. Series WWP in April 1991 ($45,150,000)
   c. Series YYP in April 1991 ($26,070,000);

7. Authorized but unissued Preferred/ Preference Stock ($200,000,000);

8. The sinking fund redemption of Preferred Stock, 12.31% Series in April 1991 ($3,375,000);

9. The proposed issuance of Common Stock under the 1987 Long-Term Incentive Plan ($46,200,000).

Edison is placed on notice, by this decision, that the Commission does not find that its capital ratios 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:

Components	(Millions of Dollars) 1991	1992
Electric Generating Plant	$ 321	$289
Electric Transmission Lines and Substations	197	101
Electric Distribution Lines and Substations	408	404
Other Expenditures	91	92
Total	$1,017	$886
Less: Allowance for Funds Used During Construction	24	23
Funds Used/Required for Construction Expenditures	$ 993	$863
Add: Estimated Salvage Value	17	17
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 cases or rate base offset proceedings.

Cash Requirements Forecast

Edison's cash requirements, for the years 1991 and 1992 estimted as of December 31, 1990 and provided as part of its supplementary data is shown as follows:

Components	1991	1992
	(Thousands of Dollars)	
Cash Needed for Construction Expenditures	$1,010,000	$ 880,000
Bond Maturities and Redemptions	169,230	268,700
Preferred/Preference Stock Retirements	11,738	37,460
Maturities/Refundings--Fuel Financing	79,700	-0-
Maturities/Refundings--Balancing Account Financing	-0-	56,000
Short-Term Debt Outstanding at the Beginning of Year	(18,000)	3,468
Subtotals	$1,252,668	$1,245,628
Less: Estimated Internal Cash Generation	922,000	923,000
Additional Funds Required from External Sources	$ 330,668	$ 322,628

CACD has analyzed Edison's cash requirements forecast for 1991 and 1992 provided in Edison's Supplemental Data as summarized above. CACD has concluded that internally generated funds will provide approximately 73.6% or $992,000,000 of the capital requirements in 1991 and 74.1% or $923,000,000 in 1992. CACD concludes that the proposed sale of Edison's Debt Securities is necessary to help meet forecasted cash requirements which include capital expenditures.

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

Use of Proceeds

Edison proposes to use the proceeds from the issuance and sale of its Debt Securities, or the proceeds lent to Edison from the issuance and sale of Debt Securities by Subsidiary, other than for payment of accrued interest, if any, and after payment or discharge of obligations incurred for expenses incident to their issue and sale, to reimburse Edison for money it has actually expended from income or from any other money in its treasury not secured by or obtained from the issuance of stocks, stock certificates or other evidences of interest or ownership, or bonds, notes, or other evidences of Edison's indebtedness, for the acquisition of property, or for the construction, completion, extension, or improvement of Edison's facilities exclusive of maintenance of service and replacements and/or for the retirement or the refunding of securities previously issued, including securities issued and upon which Edison paid the fees prescribed by PU Code Section 1904(b). The amounts so reimbursed will become a part of Edison's general treasury funds.

Findings of Fact

1. Edison, a California corporation, operates as a public utility subject to the jurisdiction of this Commission.

2. By D.91-05-028, we denied Edison's request for authority to merge with SDG&E.

3. Edison's requested authority to issue up to $600,000,000 to defease and/or redeem certain Industrial Development Bonds issued by the City of San Diego on behalf of SDG&E, concurrent with or within 180 days after consummation of the merger, is now unnecessary because Edison's application for authority to merge with SDG&E was denied, and Edison does not intend to proceed with the merger.

4. Except as noted above, the proposed Debt Securities would be for proper purposes.

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 issuing 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 Bonds and Debentures (other than tax-exempt securities) 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 groups of underwriters or purchasers. 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, and all of the above actions may be taken without notice by newspaper publication.

7. 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.

8. It is proper for ratemaking purposes that any reduction in the effective cost of money resulting from Swaps be passed on to ratepayers in future Cost of Capital proceedings as a reduction in the cost of money for all Debt Securities.

9. 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.

3. The proposed Debt Securities are for lawful purposes and the money, property, or labor to be obtained, or paid for, by the Debt Securities is required for these purposes. Proceeds from the Debt Securities may not be charged to operating expenses or income.

4. The following order should be effective on the date of signature and the authorization to issue securities should be effective upon 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's (Edison) request to issue up to $600,000,000 to defease and/or redeem certain Industrial Development Bonds issued by the City of San Diego on behalf of San Diego Gas and Electric, concurrent with or within 180 days after consummation of the merger, is denied as moot.

2. At any time after the effective date of this order and on or prior to December 31, 1992, Edison is authorized to issue, sell, and deliver one or more series of First and Refunding Mortgage Bonds (Bonds), Debentures, Overseas Indebtedness, Foreign Securities, Notes, Commercial Paper, and Other Floating Rate Debt; enter into Loans; and fully guarantee the Debentures, Overseas Indebtedness, Foreign Securities, Notes, Commercial Paper, Other Floating Rate Debt, and Loans of a regulated direct or indirect subsidiary of Edison (Subsidiary), the proceeds of which may be lent to Edison or to another Subsidiary, and/or guarantee unconditionally or otherwise secure the obligations of one or more political subdivisions (Authority) in respect of their issuance of Authority Bonds for pollution control, sanitary and solid waste disposal or other eligible facilities.

All Debt Securities may include one or a combination of the features to enhance Debt Securities as set forth in greater detail in the application, and will 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 CACD in connection with these proceedings. The total aggregate principal amount of issuances of Debt Securities and guarantees which may be made under the application shall not exceed $250,000,000.

3. Edison may execute and deliver an indenture or one or more supplemental indentures, and sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property in connection with the issuance and sale of any Debt Securities under the application.

4. Edison may issue, sell, and deliver Debt Securities by public offering or private placement.

5. Edison's proposed issuance and sale of Variable Rate Debt Securities, Tax Exempt Debt Securities, Overseas Indebtedness, Foreign Securities, Notes, and obtaining of Loans are exempted from the requirements of the Commission's Competitive Bidding Rule.

6. 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 groups of underwriters or purchasers. 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 actions may be taken without notice by newspaper publication.

7. Edison shall apply the proceeds of the indebtedness authorized for the purposes specified in the application.

8. Edison may renew and/or refund Commercial Paper and Other Floating Rate Debt issued pursuant to the application, so that the combined term of the obligations may exceed twelve (12) months without the need for further authorization from the Commission.

9. Edison may arrange Credit Agreements or other credit facilities as may be necessary for the purpose of issuing Debt Securities, and may modify such credit facilities in the manner set forth in the application without further authorization from the Commission.

10. Edison may enter into Caps, Collars, and Swaps as described in the application. Edison is limited to $250 million in Swap transactions involving its Long-Term debt at any one time.

11. Within 30 days after awarding the contract for the sale of Debt Securities by competitive bidding, Edison shall submit a written report to the Commission Advisory and Compliance Division (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.

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

13. 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 submit to CACD a report showing why the resulting interest rate and cost of money were the most advantageous to Edison and its ratepayers.

14. 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 submit to 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.

15. Edison shall file copies of all interest rate swap agreements and other Swap related reports as described in this decision.

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

17. Edison shall submit an original and four copies of the reports required by ordering paragraphs 11 and 13 through 16 to CACD with a transmittal letter stating the application and decision numbers. Parties need not be served with copies of the reports unless they request such 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 of each report to the Docket Office for filing.

18. The application is granted as set forth above.

The authority granted by this order to issue Debt Securities will become effective when Edison pays $5,758, the fee set by Public Utilities Code Section 1904(b). In all other respects this order is effective today.

Dated September 6, 1991, at San Francisco, California.

PATRICIA M. ECKERT
President
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners

I abstain.

G. MITCHELL WILK
Commissioner

34857 = $5,758. —

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
SEP 09 1991
By

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

NEAL J. SHULMAN, Executive Director