Decision 91-12-063 December 18, 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 $300,000,000; 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 91-07-025 (Filed July 17, 1991)

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.) 91-07-025 (Application) 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, sell and deliver one or more series of First and Refunding Mortgage Bonds (Bonds), Unsecured Debt Securities (Debentures), Overseas Indebtedness, Foreign Securities, Medium-Term Notes (Notes), Commercial Paper, and other Floating Rate Debt through public offerings or private placements and to enter into Direct Loans (to be collectively referred to as Debt Securities);

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 of Edison (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 the Debt Securities issued by Edison or issued by a Subsidiary and guaranteed by Edison shall not exceed $300,000,000;

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;

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.91-07-025 so that the combined term of the obligations may exceed twelve 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.91-07-025 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 mortgage or otherwise 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 thereof; 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 the Application and to enter into interest rate caps, collars, and swaps as described in the Application.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of July 22, 1991. No protests have been received.

Partial Denial of Application

Edison's proposal in the Application to authorize interest rate swap (Swap) contracts for $200,000,000 in addition to the Swap authorization granted Edison in prior decisions is denied. The Commission Advisory and Compliance Division (CACD) recommends that this additional authority not be granted because, based on its analysis, Edison currently has sufficient Swap authorization in place. CACD believes Edison's Swap transactions should be maintained at $250,000,000 of Long-Term Debt as authorized in

D.91-09-030, Ordering Paragraph 9. The Commission has considered CACD's recommendation and, finding it reasonable, will adopt it as stated above.

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.

As part of its supplementary data to the Commission, Edison reports that it generated total operating revenues of $3,288,409,000 and net income of $321,406,000 for the six months ended June 30, 1991.

Also submitted as part of the supplementary data provided to the Commission, Edison's Balance Sheet as of June 30, 1991 is summarized as follows:

Assets	Amount
Net Utility Plant	$11,152,111,000
Other Property and Investments	532,984,000
Current Assets	1,482,167,000
Deferred Charges	1,244,966,000
Total	$14,412,228,000
Liabilities and Equity	
Common Equity	$ 4,600,386,000
Preferred/Preference Stock	562,310,000
Long-Term Debt	5,230,439,000
Other Long-Term Liabilities	172,158,000
Current Liabilities	2,845,122,000
Deferred Credits	1,001,813,000
Total	$14,412,228,000

Debt Securities

Edison seeks authorization to issue Debt Securities directly and/or to fully guarantee Debt Securities issued by a Subsidiary. If Debt Securities are issued by a 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 year and forty years. Commercial Paper may be issued with maturities of nine months or less, but may be rolled over for periods exceeding twelve months. Notes are expected to have a maturity of between nine months and forty 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, 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 a comparable U.S. dollar financing.

Edison and/or Subsidiary will enter into one or a series of forward contracts, or a currency swap, 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, or currency swap, will be included for determining the overall cost of Foreign Securities.

E. 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 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 also may 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 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 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. Concurrent 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. Concurrent 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 the indebtedness to be substantially consistent 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 rate 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:

(a) 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.

(b) 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.

(c) 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 (like 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. Interest rate caps, collars or swaps entered into by Subsidiary may be guaranteed by Edison.

According to the Application, Edison has total Long-Term Debt outstanding, as of June 30, 1991, of approximately $5.2 billion. If Edison entered into its full authority of $250,000,000 in Swap transactions, this would represent approximately 5% of Edison's total Long-Term Debt outstanding and is reasonable given Edison's financial position.

CACD has recommended that the following restrictions and limitations be placed on Edison in relation to Swaps:

1. Reports

   a. Within fifteen days of entering into a Swap, Edison must furnish CACD with a report comparing the all-in cost of the Swap with the all-in cost of money without a Swap. In addition, Edison must submit a semiannual report to CACD showing all Swap receipts and payments. This report would only be filed for periods during which a Swap is outstanding.

   b. Within 45 days of entering into a Swap, Edison must provide CACD with a complete copy of the executed agreement and all associated documentation.

   c. Edison must separately report all interest income and/or expenses arising from all Swaps in all monthly and annual financial reports to the Commission.

2. Limit on Rate Recovery

   a. 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. Limit on Amount of Swaps

   a. Edison may enter into Swap agreements, the total of which shall not exceed

> $250,000,000 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 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 believes 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 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 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.

All of the above actions may be taken 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 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 thirty days after issuance of its Debt Securities.

Capital Ratios

Edison's capital ratios reported in its supplementary data to the Commission as of June 30, 1991, are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

	June 30, 1991	Pro Forma
Long-Term Debt	48.2%	51.5%
Short-Term Debt	6.8	6.1
Total Debt	55.0%	57.6%
Preferred/ Preference Stock	5.0	6.0
Common Equity	40.0	36.4
Total	100.0%	100.0%

1. The authorized but unissued Debt Securities related to fuel inventories ($283,500,000);
2. The authorized but unissued Debt Securities related to balancing accounts ($240,000,000);
3. The authorized but unissued Debt Securities ($50,200,000);

4. The proposed issuance of Debt Securities ($250,000,000);

5. The proposed issuance of Debt Securities ($300,000,000)

6. The redemption of the following Debt Securities:
   a. Series U in August 1991 ($80,000,000)
   b. Series Calelectric 5.0% in July 1991 ($8,000,000);

7. The sinking fund redemption of Series DDP in July 1991 ($980,000);

8. The authorized but unissued Preferred/Preference Stock ($200,000,000);

9. The sinking fund redemption of Preferred Stock- 7.325% Series in July 1991 ($3,000,000); and

10. The proposed issuance of Common Stock under the 1987 Long-Term Incentive Plan ($45,616,000).

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, 1992 and 1993 amount to approximately $2,980,000,000. Major classifications of the total budgeted construction are summarized as follows:

Components	1991	1992 (Millions of Dollars)	1993
Electric Generating Plant	$ 332	$ 345	$ 317
Electric Transmission Lines and Substations	217	140	87
Electric Distribution Lines and Substations	424	407	442
Other Expenditures	139	114	110
Total	$1,112	$1,006	$ 956
Less: Allowance for Funds Used During Construction	32	32	30
Funds Used/Required for Construction Expenditures	$1,080	$ 974	$ 926

CACD has reviewed Edison's construction budgets for the years 1991, 1992 and 1993 and has concluded that Edison's proposed sale of securities as requested in the Application is necessary and reasonable. However, 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

Edison's cash requirements forecasts for the years 1991, 1992 and 1993 provided as part of the supplementary data are shown as follows:

Components	1991	1992	1993
	(Thousands of Dollars)		
Cash Needed for Construction Expenditures	$1,080,000	$ 974,000	$ 926,000
Bond Maturities and Redemptions	287,714	234,500	316,645
Preferred/Preference Stock Retirements	11,738	37,460	8,963
Maturities/Refundings-Fuel Financing	75,700	5,000	0
Maturities/Refundings-Balancing Account Financing	55,700	189,000	0
Short-Term Debt Outstanding at the Beginning of Year	93,000	(16,548)	(6,588)
Subtotals	$1,603,852	$1,423,412	$1,245,020
Less: Estimated Internal Cash Generation	1,081,400	980,000	798,000
Additional Funds Required from External Sources	$ 522,452	$ 443,412	$ 447,020

CACD has analyzed Edison's cash requirements forecast for the period 1991 through 1993 provided in Edison's supplemental data as summarized above. CACD has concluded that internally generated funds will provide about 67% or $1,081,400,000 of the capital requirements in 1991, 69% or $980,000,000 in 1992 and 64% or $798,000,000 in 1993. 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. Edison has need for external funds as set forth in the Application.

3. The proposed Debt Securities would be for proper purposes.

4. The proposed agreement requiring Edison to provide security for the Authority Bonds would not be adverse to the public interest.

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. The use of interest rate caps, collars and swaps in appropriate circumstances is reasonable.

7. 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 thereof. 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.

8. 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.

9. It is proper for ratemaking purposes that any losses resulting from currency value fluctuations on Debt Securities issued in a foreign-denominated currency will not be passed on to ratepayers in future rate proceedings as an increase in the cost of money for all Debt Securities.

10. 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.

11. It is proper for ratemaking purposes that any losses resulting from Swaps will not be passed on to ratepayers in future rate proceedings as an increase in the cost of money for all Debt Securities.

12. The Commission does not by this decision determine that Edison's construction budget is necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate or rate base offset proceedings.

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

14. There is no known opposition and there is no reason to delay granting the authority requested.

<u>Conclusions of Law</u>

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. In issuing our order we place Edison and its shareholders on notice that the number of shares outstanding, the total par or book value of these shares and the dividends paid do not determine the allowable return on plant investment. This authorization is not a finding of the value of Edison's stock or property, nor does it indicate the amounts to be included in rate setting procedures.

5. Taking into consideration the fee exemption allowed by PU Code Section 1904(b), as a result of credits from prior outstanding indebtedness refundings, as shown in Schedule VIII to the Application, no fees are due or payable with respect to the proposed issuance and sale of the $300,000,000 aggregate principal amount of Edison's Debt Securities.

6. The following order should be effective on the date of signature to enable Edison to proceed with its financings expeditiously.

<u>O R D E R</u>

IT IS ORDERED that:

1. At any time or times after the effective date of this order and on or prior to December 31, 1993, Southern California Edison Company (Edison) is authorized to issue, sell, and deliver one or more series of First and Refunding Mortgage Bonds (Bonds), Unsecured Debt Securities (Debentures), Overseas Indebtedness, Foreign Securities, Medium-Term Notes (Notes), Commercial Paper, and other Floating Rate Debt; enter into Loans; 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 Application 91-07-025 (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 the Commission Advisory and Compliance Division (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 $300,000,000.

2. Edison may execute and deliver an indenture or one or more supplemental indentures, and mortgage or otherwise encumber its property in connection with the issuance and sale of any Debt Securities under the Application.

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

4. 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.

5. 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 thereof. 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.

6. Edison shall apply the proceeds of the indebtedness authorized for the purposes specified in the Application.

7. 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 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 Debt Securities, and may modify such credit facilities in the manner set forth in the Application without further authorization from the Commission.

9. Edison may enter into interest rate caps, collars, and interest rate swap contracts as described in the Application. Edison is limited to an aggregate of $250,000,000 in outstanding interest rate swap (Swap) contracts involving its Long-Term Debt at any one time.

10. Within thirty days after awarding the contract for the sale of Debt Securities by competitive bidding, Edison shall submit a written report to 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.

11. 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.

12. Within thirty 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.

13. 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 thirty 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.

14. Within fifteen days after entering into an interest rate swap (Swap), Edison shall furnish CACD with a report comparing the all-in cost of the Swap with the all-in cost of money without a Swap.

15. Edison shall submit a semiannual report to CACD showing all Swap receipts and payments. This report need only be filed for periods during which a Swap is outstanding.

16. Within 45 days after entering into a Swap, Edison shall submit to CACD a complete copy of the executed agreement and all associated documentation.

17. Edison shall separately report all interest income and/or expenses arising from all Swaps in all monthly and annual financial reports to the Commission.

18. Edison shall submit the reports required by General Order Series 24.

19. Edison shall submit an original and four copies of the reports required by ordering paragraphs 10 and 12 through 18 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.

20. The Application is granted in part, and denied insofar as it seeks authorization for interest rate swap contracts for $200,000,000 in excess of the current authorization of $250,000,000.

21. Taking into consideration the fee exemption allowed by PU Code Section 1904(b), as a result of credits from prior outstanding indebtedness refundings, as shown in Schedule VIII attached to the Application, no fees are due or payable with respect to the proposed issuance and sale of the $300,000,000 aggregate principal amount of Edison's Debt Securities.

This order is effective today.

Dated December 18, 1991, at San Francisco, California.

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

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

NEAL J. SHULMAN, Executive Director