

CACD/RHG

Decision 92 06 068

JUN 17 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 SOUTHERN CALIFORNIA EDISON COMPANY )  
 U-338-E, for an Order authorizing the )  
 issuance and sale in one or more )  
 series, an aggregate amount not to )  
 exceed \$200,000,000 par or stated )  
 value of Cumulative Preferred Stock-- )  
 \$100 Par Value, Cumulative Preferred )  
 Stock--\$25 Par Value, Preference )  
 Stock--\$100 Par Value, Preference )  
 Stock--\$25 Par Value or any )  
combination thereof. )

ORIGINAL

Application No. 92-03-054  
(Filed March 27, 1992)

O P I N I O N

Summary of Decision

This decision grants Southern California Edison Company (Edison) the authority requested in Application (A.) 92-03-054, under § 816 through § 818 of the California Public Utilities (PU) Code, for the following:

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

Notice of the filing of the Application appeared on the Commission's Daily Calendar of April 3, 1992. No protests have been received.

Background

Edison, a California corporation, operates as a public utility under the jurisdiction of this Commission, and is primarily engaged in the business of generating, purchasing, transmitting, distributing, and selling electric energy for light, heat, and power in portions of Central and Southern California.

For the year ended December 31, 1991, Edison reported it generated total operating revenues of \$7,297,759,000 and net income of \$629,553,000 shown as part of Exhibit A, page A23, to the Application.

Also shown as part of Exhibit A, pages A24 and A25, is Edison's Balance Sheet as of December 31, 1991, which is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$11,183,970,000
Other Property and Investments	588,722,000
Current Assets	1,744,975,000
Deferred Charges	<u>1,153,168,000</u>
<b>Total</b>	<b>\$14,670,835,000</b>
<u>Liabilities and Equity</u>	<u>Amount</u>
Common Equity	\$ 4,589,488,000
Preferred Stock	557,510,000
Long-Term Debt	5,802,018,000
Current Liabilities	2,686,356,000
Deferred Credits	<u>1,035,463,000</u>
<b>Total</b>	<b>\$14,670,835,000</b>

Equity Financing

Edison proposes to offer, issue and sell at any time or times within three years, in one or more series, an aggregate amount not to exceed \$200,000,000 par or stated value of New Stock. The principal amount and the terms and conditions of each series of New Stock will be determined by Edison's Board of Directors according to market conditions at the time of issuance.

According to Edison, the amount of Preferred Stock in its capital structure has declined from 11.1% of total capitalization in 1982 to 6.0% in 1990, and to 5.3% in 1991. Because of sinking fund requirements applicable to the outstanding series of Preferred Stock, Edison believes it is necessary to issue New Stock in order to maintain an appropriate capital structure.

Edison proposes to issue and sell the New Stock through one or more negotiated private or public offerings. The rights, preferences and privileges applicable to each series of New Stock will be fixed by resolution of Edison's Board of Directors, and a certificate of determination of preferences (Certificate) which include the content of such resolution will be filed with the California Secretary of State.

Edison anticipates that the terms of the New Stock may include, but will not be limited to: (1) restrictive redemption provisions; (2) dividend rates which may be fixed, floating, or adjustable and which may be set by a market auction procedures; (3) mandatory sinking funds; and (4) such other provisions as Edison shall deem appropriate in connection with the issuance and sale of the New Stock.

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

Edison has stated that there are no substantive differences between the Application and its previous application for preferred/preference stock, as noted and discussed in Decision (D.) 91-02-042 (A.90-11-016), and, therefore requests that the New Stock containing adjustable dividend rates be treated with the same limitations placed on its use as was noted in D.91-02-042.

Consistent with the limitations and restrictions on adjustable dividend rates in D.91-02-042, the Commission Advisory and Compliance Division (CACD) recommends that the following limitations be placed on Edison in relation to the New Stock with adjustable dividend rates:

1. Reports

a. Within 15 days of issuing New Stock which contains adjustable dividend rates, Edison shall furnish to CACD a report analyzing all costs associated with the issuance, in comparison to a projection of "all-in cost" without the adjustable dividend rates.

b. Within 45 days of issuing New Stock with adjustable dividend rates, Edison shall provide CACD with complete copies of any and all associated documentation.

2. Limit on Rate Recovery

If Edison elects to terminate a contract in which it agrees to issue New Stock with adjustable dividend rates prior to its consummation or the other party terminates the contract, all costs associated with the termination shall be subject to review in Edison's next cost of capital proceeding.

3. Limit on Amount of Agreement

Issuance of New Stock which contains adjustable dividend rates shall not exceed more than \$250 million of Edison's total Preferred/Preference Stock outstanding at anyone time.

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 in conjunction with cost of capital proceedings the Commission will review the reasonableness of the effective dividend rates for the issuance of New Stock containing adjustable dividend rates. Any reductions in the effective cost of money resulting from the issuance of New Stock with adjustable dividend rates will be passed on to Edison's ratepayers in future cost of capital proceedings as a reduction of the cost of money for all preferred securities in Edison's capital structure.

Construction Budget

Edison's estimated construction program for calendar years 1992 and 1993, included as Supplemental Schedule I to the Application, is summarized as follows:

<u>Components</u>	<u>1992</u>	<u>1993</u>
Electric Generating Plant	\$ 318,000,000	\$ 496,000,000
Electric Transmission Lines and Substations	163,000,000	113,000,000
Electric Distribution Lines and Substations	428,000,000	420,000,000
Other Expenditures	<u>166,000,000</u>	<u>122,000,000</u>
Total	\$1,075,000,000	\$1,151,000,000
Less: Allowance for Funds Used during Construction	<u>33,000,000</u>	<u>32,000,000</u>
Cash Required for Construction Expenditures	\$1,042,000,000	\$1,119,000,000

CACD has reviewed the Application and Edison's construction program budget. CACD concludes that the proposed issuance of New Stock is necessary for Edison's construction requirements; however, Edison is placed on notice, by this decision, that the Commission does not find that Edison's construction budget is necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or rate base offset proceedings.

Capital Ratios

Edison's capitalization ratios as of March 31, 1992, and as reported in its Supplemental Schedule VI, are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Long-Term Debt	\$ 5,361,624,000	47.4%	\$ 6,552,324,000	51.3%
Short-Term Debt	708,894,000	6.3%	708,894,000	5.5%
Total Debt	\$ 6,070,518,000	53.7%	\$ 7,261,218,000	56.8%
Preferred Stock	569,248,000	5.0%	841,568,000	6.6%
Common Equity	4,672,612,000	41.3%	4,672,612,000	36.6%
Total	\$11,312,378,000	100.0%	\$12,775,398,000	100.0%

1. The proposed issuance of debt securities related to fuel inventories - \$279,100,000;
2. The issuance of debt securities related to balancing accounts - \$270,000,000;
3. Authorized but unissued debt securities - \$21,600,000;
4. The proposed issuance of debt securities - \$800,000,000;
5. The issuance of Series 92B in April, 1992 - \$150,000,000;
6. The redemption of the following:
  - a. Series FF in April, 1992 - \$150,000,000
  - b. Series V in May, 1992 - \$ 80,000,000
  - c. Series 90A in May, 1992 - \$100,000,000;
7. The proposed issuance of Preferred/Preference Stock - \$200,000,000;
8. The proposed issuance of \$100 Cumulative Preferred Stock, 7.23% Series in May, 1992;
9. The redemption of 12.31% Series in May, 1992 - \$27,680,000.

Edison is placed on notice, by this decision, that the Commission does not find that the above 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.

Cash Requirements Forecast

Edison's cash requirements forecast for 1992 and 1993 are summarized as follows:

<u>Components</u>	<u>1992</u>	<u>1993</u>
Cash Required for Construction Expenditures	\$1,042,000,000	\$1,119,000,000
Maturities of Long-Term Debt	180,000,000	200,000,000
Sinking Fund Requirements	1,050,000	1,120,000
High Coupon Refunding	753,323,000	110,364,000
Preferred and Preference Stock		
Sinking Fund Requirements		
High Dividend Refunding	221,509,000	-
Maturities/Refundings--Fuels		
Financing	50,840,000	-
Maturities/Refundings--Balancing		
Account Financing	103,440,000	-
General Purpose Short-Term Debt		
Outstanding as of Beg. of Year	(222,000,000)	10,587,000
Subtotals	<u>\$2,140,587,000</u>	<u>\$1,446,471,000</u>
Less: Estimated Net Cash Available from Internal Sources	<u>1,099,000,000</u>	<u>\$ 986,000,000</u>
Additional New Funds Required from External Sources	\$1,041,587,000	\$ 460,471,000

CACD has analyzed Edison's 1992 and 1993 cash requirements forecast (Edison's Supplemental Schedule III). CACD has concluded that internally generated funds will provide only \$1,099,000,000 or 51.34% of Edison's cash requirements for 1992 and \$986,000,000 or 68.17% in 1993. CACD concludes that the proposed issuance of New Stock is necessary to meet forecasted cash requirements which include capital expenditures.

CACD has reviewed the application and has concluded that the proposed issuance of Edison's New Stock in one or more series 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 sale of the New Stock, after payment and discharge of expenses incident to their issuance and sale, for any or all of the following purposes: (1) to reimburse Edison for monies previously expended from income or any other money in its treasury not secured by or obtained from the issuance of stocks or stock certificates or other evidences of interest or ownership, or bonds, notes or other evidences of indebtedness, (2) for the acquisition of property or for the construction, completion, extension or improvement of Edison's facilities exclusive of maintenance of service, and (3) for the replacement and/or for the retirement or the refunding of securities issued.

Findings of Fact

1. Edison, a California corporation, operates as a public utility subject to the jurisdiction of this Commission.
2. The proposed New Stock would be for proper purposes.
3. Edison has need for external funds for the purposes and reasons set forth in the Application.
4. It is proper for ratemaking purposes that any reduction in the effective cost of money resulting from the issuance of New Stock with adjustable dividend rates be passed on to the ratepayers in future cost of capital proceedings as a reduction in the cost of money for all debt and equity securities.
5. The money, property, or labor to be procured or paid for by the proposed New Stock is reasonably required for the purposes specified in the Application.
6. The issuance of New Stock with adjustable dividend rates is reasonable within the limitations proposed herein.
7. There is no known opposition to the Application 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 New Stock is for lawful purposes and the money, property, or labor to be obtained by it are required for these purposes. The proceeds from the issuance of the New Stock may not be charged to operating expenses or income.
4. The number of shares outstanding, the total par value of the shares, and the dividends paid do not determine 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 ratemaking proceedings.
5. If the negotiated price, dividend rate, underwriters' compensation, redemption and sinking fund provisions would result in excessive costs, the Commission would take into consideration, in future rate proceedings, only that which it deems reasonable.
6. Taking into consideration the fee exemption allowed by PU Code § 1904(b) as a result of credits from prior outstanding indebtedness and mortgage bond retirements, as shown in the supplemental data submitted by Edison, no fees are due or payable with respect to the proposed issuance and sale of the \$200,000,000 aggregate amount of Edison's New Stock.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, for a period of three years, Southern California Edison Company (Edison) is authorized to issue, sell and deliver in a total amount not to exceed \$200,000,000 par or stated value, shares of Cumulative Preferred Stock--\$100 par value, Cumulative Preferred Stock--\$25 par value, Preference Stock--\$100 par value, Preference Stock--\$25 par value (New Stock) or any combination thereof, in one or more series upon substantially the terms and conditions contemplated in the Application.

2. Edison is authorized to issue, sell and deliver, in one or more series New Stock with dividend rates which may be fixed, floating, or adjustable and which may be set by a market auction procedure (adjustable dividend rates) consistent with the limitations and restrictions provided herein.

3. Edison is authorized to determine the precise amount and timing of each issue of the New Stock.

4. Edison shall apply the net proceeds from the sale of its New Stock to the purposes set forth in this decision.

5. Within 15 days of execution, Edison shall file with the Commission copies of the agreements with the party or parties to whom such agreements have been made for the purchase of the shares of its New Stock, Certificates of determination of preferences, and copies of its final Prospectus pertaining to the New Stock. This Prospectus shall state the purposes set forth in the decision.

6. Within 45 days of issuing New Stock with adjustable dividend rates, Edison shall provide the Commission Advisory and Compliance Division (CACD) with complete copies of any and all associated documentation.

7. On or before the 25th day of each month, Edison shall file the reports required by General Order Series 24.

8. Edison shall submit an original and four copies of the Prospectus and the reports required by Ordering Paragraphs 5 through 7 to CACD with a transmittal letter stating the application and decision numbers. The Director of CACD shall send the original and one copy of each report to the Docket Office for filing.

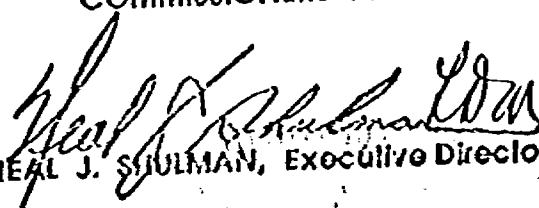
9. Taking into consideration the fee exemption allowed by Public Utilities Code § 1904(b) as a result of credits from prior outstanding indebtedness and mortgage bond retirements, as shown in the supplemental data submitted by Edison, no fees are due or payable with respect to the proposed issuance and sale of the \$200,000,000 aggregate amount of Edison's New Stock.

This order is effective today.

Dated JUN 17 1992, at San Francisco, California.

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

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

  
NEAL J. SCHULMAN, Executive Director