RR/KLH/ARM/WPSC* H-4

Decision 82 05 074 MAY 18 1982 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA EDISON COMPANY for Authorization to issue, sell, and deliver one or more series of not to exceed $400,000,000 aggregate principal amount of its First and Refunding Mortgage Bonds, Debentures, Notes and/or other Evidences of Indebtedness; to execute and deliver one or more Supplemental Indentures; and for an exemption from the Competitive Bidding Rule of the California Public Utilities Commission.	Application 82-03-23 (Filed March 5, 1982)

OPINION

Southern California Edison Company (Edison) requests authority, under Public Utilities (PU) Code Sections 816 through 818 and 851, for the following:

1. To issue, sell, and deliver, at any time or times, up to $400,000,000 aggregate principal amount of its First and Refunding Mortgage Bonds (New Bonds), Debentures, Notes, and/or other evidences of indebtedness (collectively referred to as Debt Securities), in one or more series, in either domestic or foreign capital markets, by means of competitive bidding, negotiated public offering, or negotiated private placements, within one year of the date of this order; bearing maturities between one and 40 years; and carrying restrictive redemption provisions;

2. To be exempted from the Commission's competitive bidding requirements those financings effected through negotiated public offering or negotiated private placement;

3. To shorten to less than five days the period of time between the public invitation for bids and the opening of bids for the Debt Securities effected through competitive bidding in domestic capital markets;

4. To further modify the Commission's competitive bidding requirements to permit Edison to accelerate, postpone, or cancel its scheduled offering date; to reject all bids submitted; request the submission of new bids; to reschedule subsequent opening(s) of bids; or to reject all bids; and

5. To execute and deliver a Supplemental Indenture or Indentures in connection with each proposed series of Debt Securities.

In this application, Edison requested authority, among other things, to do a serial zero coupon bond financing. However, by a letter dated May 6, 1982, Edison withdrew its request for this authority because of legislation proposed by the United States Treasury Department. The Treasury Department announced on May 3, 1982 that it was proposing legislation which would eliminate many of the tax benefits of serial zero coupon bonds.

Summary of Decision

This decision grants Edison the authority requested in its application but does not include authority to issue serial zero coupon bonds.

Notice of the filing of the application appeared on the Commission's Daily Calendar of March 9, 1982. No protests have been received.

Edison, a California corporation, engages primarily in the business of generating, purchasing, transmitting, distributing, and selling electric energy in portions of central and southern California as a public utility subject to the jurisdiction of this Commission.

For the year ended December 31, 1981, Edison reported total operating revenues of $4,054,356,000 and net income of $489,912,000 shown as part of Exhibit A attached to the application.

Edison's Balance Sheet as of December 31, 1981, attached to the application as part of Exhibit A, is summarized as follows:

Assets	Amount
Net Utility Plant	$7,502,458,000
Other Property and Investment - Net	133,752,000
Current Assets	1,042,762,000
Deferred Debits	49,571,000
Total	$8,728,543,000
Liability and Equity	
Common Equity	$2,968,108,000
Preferred/Preference Stock	875,808,000
Long-Term Debt	3,444,080,000
Current Liabilities	1,086,916,000
Reserves and Deferred Credits	353,631,000
Total	$8,728,543,000

Edison proposes to issue, sell, and deliver, at any time or times, in one or more series, up to $400,000,000 aggregate principal amount of its Debt Securities, in either the domestic or foreign capital markets, by means of competitive bidding, negotiated public offering, or negotiated private placement. These securities are proposed to be exempted from the Commission's competitive bidding requirements, would bear maturities of between one and 40 years, may carry restrictive redemption provisions, and would be issued within one year of the date of this order.

Edison proposes that each series of its Debt Securities will bear the terms and conditions as shall be determined by its Board of Directors at or immediately prior to the date of their issue. The Debt Securities, if in the form of New Bonds, would be issued under Edison's Trust Indenture dated October 1, 1923, as amended and supplemented by Supplemental Indentures, including one or more Supplemental Indentures delivered in connection with the New Bonds setting forth the principal amount, maturity date, and other provisions. If issued in the form of Debentures, the Debt Securities may be issued in accordance with one or more Debenture Indentures.

Edison states in its application that due to continuing market volatility the utility considers that it is not in Edison's best interest or in the best interest of its ratepayers to specify the exact terms of the Debt Securities at the time of filing this application. Edison states it believes that presently foreseeable market conditions will dictate the issuance of the Debt Securities with maturities of between one and 40 years.

Edison also states in its application that if the Debt Securities are issued in the form of New Bonds, these Bonds may be redeemable in whole or in part at Edison's option at any time prior to maturity upon 30 days' notice and upon payment of the principal, plus premium (if any), and accrued interest. All of these are prescribed in Edison's Trust Indenture and any Supplemental Indentures.

Edison states that the redemption provisions applicable to the Debt Securities, if issued other than in the form of New Bonds, will depend upon market conditions and the terms of the debt instruments. In either event, Edison believes that it may be necessary or desirable in response to market conditions to include restrictive refunding provisions providing that the Debt Securities will not be redeemed for a certain period from the date of issuance. This is based on the assumption that the redemption is for the purpose of refunding the securities through the use (directly or indirectly) of funds borrowed by Edison at an effective interest cost to Edison of less than that of the Debt Securities. It will also provide for other reasonable restrictions upon the redemption of the Debt Securities.

For the purpose of providing Edison sufficient flexibility to obtain favorable rates for its Debt Securities, Edison seeks authority to offer, issue, and sell the Debt Securities by the method Edison deems most appropriate after consideration of the various types of financing available.

In its application, Edison sought authorization to engage in a serial zero coupon form of financing. By a letter dated May 6, 1982, Edison withdrew its request for this authorization because of legislation proposed by The United State Treasury Department affecting the tax benefits of zero coupon bonds.

Requested Exemption from Competitive Bidding

Edison seeks an order from this Commission granting an exemption for the proposed Debt Securities from the Commission's competitive bidding rule established by Decision (D.)38614 dated January 15, 1946 in Case 4761, as amended by D.49941, D.75556, and D.81908. These decisions contemplate that under appropriate circumstances the Commission will not require competitive bidding. Edison believes that the reasons set forth below are compelling and justify the issuance by the Commission of an order granting this exemption.

Edison alleges that under certain market conditions and for certain types of financing the flexibility to offer, issue, and sell one or more of the series of Debt Securities, through negotiated public offering or by private placement, may yield more favorable results than can be obtained through competitive bidding. Edison states that today's markets have become segmented and the needs of investors are more diverse. Edison believes that there are periods when a negotiated public offering or private placement can be structured to appeal to particular investors who because of specific investment criteria will accept a lower rate of return on a transaction tailored to their needs. This enables Edison to achieve a lower cost of capital than would be available through competitive bidding. Edison believes that a negotiated transaction allows underwriters to engage in premarketing efforts and to achieve greater flexibility on timing, terms, and size of an issue.

Although Edison would like the flexibility to offer, issue, and sell one or more series of the Debt Securities through negotiated public offering or private placement, Edison presently plans to offer, issue, and sell one or more series of the New Bonds through competitive bidding. Edison would use forms of the Public Invitation for Bids, Statement of Terms and Conditions Relating to Bids, and Bid and Bond Purchase Agreement (collectively referred to as Bidding Papers) substantially consistent with the forms previously filed with the Commission. The Bidding Papers provide Edison the flexibility to do the following under the single publication of a Public Invitation for Bids:

1. Accelerate, postpone, or cancel the date initially established for the opening bids;

2. Reject all bids submitted, request the submission of new bids, and reschedule subsequent opening(s) of bids;

3. Reject all bids.

Edison further requests authority to modify the terms of the New Bonds after it has published a Public Invitation for Bids without being required to republish a new Public Invitation for Bids. Edison also requests authorization to fix the date of opening of bids at less than five days after publishing the Public Invitation for Bids if, in Edison's opinion, market conditions require that bids be opened within a shorter time than five days after publication of a public invitation. Edison states that by having this flexibility, a more favorable financing may be accomplished.

If Edison accepts one of the bids for the purchase of the New Bonds tendered under the Bidding Papers for a particular series, Edison will enter into a Bid and Bond Purchase Agreement substantially in the same form as that previously entered into by Edison and will issue, sell, and deliver a series of the New Bonds in the manner specified in the agreement.

In support of its request for an exemption from the Commission's competitive bidding requirements to allow Edison flexibility to issue one or more series of its Debt Securities through negotiated public offering or private placement, Edison states that it believes that in the near future volatile conditions may exist, unfavorable to the issuer of corporate debt, under which strict adherence to the competitive bidding rule would not be beneficial. Edison indicates that an exemption from competitive bidding may allow Edison to tailor transactions to particular investors and to increase the supply of financing sources available to Edison. Edison states that in certain circumstances the interest rate on private and negotiated transactions may represent the most attractive rate available at the time.

In D.91984 dated July 2, 1980, in A.59633 (San Diego Gas & Electric Company) and D.93381 dated August 4, 1981 (General Telephone Company of California), the Commission noted that reasons, such as those stated by Edison, indicating that an exemption from the competitive bidding rule would be in the best interests of the utility's ratepayers are sufficient to justify an order of the Commission granting the exemption.

We are frankly uncertain whether under current volatile conditions, unfavorable to the issuer of corporate debt, strict adherence to the competitive bidding rule would prove beneficial. Consequently for this application only we will authorize Edison to proceed on either a competitive bid, a private placement, or a negotiated public offering, according to Edison's estimation of where the most favorable opportunity lies.

If Edison chooses to issue and sell the proposed Debt Securities by means of a negotiated public offering or by a private placement, we place Edison on notice that in its next general rate proceeding before the Commission, the reasonableness of the resulting interest rate and cost of money to the company 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 the most 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 the most advantageous to the company and its ratepayers. We will require this showing within a reasonable period of time after the issuance and sale of the proposed Debt Securities.

Request to Enter Foreign Markets

Edison also believes that there are periods in which the international markets are more favorable than domestic ones, and Edison requests authorization to negotiate a foreign private placement with financial institutions, international trading companies, or governmental agencies such as the Saudi Arabian Monetary Authority or the Japanese Export-Import Bank.

Edison's capital ratios reported as of December 31, 1981 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

	December 31, 1981	Pro Forma
Long-Term Debt	48.1%	50.6%
Preferred/Preference Stock	11.8	10.8
Common Equity	40.1	38.6
Total	100.0%	100.0%

1. The proposed issuance of up to $400,000,000 aggregate principal amount of Debt Securities;

2. The issuance, sale, and refunding of Edison's First and Refunding Mortgage Bonds, Series SSP, sold on February 4, 1982 in the aggregate principal amount of $176,800,000 from the original $200,000,000 authorized. Series SSP will be refunded in 1982 from the proceeds received from the sale of Debt Securities proposed and pending before the Commission in A.82-02-27 (D.93319 dated July 22, 1981 in A.60652);

3. The issuance and sale of 5,000,000 shares of Common Stock, $8-1/3 par value, on February 24, 1982 at a price of $28.625 per share producing $143,125,000 (D.93677 dated November 3, 1981 in A.60926);

4. The issuance and sale on February 1, 1982 of 539,525 shares of Common Stock, $8-1/3 par value, under Edison's Dividend Reinvestment and Stock Purchase Plan (D.91434 dated March 19, 1980 in A.59441);

5. The issuance of 47,601 shares of Common Stock, $8-1/3 par value, issued under Edison's Employee Stock Ownership Plan on February 1, 1982 (D.91198 dated January 8, 1980 in A.59295);

6. The issuance of 3,933 shares of Common Stock, $8-1/3 par value, due to conversion of 4.972 shares of Preference Stock, 5.20% Convertible Series; and

7. The retirement of $37,500,000 principal amount of First and Refunding Mortgage Bonds, Series A, due February 15, 1982 (D.54469 dated February 5, 1957 in A.38750)

Edison is engaged in an extensive construction program and estimates that the gross expenditures required for this proposed construction program during the calendar years 1982 and 1983 will approximate $1,677,000,000. Exhibit C, attached to the application, sets forth in detail Edison's construction program, estimated as of December 17, 1981, and is summarized below:

Purpose	1982	1983 (In Thousands)	Total
Electric Generating Plant	$ 740,000	$477,000	$1,217,000
Electric Transmission Lines and Substations	67,000	144,000	211,000
Electric Distribution Lines and Substations	241,000	267,000	508,000
Other Expenditures	45,000	46,000	91,000
Total	$1,093,000	$934,000	$2,027,000
Less:			
Allowances for Funds Used During Construction	220,000	130,000	350,000
Funds Used and/or Required for Construction	$ 873,000	$804,000	$1,677,000

The Commission's Revenue Requirements Division has reviewed Edison's 1982 and 1983 construction programs and has concluded the estimated construction expenditures are necessary. The Division has no objection to the proposed security issue specified in the application but reserves the right to reconsider the reasonableness of any specific construction expenditure in future rate proceedings.

As of December 31, 1981, Edison's uncapitalized construction expenditures amounted to approximately $1,226,685,000. After payment and discharge of obligations incurred for expenses incidental to the issuance and sale of the proposed bonds, Edison proposes to use the proceeds to reimburse Edison for moneys it has actually expended from income or other moneys in its treasury, not secured by or obtained from the issue of stocks, stock certificates, or other evidences of indebtedness for the acquisition of property, or for the construction, completion, extension, or improvement of Edison's facilities exclusive of maintenance of service and replacement. The amounts so reimbursed will become a part of Edison's general treasury funds. Edison proposes to use a portion of the general treasury funds to repay a portion of its short-term bank borrowings, commercial paper, and banker's acceptances outstanding at the time of Edison's receipt of the proceeds. Edison's outstanding short-term borrowings and commercial paper aggregated approximately $332,000,000 on March 2, 1982.

The Commission's Revenue Requirements Division has analyzed Edison's cash requirement forecast for 1982 and 1983, attached to the application as Exhibit D, and has concluded that internally generated funds will provide 16% of the capital requirements for 1982 and 77% of those estimated for 1983. The Division concludes that the proposed Debt Securities will be necessary to help meet currently forecasted cash requirements.

<u>Findings of Fact</u>

1. Edison, a California corporation, operates under jurisdiction of this Commission.

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

3. Edison has need for external funds for the purposes set forth in the application.

4. It is reasonable to allow Edison to choose whether to issue and sell the proposed Debt Securities at any time or times, in one or more series, in either the domestic or foreign capital markets, by means of competitive bidding, negotiated public offering, or negotiated private placements, or bearing maturities between one and 40 years. These options would allow Edison to take advantage of the best terms and interest rates available under current economic conditions.

5. The proposed restricted redemption provision is reasonable.

6. Edison's execution and delivery of the proposed Supplemental Indentures would not be adverse to the public interest.

7. 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.

8. The sale of the proposed Debt Securities is not required to be by competitive bidding.

9. Edison's proposed procedure, with regard to the single publication of a Public Invitation for Bids which will allow Edison flexibility to modify certain terms of the New Bonds and to open bids within less than five days after publication, is consistent with the Commission's competitive bidding rule.

10. There is no known opposition and 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.

The proposed security issue is for lawful purposes and the money, property, or labor to be obtained by it is required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

The following order should be effective on the date of signature and 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. At any time or times within one year from the effective date of this order, Southern California Edison Company (Edison) may issue, sell, and deliver, one or more series of its First and Refunding Mortgage Bonds, Debentures, Notes and/or other Evidences of Indebtedness (Debt Securities) in an aggregate principal amount of up to $400,000,000, the securities of each series to mature between one and 40 years from their date of issuance, with all issuances and sales of the indebtedness being upon terms and conditions substantially consistent with those set forth in or contemplated by the application.

2. Edison may execute and deliver one or more Supplemental Indentures, in substantially the same form as that filed previously by Edison and may incorporate all terms consistent with this opinion.

3. Edison's proposed issue or issues of the Debt Securities are exempted from the Commission's competitive bidding requirements.

4. Edison shall apply the proceeds from the sale of each series of the Debt Securities for the purposes referred to in the application.

5. Within 30 days after the issuance and sale of each series of the Debt Securities which is sold by negotiated public offering or by private placement, Edison shall file a written report with the Commission, showing the name of the purchaser, the price, the interest rate, the cost of money to Edison based on the price and interest rate, and other provisions or terms that Edison deems relevant.

6. If the Debt Securities are sold on a private placement basis or by a negotiated public offering, within 30 days after their issuance and sale, Edison shall file with the Commission a report setting forth the reason that Edison believes the resulting interest rate and cost of money to the company were the most advantageous to the company and its ratepayers.

7. As soon as available, Edison shall file with the Commission three copies of its final prospectus (if any) pertaining to each series of its Debt Securities sold by public offerings.

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

9. This order shall become effective when Edison pays the fee of $206,000 set by PU Code Section 1904(b).

Dated MAY 18 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. CREW
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
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BY

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

Joseph E. Bodovitz, Executive Director