

RR/KLH/ARM/WPSC

Decision 82 06 011 JUN 2 - 1982

ORIGINAL

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 its)
 First and Refunding Mortgage Bonds,)
 debentures, convertible debentures,)
 promissory notes and/or other)
 evidences of indebtedness in an)
 aggregate principal amount)
 outstanding at any one time not)
 exceeding \$200,000,000; to execute)
 and deliver one or more supplement-)
 al indentures; to guarantee the)
 obligations of another in respect)
 of the issuance of securities; to)
 issue shares of its Common Stock)
 upon conversion of another's)
 convertible debentures; and for an)
 exemption from the Commission's)
 Competitive Bidding Rule.)

Application 82-05-01
(Filed May 3, 1982)

O P I N I O N

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

1. To issue, sell, and deliver on a negotiated basis to a corporation organized and existing under the laws of the Netherlands Antilles, one or more series of Edison's First and Refunding Mortgage Bonds (Bonds), debentures, convertible debentures, promissory notes, and/or other evidences of indebtedness in the aggregate principal amount outstanding at any one time up to \$200,000,000 (Bonds, debentures, convertible debentures, promissory notes, and other evidences of indebtedness referred to collectively as Edison's Debt Securities);

2. To guarantee unconditionally the obligations of the corporation in respect to the securities issued by the corporation;
3. To execute and deliver a supplemental indenture in connection with each proposed series of Bonds;
4. To issue the number of shares of Edison's common stock, in exchange for and upon retirement of the corporation's convertible debentures, upon conversion of these debentures, as may be required from time to time for this purpose under provisions governing the conversions; and
5. To have each proposed issue of Edison's Debt Securities exempted from the requirements of the Commission's competitive bidding rule.

Summary of Decision

This decision grants Edison the authority requested in the application.

Notice of the filing of the application appeared on the Commission's Daily Calendar of May 4, 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 12 months ended March 31, 1982, Edison reports in its Statement of Income attached to the application as part of the Exhibit A that it generated total operating revenues of \$4,275,078,000 and net income was \$514,436,000.

Also shown as part of Exhibit A is Edison's Balance Sheet as of March 31, 1982 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$7,742,712,000
Other Property and Investment	111,181,000
Current Assets	1,204,485,000
Deferred Debts	48,095,000
Total	<u>\$9,106,473,000</u>
 <u>Liabilities and Equity</u>	
Shareholders Equity	\$4,030,936,000
Long-Term Debt	3,446,442,000
Current Liabilities	1,249,704,000
Reserves and Deferred Credits	379,391,000
Total	<u>\$9,106,473,000</u>

Edison requests authorization to issue, sell, and deliver its Debt Securities, in connection with Eurodollar offerings, to be issued at times and upon terms as determined by Edison's board of directors, at or immediately prior to their date of issue, in light of the existing market conditions at time of issuance.

As Edison presently contemplates the financing structure, Southern California Edison Finance Company N.V., or another corporation (Finance), organized under the laws of the Netherlands

Antilles, which has favorable tax treaties with the United States, would issue and sell, through one or more offerings to foreign investors, bonds, debentures, convertible debentures, promissory notes, and/or other evidences of indebtedness (Finance's Debt). Edison would borrow from Finance the net proceeds of these offerings by issuing one or more series of Edison's Debt Securities to Finance. The cost of the money to Edison, after giving effect to the laws of the Netherlands Antilles and the United States, will be substantially the same as the cost of the money to Finance.

Edison's requests Commission authorization to issue Edison's Debt Securities in connection with one or more Eurodollar offerings by Finance on or before June 30, 1983. The maturity date, interest rate, and other terms and conditions of Finance's Debt will be negotiated at the time of offering because Edison is informed that there is no effective competitive bidding market for Eurodollars. The terms and conditions of each series of Edison's Debt Securities issued to Finance will be determined by Edison and Finance on the basis of the terms and conditions of Finance's Debt.

Because of the volatility of the Eurodollar market, Edison states that it is impractical at this time to provide the Commission with a meaningful estimate of interest rates or other terms of the contemplated issue(s) of Finance's Debt or Edison's Debt Securities. However, Edison states that Finance's Debt would

be issued and sold only when the issuances were designed to result in an overall cost of money to Edison lower than issuances of comparable domestic debt in the U.S. market.

Edison contemplates that Finance's Debt and Edison's Debt Securities will bear call provisions more favorable than those typically found in domestic debt. Call restrictions will be for a period not greater than five years, and the initial call price will command a premium over par of less than one full year's interest payments. Finance's Debt will mature between 5 and 20 years from its date of issuance.

The financing structure, which Edison contemplates may also require that it guarantee the obligations of Finance, is evidenced by Finance's Debt. Therefore, Edison requests authorization to guarantee unconditionally Finance's payment of up to \$200,000,000 aggregate principal amount of Finance's Debt, plus premium (if any), interest, and other charges on Finance's Debt. This guarantee is common in Eurodollar offerings, and it would be in Edison's best interests to have the flexibility to effect Eurodollar offerings in a form which is familiar to foreign investors. The obligations of Finance and/or Edison's guarantee may also be secured by an issuance of a series of debt securities and/or on agreement to issue a series of debt securities. The definitive terms and conditions of a guarantee and/or a security

arrangement will be determined at the time of, and be consistent with, each offering of Eurodollars.

Each series of Bonds, if issued, would be issued in accordance with the provisions of Edison's Trust Indenture dated as of October 1, 1923, executed and delivered by Edison to certain trustees, and amendatory and supplemental indentures. The forms of these have been filed with the Commission. A supplemental indenture would be executed and delivered with each series of Bonds. Each supplemental indenture will set forth (among other things) the aggregate principal amount, interest rate, and the maturity date of that series of Bonds. Each supplemental indenture will be in a form similar to prior forms of supplemental indentures filed with the Commission. We authorize Edison to execute and deliver each supplemental indenture in a form which Edison believes appropriate and which reflects the aggregate principal amount, interest rate, and final maturity date of each series of Bonds.

Edison requests authority to issue shares of its common stock. Finance's Debt and Edison's Debt Securities may be in the form of convertible debentures, which would be convertible into shares of Edison's common stock. Edison would effect any necessary registration of the common stock under federal securities laws which may be required before Edison can deliver the common stock upon conversion of the debentures.

Request for Exemption from the Competitive Bidding Rule

The nature, mechanics, and timing of Eurobond offerings require an exemption for Edison's issuances of its Debt Securities from the Commission's competitive bidding rule established by Commission Decision (D.) 38614 dated January 15, 1946 in Case 4761, as amended by D.49941, D.75556, and D.81908 which generally require California public utilities to obtain competitive bids for the purchase of their debt securities.

Because the interest rate and other terms and conditions of Finance's Debt offered by Finance must be determined on a negotiated basis, Edison's Debt Securities must be privately placed on a negotiated basis with Finance. Consequently, unless the Commission authorizes an exemption from the rule, Edison will be precluded from participating in future Eurodollar financings.

In D.91984 dated July 2, 1980 in Application (A.) 59633 for San Diego Gas & Electric Company, we discussed the granting of exemptions from the competitive bidding rule, and we clarified the nature of the compelling showing that must be made to warrant an exemption from the rule and that it must be in the best interests of the ratepayers. We are satisfied that Edison has made such a compelling showing. The Commission believes that granting an exemption from the competitive bidding requirements will be in the best interests of Edison's ratepayers because Edison's Debt

Securities, issued in connection with Eurodollar offerings, will result in an overall cost of money to Edison lower than that obtainable from comparable competitively bid securities in the domestic market. These issues will also provide a new source of capital to Edison which should indirectly result in lowering the costs of other Edison financings for the benefit of its ratepayers.

In Edison's A.60773 filed July 18, 1981, as amended July 31, 1981, Edison demonstrated that there are compelling reasons why Eurodollar offerings should be exempted from the competitive bidding requirements. These reasons include the availability of needed sources of additional capital at favorable interest rates during "window" periods in the European market and the need to act swiftly to take advantage of the opportunities, the availability of more favorable call provisions, and the absence of certain restrictive financial covenants. In D.93486 dated September 1, 1981, the Commission recognized the need for an exemption from the competitive bidding rule in order to allow Edison to obtain the benefits of Eurodollar offerings and granted it an exemption.

The Commission has previously encouraged utilities to explore innovative financing methods to give their ratepayers the lowest cost of money available. It is not the intent of the Commission or its competitive bidding rule to preclude proven

methods of financing which provide an innovative method of raising capital. In view of the reasons already mentioned, this is one of the instances where it is appropriate to grant an exemption from the competitive bidding rule.

Edison is put 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 scrutinized closely and may result in a disallowance of 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 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 after the issuance and sale of the proposed securities.

Edison is engaged in an extensive construction program and, as of March 31, 1982, Edison's uncapitalized construction expenditures amounted to about \$1,404,925,000. Edison estimates that the gross expenditure required for its proposed construction program during the calendar years 1982 and 1983 will be about \$1,757,000,000 as summarized below:

<u>Purpose</u>	<u>1982</u>	<u>1983</u> (In Thousands)	<u>Total</u>
Electric Generating Plant	\$ 813,000	\$513,000	\$1,326,000
Electric Transmission Lines and Substations	69,000	142,000	211,000
Electric Distribution Lines and Substations	243,000	274,000	517,000
Other Expenditures	47,000	46,000	93,000
Total	<u>\$1,172,000</u>	<u>\$975,000</u>	<u>\$2,147,000</u>
Less:			
Allowance for Funds Used During Construction	<u>250,000</u>	<u>140,000</u>	<u>390,000</u>
Funds used/or Required for Construction Expenditures	\$ 922,000	\$835,000	\$1,757,000

In view of these construction expenditures, it is important that Edison have access to the broadest possible range of capital markets in addition to the domestic market.

The Commission's Revenue Requirements Division has reviewed Edison's 1982 and 1983 construction budget and has concluded the utility's estimated construction program is necessary. The Division has no objection to the proposed Debt

Securities specified in the application but reserves the right to reconsider the reasonableness of any specific construction expenditure in future rate proceedings.

Edison's capital ratios reported as of March 31, 1982 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

	<u>March 31, 1982</u>	<u>Pro Forma</u>
Long-Term Debt	46.7%	49.0%
Preferred and Preference Stock	11.6	11.5
Common Stock Equity	41.7	39.5
Total	<u>100.0%</u>	<u>100.0%</u>

1. The proposed issuance and sale of up to \$200,000,000 aggregate principal amount of Edison's Debt Securities in connection with a Eurobond or Eurodollar financing;
2. The sale of 251,710 shares of Common Stock, \$8-1/3 par value, producing net revenue of \$7,513,997 under Edison's Employee Stock Purchase Plan on April 1, 1982 (D.90059 dated March 13, 1979 in A.58606);
3. The sale of 26,255 shares of Common Stock, \$8-1/3 par value, producing net revenue of \$843,442 under Edison's Employee Stock Ownership Plan on April 1, 1982 (D.87785 dated August 30, 1977 in A.57478 and D.91198 dated January 8, 1980 in A.59295);
4. The issuance of \$125,000,000 of First and Refunding Mortgage Bonds, Series TT, Due 2012, on April 22, 1982 (D.82-03-018 dated March 2, 1982 in A.82-01-40);

5. The issuance of \$50,000,000 of Preferred Stock on April 20, 1982 (D.92933 dated April 21, 1981 in A.60331);
6. The proposed issuance of \$75,000,000 of Debt Securities (D.93486 dated September 1, 1981 in A.60773);
7. The retirement of \$40,000,000 aggregate principal amount of First and Refunding Mortgage Bonds, Series I due July 1, 1982 (D.55159 dated June 25, 1957 in A.39134); and
8. The retirement of \$40,000,000 aggregate principal amount of First and Refunding Mortgage Bonds, Series J, due September 1, 1982 (D.55449 dated August 20, 1957 in A.39300).

Use of Proceeds

After payment and discharge of obligations incurred for expenses incidental to the issuance and sale of Finance's Debt and Edison's Debt Securities, Edison proposes to use the proceeds (1) to reimburse Edison's treasury for moneys expended to retire and discharge \$80,000,000 aggregate principal amount of First and Refunding Mortgage Bonds, Series I and Series J, referred to under the above ratio adjustments and (2) to reimburse Edison for moneys previously expended from income or other moneys in its treasury not secured by or obtained from the issue of stock, stock certificates or other evidences of indebtedness for the acquisition of property or for the construction, completion, extension, or improvement of its facilities, exclusive of maintenance of service and

replacements. 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 bankers' acceptances outstanding at the time of Edison's receipt of the proceeds. Edison's outstanding short-term borrowings and commercial paper aggregated approximately \$100,000,000 on April 30, 1982.

The Commission's Revenue Requirements Division has analyzed Edison's cash requirement forecast attached to the application as Exhibit D and has concluded that internally generated funds will provide only 22% of capital expenditures for 1982 and about 58% for 1983. The Division has concluded that the proposed debt issue will be necessary to help meet forecasted cash requirements.

Findings of Fact

1. Edison, a California corporation, operates as a public utility under the jurisdiction of this Commission.
2. The proposed Debt Securities and common stock would be for proper purposes.
3. Edison has need for external funds for the purposes set forth in the application.

4. The money, property, or labor to be procured or paid for by the proposed Debt Securities and common stock is reasonably required for the purposes specified in the application.

5. The issue(s) of the proposed Debt Securities is not required to be by competitive bidding.

6. There is no known opposition to the application 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 issues 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 Sections 1904(b) and 1904.1 to enable Edison to proceed with its financings expeditiously.

O R D E R

1. Southern California Edison Company (Edison), on or after the effective date of this order and on or before June 30, 1983, may issue, sell, and deliver on a negotiated basis to Southern

California Edison Finance Company N.V., or another corporation (Finance) organized and existing under the laws of the Netherlands Antilles, one or more series of its First and Refunding Mortgage Bonds (Bonds), debentures, convertible debentures, promissory notes, other evidences of indebtedness, or any of them, in an aggregate principal amount outstanding at any one time up to \$200,000,000, with all issues and sales of Edison's Debt Securities being upon terms and conditions substantially consistent with those set forth, or contemplated, in the application.

2. Edison may guarantee unconditionally up to \$200,000,000 aggregate principal amount of bonds, debentures, convertible debentures, promissory notes, and/or other evidences of indebtedness, plus premium (if any), interest, and other charges on Finance's Debt, and/or may secure the payment of Finance's Debt obligations, and/or Edison's guarantee by an issuance of a series of Edison's Debt Securities and/or agreement(s) to issue a series of Edison's Debt Securities.

3. Edison's proposed issue, or issues, of its Debt Securities is exempted from the Commission's competitive bidding rule as set forth in D.38614 dated January 15, 1946 in Case 4761, as amended.

4. Edison may execute and deliver a supplemental indenture in connection with each series of Bonds issued under this order.

5. Edison may issue shares of its common stock in exchange for and upon retirement of Finance's Debt, as may be required from time to time for this purpose.

6. Promptly after Edison ascertains the number of its common shares that may be issued upon conversion of the proposed Debt Securities and ascertains the conversion price and ratio applicable to the conversion, it shall notify the Commission in writing.

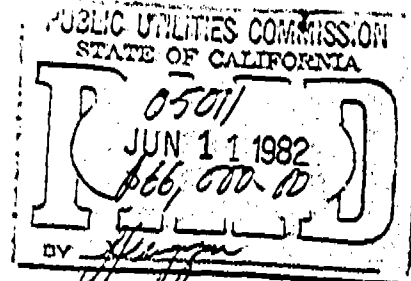
7. Within 30 days after the issuance and sale of the Debt Securities, Edison shall file with the Commission a report showing why the resulting interest rate and cost of money to the company were the most advantageous to the company and its ratepayers.

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

9. The authority granted by this order to issue Debt Securities and common stock will be effective when Edison pays \$66,000, the fee set by PU Code 1904(b) and 1904.1 after taking credit for the retirement of \$40,000,000 principal amount of First and Refunding Mortgage Bonds, Series I, due July 1, 1982 and \$40,000,000 principal amount of First and Refunding Mortgage Bonds, Series J, due September 1, 1982.

Dated JUN 2 1982, at San Francisco, California.

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



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

[Signature]
Joseph E. Bodovitz, Executive Director