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Decision No. 92376 NOV 4 1980

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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, promissory notes and/or other evidences of indebtedness in an aggregate principal amount outstanding at any one time not exceeding $100,000,000; to execute and deliver one or more supplemental indentures; to guarantee the obligations of another in respect of the issuance of securities; and for an exemption from the Competitive Bidding Rule.	Application No. 59939 (Filed September 16, 1980)

O P I N I O N

Southern California Edison Company (Edison) requests authority, pursuant to Section 816 through 818, 830 and 851 of the Public Utilities Code, (a) to issue, sell and deliver on a negotiated basis to a wholly-owned subsidiary, one or more series of its First and Refunding Mortgage Bonds (Bonds), debentures, promissory notes and/or other evidences of indebtedness in an aggregate principal amount outstanding at any one time not exceeding $100,000,000 (such Bonds, debentures, promissory notes and other evidences of indebtedness hereafter collectively referred to as Debt Securities); (b) to unconditionally guarantee the obligations of such wholly-owned subsidiary in respect of securities issued by such subsidiary; (c) to execute and deliver a supplemental indenture in connection with each such proposed series of Bonds; and (d) to have each proposed issue of Debt Securities exempted from the requirements of the Commission's competitive bidding rule. Notice of the filing of the application was published on the Commission's Daily Calendar of September 19, 1980. No protests have been received.

Edison is a California corporation primarily engaged 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 the Commission. For the twelve months ending June 30, 1980, the utility reported total operating revenues of $3,026,559,000 and net income of $349,973,000.

Edison requests authorization to issue, sell and deliver Debt Securities in connection with Eurobond offerings by a wholly-owned subsidiary, such Debt Securities to be issued at such times and upon such terms as determined by its Board of Directors at or immediately prior to their date of issue, in light of then existing market conditions.

The application indicates that Edison must establish a special financing structure for Eurobond offerings. The tax laws of the United States impose withholding tax requirements on interest paid by domestic corporations on loans made by certain foreign investors, but the United States has entered into various treaties with foreign countries which reduce or eliminate such withholding requirements. Because European investors are reluctant to make loans to, or purchase the debt securities of domestic corporations which are subject to withholding tax, various financing structures have evolved which enable domestic corporations to take advantage of the favorable tax treaties negotiated by the United States. Edison seeks Commission authorization to participate in such a financing structure.

As Edison presently contemplates the financing structure, Edison will organize a wholly-owned subsidiary, Southern California Edison Company, N.V. (Subsidiary), under the laws of the Netherlands Antilles, which has favorable tax treaties with the United States. The Subsidiary would issue and sell, through one or more offerings to foreign investors, promissory notes or other debt instruments (Eurobonds). Edison would then borrow from the Subsidiary the net proceeds of these offerings by issuing one or more series of Debt Securities to the Subsidiary. The overall net cost of such money to Edison will be substantially the same as the cost of such money to the Subsidiary after giving effect to the laws of the Netherlands Antilles and the United States.

Edison requests Commission authorization to issue Debt Securities in connection with one or more Eurobond offerings by the Subsidiary on or before March 31, 1981. The maturity date, interest rate and other terms and conditions of Eurobonds issued by the Subsidiary will be negotiated at the time of offering because Edison is informed that there is no competitive bidding market for Eurobonds. The terms and conditions of each series of Debt Securities issued to the Subsidiary by Edison will be determined by Edison and the Subsidiary on the basis of the terms and conditions of such Eurobonds.

Because of the volatility of the Eurobond 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 its contemplated issue of Eurobonds and Debt Securities. However, Edison states that the Eurobonds would be issued and sold only when such issuances were designed to result in an overall cost of money to Edison lower than issuances of comparable domestic bonds in the U.S. market. A summary of the typical characteristics of a Eurobond issue, provided by Edison as Exhibit B to the application, is attached as Appendix A.

Edison contemplates that the Eurobonds and Debt Securities will bear call provisions more favorable than those typically found in domestic bond issues. Call restrictions will be for a period shorter than five years, and the initial call price will command a premium over par of less than one full year's interest payments. The Subsidiary's Eurobonds will mature between 5 and 15 years from their date of issuance.

The financing structure which Edison contemplates may require that it guarantee the obligations of the Subsidiary evidenced by its Eurobonds. Therefore, Edison requests authorization to unconditionally guarantee the Subsidiary's payment of not exceeding $100,000,000 aggregate amount of principal, plus interest, premium, if any, and other charges on its Eurobonds. Such a guarantee is common in Eurobond offerings, and it would be in Edison's best interests to have the flexibility to effect Eurobond offerings in a form which is familiar to foreign investors. The obligations of the Subsidiary and/or Edison's guarantee may also be secured by an issuance of a series of Bonds and/or an agreement to issue a series of Bonds. 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 Eurobonds.

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 indentures amendatory and supplemental thereto, the forms of which heretofore have been filed with the Commission, and a supplemental indenture which would be executed and delivered with each series of Bonds. Each such 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 will authorize Edison to execute and deliver each such supplemental indenture in a form which Edison believes appropriate and which reflects the aggregate principal amount and interest rate and final maturity date of each series of Bonds.

Request for Exemption from the Competitive Bidding Rule

The nature, mechanics and timing of Eurobond offerings require an exemption for Edison's issuances of Debt Securities from the Commission's competitive bidding rule established by our Decision No. 38614, as amended by Decisions Nos. 49941 and 75556, in Case No. 4761.

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

In Decision No. 91984, dated July 2, 1980, for the San Diego Gas & Electric Company, Application No. 59633, the Commission stated that it will grant an exemption from the competitive bidding rule if a compelling showing is made that such an exemotion would be in the best interestsof the utility's ratepayers.

We are satisfied that Edison has made such a compelling showing. The Commission believes that granting an exemption from the competitive bidding rule will be in the best interests of Edison's ratepayers because Debt Securities issued in connection with Eurobond offerings will result in an overall cost of money to Edison lower than that obtainable from comparable competitively bid securities in the domestic market. Such 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.

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 closely scrutinized 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.

The application indicates that there are a number of reasons why Eurobond financing warrants an exemption from the competitive bidding rule. Edison is engaged in an extensive construction program and, as of June 30, 1980, Edison's uncapitalized construction expenditures amounted to approximately $747,474,000. Edison estimates that the gross expenditure required for its proposed construction program during the calendar years 1980 and 1981 will approximate $1,534,963,000. 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 ability to raise capital in the European market will give Edison additional flexibility and an availability of funds to meet its continuing need for additional capital. Interest rates and other terms and conditions available in the European market are, during certain periods, more favorable than those available in the domestic market. Such periods occur at uncertain intervals and may exist for only a few days or for several weeks. Exhibit D, attached to the application shows the number of such periods over the 40-month period ending April 1979. Edison contemplates causing a placement of Eurobonds during one of these periods. During these periods shown in Exhibit D, the cost of money to an AA-rated issuer, such as Edison, was lower in the Eurobond market than in the domestic bond market. Granting Edison an exemption from the competitive bidding rule now will give Edison the ability to quickly cause a placement of debt in the European market during a future period, which would allow Edison to lock in then-favorable interest rates.

Because of the unprecedented number of new debt offerings now being predicted for the domestic market (as much as $140 billion between August 1980 and the end of 1981), there could be an adverse effect on domestic interest rates and, impliedly, the availability of debt capital. The availability of the European capital market could help lessen the impact of this situation upon the company. Further, by having Edison's name exposed to international markets, Edison can be properly positioned to be asked to participate in innovative and economical forms of financing that may be made available in the future by European investors and financial institutions.

Favorable call provisions are typically available in issues of Debt Securities and Eurobonds. Such call provisions can provide Edison with the flexibility to refund such debt with lower cost offerings in future periods when interest rates are lower. By contrast, the typical call provisions required in domestic bond and debenture offerings impose relatively high penalties and burdensome restrictions on refunding, substantially limiting Edison's flexibility to refund such debt with lower cost money. The call provisions available in a Eurobond issue are typically not available in the domestic market, but if a bond issue with equivalent call provisions could be sold in the domestic market, purchasers of such a bond issue would demand a higher interest rate than a bond issue without such call provisions.

Debt Securities (other than Bonds) issued in connection with Eurobonds do not contain restrictive financial requirements such as those contained in Edison's Trust Indenture, which includes requirements for meeting certain ratios of bond interest charges to earnings and bondable property to outstanding bonds before additional bonds may be issued. By not having such limitations placed upon it, Edison can take advantage of financing methods and opportunities from which it might otherwise be precluded because of such restrictions.

Finally, approximately $14.1 billion equivalent of new, internationally syndicated Eurobond issues were completed in 1979 alone, representing an increase of more than 18% over the volume of $11.9 billion equivalent in 1978. In the first half of 1980, the equivalent of more than $8 billion of new issues were completed. This volume indicates that Eurobond financing is a proven and quickly growing method of raising capital economically for American corporations.

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

Edison's capital ratios as of June 30, 1980, and as adjusted to give effect to (a) the proposed issuance of $100,000,000 aggregate principal amount of Debt Securities; (b) the proposed issuance of $200,000,000 aggregate principal amount of First and Refunding Mortgage Bonds;1/ (c) the proposed issuance of 1,250,000 shares of $100 Cumulative Preferred/Preference Stock, $100 par value, or 5,000,000 shares of Cumulative Preferred/Preference Stock, $25 par value;2/ (d) the sale of 222,513 shares of common stock issued on July 1, 1980 under Edison's Employee Stock Purchase Plan;3/ (e) the sale of 408,897 shares of common stock issued on August 1, 1980 under Edison's Dividend Reinvestment and Stock Purchase Plan;4/ (f) the sale of 61,638 shares of common stock issued on July 1, 1980 and August 1, 1980 under Edison's Employee Stock Ownership Plan;5/ and the retirement of $75,000,000 principal amount of Convertible Debentures, Due 1980, which matured on August 15, 1980,6/ are as follows:

	June 30, 1980	Pro Forma
Long-Term Debt	48.0%	48.8
Preferred and Preference Stock	12.9	14.0
Common Stock Equity	39.1	37.2
Total	100.0%	100.0%

1/ Authorized by Decision No. 92189, dated September 3, 1980 in Application No. 59836, filed July 28, 1980.

2/ Authorized by Decision No. 92026, dated July 15, 1980, in Application No. 59712, filed June 9, 1980.

3/ Decision No. 90059, dated March 13, 1979, in Application No. 58606.

4/ Decision No. 91434, dated March 18, 1980, in Application No. 59441.

5/ Decisions Nos. 87785 and 91198, dated August 30, 1977 and January 8, 1980, in Applications Nos. 57478 and 59295, respectively.

6/ Decision No. 69483, dated August 3, 1965, in Application No. 47739.

The staff of the Commission's Revenue Requirements Division has reviewed Edison's 1980 and 1981 construction program estimated as √ of July 17, 1980, which is set forth in Exhibit G to the application. Following is a summary of that exhibit:

	1980	1981	Total
	(Thousands of Dollars)		
Electric Generating Plant	$611,336	$ 735,143	$1,346,479
Electric Transmission Lines and Substations	78,432	98,165	176,597
Electric Distribution Lines and Substations	182,981	173,943	356,924
Other Expenditures	34,703	25,260	59,963
Total	$907,452	$1,032,511	$1,939,963
Less: Allowance for Funds Used During Construction	169,000	236,000	405,000
Funds Used/Required for Construction Expenditures	$738,452	$ 796,511	$1,534,963

The staff concludes that the estimated construction expenditures are reasonable and has no objection to the proposed security issue specified in the application. The Division reserves the right, however, to reconsider the reasonableness of any construction expenditures in future rate proceedings.

After payment and discharge of obligations incurred for expenses incidental to the issuance and sale of the Eurobonds and Debt Securities, Edison proposes to use the proceeds to reimburse Edison for monies it has actually expended from income or other monies in its treasury, not secured by or obtained from the issue of stocks or stock certificates or other evidences of interest or ownership, or bonds, notes or other evidences of indebtedness, for the acquisition of property, or for the construction, completion, extension or improvement of Edison facilities exclusive of maintenance of service and replacement. The amounts so reimbursed will become a part of Edison's 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 said proceeds. Edison's outstanding short-term borrowings and commercial paper aggregated approximately $465,000,000 on September 11, 1980.

Edison's cash requirements for 1980 and 1981, estimated as of July 31, 1980, and attached to the application as Exhibit H, are shown as follows:

	1980	1981	Total
	(Thousands of Dollars)		
Funds Used/Required for Construction Expenditures	$ 738,452	$796,511	$1,534,963
Maturities of Long-Term Debt: First and Refunding Mortgage Bonds:			
Series C, Due 4/15/81	-	40,000	40,000
Series EE, Due 11/1/81	-	100,000	100,000
First Mortgage Bonds (CEP): Series of 2-7/8, Due 6/1/80	6,000	-	6,000
Convertible Debentures, Due 8/15/80	74,902	-	74,902
5-1/2% Promissory Notes	3,642	3,548	7,190
Short-Term Debt Outstanding as of Beginning-of-Year	204,180	-	204,180
	$1,027,176	$940,059	$1,967,235
Less: Estimated Cash Available from Internal Sources	219,000	(2,000)	217,000
Additional New Funds Required from Outside Sources	$ 808,176	942,059	$1,750,235
To Be Provided As Follows:			
(1) Estimated Proceeds from Sale of Common Stock:			
Dividend Reinvestment and Stock Purchase Plan 1/	40,000	40,000	80,000
Employee Stock Purchase Plan 2/	23,000	23,000	46,000
(2) Proceeds from Sale of First and Refunding Mortgage Bonds, Series LL 3/	50,000	-	50,000
(3) Proceeds from Sale of 7,000,000 Shares of Common Stock 4/	156,975	-	156,975
(4) Proceeds from Sale of First and Refunding Mortgage Bonds, Series NN 5/	197,022	-	197,022
(5) Estimated Proceeds from Sale of First and Refunding Mortgage Bonds 6/	200,000	-	200,000
(6) Estimated Proceeds from Sale of Preferred/Preference Stock 7/	125,000	-	125,000
(7) Estimated Proceeds from Sale of Eurobonds	100,000	-	100,000
(8) Additional Cash Requirements	(83,821)	879,059	795,238
	$808,176	942,059	$1,750,235

1/ Decision No. 91434, dated March 18, 1980, in Application No. 59441.
2/ Decision No. 90059, dated March 13, 1979, in Application No. 58606.
3/ Decision No. 90791, dated September 12, 1979, in Application No. 59009.
4/ Decision No. 91199, dated January 8, 1980, in Application No. 59297.
5/ Decision No. 91383, dated March 4, 1980, in Application No. 59386.
6/ Decision No. 92189, dated September 3, 1980, Application No. 59836.
7/ Decision No. 92026, dated July 15, 1980, in Application No. 59712.

The Revenue Requirements Division of the Commission's staff has analyzed the above cash requirement forecast, attached to the application as Exhibit H, and concludes that internally generated funds will provide only 21% of capital expenditures estimated for 1980 and none of those estimated for 1981. The Revenue Requirements Division has concluded that the proposed bond issue will, therefore, be necessary to help meet forecasted cash requirements.

Findings of Fact

1. Edison is a California corporation operating under the 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. The money, property, or labor to be procured or paid for by the proposed Debt Securities herein authorized is reasonably required for the purposes specified in the application, which purposes, except as otherwise authorized for accrued interest, are not in whole or in part reasonably chargeable to operating expenses or to income.

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

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 action taken herein is for the purposes of this proceeding only and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company, on or after the effective date hereof and on or before March 31, 1981, may issue, sell and deliver, on a negotiated basis to Southern California Edison Company, N.V., a wholly-owned subsidiary of Edison, one or more series of its First and Refunding Mortgage Bonds, debentures, promissory notes, other evidences of indebtedness, or any of them, in an aggregate principal amount outstanding at any one time not exceeding $100,000,000, with all such issues and sales of such Debt Securities being upon terms and conditions substantially consistent with those set forth in or contemplated herein and in the application.

2. Southern California Edison Company may unconditionally guarantee not exceeding $100,000,000 of principal, plus interest, premium, if any, and other charges on Eurobonds issued by Southern California Edison Company, N.V. and/or may secure the payment of such subsidiary's obligations or Edison's guarantee by an issuance of a series of Bonds and/or agreement(s) to issue a series of Bonds.

3. Southern California Edison Company's proposed issue or issues of its Debt Securities authorized hereunder is hereby exempted from the Commission's competitive bidding rule as set forth in Decision No. 38614, dated January 15, 1946, as amended.

4. Southern California Edison Company may execute and deliver a supplemental indenture in connection with each series of First and Refunding Mortgage Bonds issued pursuant hereto.

5. Southern California Edison Company shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

6. Within thirty days after the issuance and sale of the Debt Securities herein authorized, Southern California Edison Company shall file with the Commission a report showing that the resulting interest rate and cost of money to the company were the most advantageous to the company and its ratepayers.

7. This order shall become effective when Southern California Edison Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is $56,000.

Dated NOV 4 1980, at San Francisco, California.

President

Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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By

SUMMARY OF TYPICAL CHARACTERISTICS OF EUROBOND ISSUES

Syndication:	Managed, underwritten and sold through an international syndicate of banks.
Principal Amount:	Amounts generally range from $25 million to $100 million, although issues as large as $500 million have been completed for a few borrowers.
Form and Denomination of Eurobonds:	Negotiable, bearer instruments generally in denominations of $1,000 each.
Maturities:	Maturities of Eurobonds typically range from 5 to 15 years, with maturities of over 10 years possible only under favorable market conditions for prime borrowers. Because of tax and other considerations, maturities of Debt Securities issued by Edison would be typically longer than corresponding Eurobonds, with maturities ranging up to 20 years.
Amortization:	In medium- and long-term fixed rate issues, amortization through a sinking fund or purchase fund is common.
Optional Redemption:	Most issues provide for early redemption after several years at the option of the issuer. At the end of the non-call period, the issue becomes callable, generally at premiums declining to par over the call period. Optional redemption privileges vary with market conditions and quality of issuer.
Taxation:	Interest is customarily paid free of withholding taxes imposed by the issuer's country of origin. In the event that payments become liable to withholding tax, the issuer of Eurobonds normally has the option either to pay additional amounts so that the net sum received by the Eurobondholders equals the amount receivable under the terms of the bonds or to redeem the bonds, usually at par.
Listing:	Usually London or Luxembourg.
Secondary Market:	Secondary market for Eurobonds consists primarily of European banks acting as dealers in buying and selling Eurobonds and acting as principals in making two-way trades based on quoted prices plus accrued interest. The spread between bid and asked prices is generally 1/2% of principal, but can vary with market conditions.

(Continued)

Governing Law: U.K. or U.S. Law.

Costs and Commissions: Total commissions ("gross spread") are usually:

2% for five-year maturity
2-1/4% for seven-year maturity
2-1/2% for longer maturities

The gross spread is sometimes reduced for especially large issues.

The total commissions are divided into:

(i) a management fee for the managers' services in structuring and leading the issue.

(ii) an underwriting commission for the underwriters' market risk.

(iii) a selling concession for the institutions actually making sales. A reallowance may be given to other dealers, payable out of the selling concession.

Typical initial expenses to be borne by a first-time U.S. issuer would range roughly from $175,000 to $225,000. This amount would include reimbursement of the managers' expenses; printing, delivery and checking costs of bonds; printing and delivery costs of documents; and initial listing fees. In addition, the issuer would be responsible for the fees of its own counsel and accountants, paying agency fees, annual listing and trustee fees and its own out-of-pocket expenses. The expenses incurred for a first issue would be higher than those for subsequent issues.

U. S. Corporation's Credit Rating: Historically, the Eurobond market has neither required nor expected ratings on debt issues. Investor perference has been for issuers with well-known and respected names. In the case of a borrower not well known to investors, a credit rating by one of the two major rating agencies may be of some value in introducing the issuer's credit. The decision to seek a rating is essentially viewed as a marketing decision and a rating is the exception rather than the rule.