RR/KLH/WPS/WPSC

Decision 93319 JUL 22 1981

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 Not to Exceed $200,000,000 Aggregate Principal Amount of its First and Refunding Mortgage Bonds, Debentures, Notes and/or other Evidences of Indebtedness or, in the alternative, Guarantee Obligations of Another in respect of the Issuance of Securities Pursuant to an Installment Sale Agreement to be Executed and Delivered in connection therewith; Execute and Deliver one or more Supplemental Indentures; Sell Utility Plant; and for an Exemption from the Competitive Bidding Requirements of the California Public Utilities Commission.	Application 60652 (Filed June 15, 1981)

OPINION

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

1. To issue, sell, and deliver to the City of Farmington (City), New Mexico, one or more series of its First and Refunding Mortgage Bonds (Bonds), debentures, notes, and/or other evidences of indebtedness (referred to collectively as New Mexico Indebtedness) in an aggregate principal amount of up to $200,000,000 or, in the alternative, to guarantee unconditionally the City's obligations in respect of its debt under the term of an installment sale agreement to be executed by Edison and the City;

2. To sell to the City its share of certain acquired or constructed facilities located at the Four Corners Generating Station in New Mexico;

3. To execute and deliver one or more supplemental indentures; and

4. To exempt the issue and sale of the New Mexico Indebtedness from the competitive bidding requirements of the Commission.

Notice of the filing of the application appeared on the Commission's Daily Calendar of June 18, 1981. No protests have been received.

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

For the 12 months ended March 31, 1981, Edison reported it generated total operating revenues of $3,764,685,000 and net income of $336,018,000.

Edison proposes to engage in New Mexico pollution control financing by executing with the City an installment sale agreement under which the City would sell up to $200,000,000 aggregate principal amount of its Pollution Control Revenue Bonds or Anticipation Notes (such notes to be combined with subsequent bond issues) (City Debt) either to a group of underwriters who would ultimately market the

Bonds to the general public or by private placement with commercial banks. Concurrently with the sale and delivery of the City Debt, Edison will sell to the City pollution control facilities previously acquired or constructed by Edison. The City shall purchase them free and clear of all liens, charges, and encumbrances, except the lien of Edison's Trust Indenture, at a price equal to the utility's cost of acquisition or construction for the facilities. In addition, the City would cause certain pollution control facilities to be acquired, constructed, and installed according to plans and specifications provided by Edison. Upon completion of construction of the pollution control facility, the City would convey title of the facility to Edison.

The pollution control project consists of air pollution control facilities to be acquired and constructed at the Four Corners Generating Station in New Mexico in which Edison is a 48% participant. A description of the facilities to be acquired and constructed by Edison is attached to the application as Exhibit E.

In consideration of conveyance of title to the constructed facilities back to Edison, Edison and the City have entered into an Installment Sale Agreement, attached to the application as Exhibit F, for the City to construct additional facilities. Edison would issue, sell, and deliver to the City up to $200,000,000 aggregate principal amount of its New Mexico Indebtedness or, in the alternative, would guarantee the City's obligations in respect of the City Debt. The terms and conditions of this indebtedness, including aggregate principal amount, interest rate, sinking fund provisions, maturity date, redemption provision (if any), and prepayment provisions would be consistent with the terms and conditions of the City Debt. Edison's Bonds would be issued in conformity with the provisions of, and secured by, Edison's existing Trust Indenture, as amended and supplemented by supplemental indentures.

Edison is informed, believes, and alleges that substantially all of the proceeds from the issuance of the City Bonds will be used to acquire or construct pollution control facilities for Edison, and it is expected that the interest payable on the City Bonds will be exempt from all present federal income taxes and state taxes under existing statutes, regulations, court decisions, and rulings.

Since the interest payable on the City Bonds is anticipated to be exempt from present federal income taxes, the Bonds will be sold at an annual interest rate substantially less than would be realized if Edison were to issue and sell taxable debt obligations. In order for Edison to take advantage of the favorable interest rates applicable to the City Bonds, Edison must issue its New Mexico Indebtedness to the City. The interest rates payable by Edison will be the same as that required by the City's tax exempt Bonds. The full amount of the interest rate savings will be passed on to Edison and its ratepayers.

Edison seeks an order of this Commission granting an exemption of the proposed issue and sale of the New Mexico Indebtedness from the Commission's competitive bidding rule established by its Decision (D.) 38614, as amended by D.49941 and D.75556. Such 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 such exemption.

Because of the statutory structure of pollution control financing mechanisms of the City, competitive bidding for Edison's New Mexico Indebtedness is not possible. The Commission has previously recognized this unique method of financing by issuing decisions exempting pollution-control-related debt issues from the competitive bidding requirements of the Commission, including Edison's D.83022, dated June 25, 1974 in Application (A.)54888 and D.92412, dated November 18, 1980 in A.59966 and Pacific Gas and Electric Company's (PGandE's) D.92118, dated August 19, 1980 in A.59803. Edison believes that the application of the Commission's competitive bidding requirement would preclude it from taking advantage of the benefits provided by this type of financing and would not be in the best interests of Edison or its ratepayers. Edison anticipates that the New Mexico Indebtedness could be sold at least 200 basis points below that of the normal market.

In D.91984, dated July 2, 1980 in A.59633 (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. We served notice that assertions regarding the volatility of the market, the flexibility provided by a negotiated sale, and the importance of maximizing the effectiveness of the underwriting group will not serve as compelling reasons, individually or collectively, for granting an exemption from the competitive bidding rule.

Given the nature and structure of the New Mexico statutory pollution control financing mechanism and the benefits to be gained from participating in such financing activity, the Commission's Revenue Requirements Division is of the opinion that Edison must issue and sell the indebtedness to the City. Therefore, the application of the Commission's competitive bidding requirements and conditions promulgated by D.91984, would not, in this proceeding, be in the best interest of Edison or its ratepayers as it would not operate in a manner to allow Edison's sale of the indebtedness at the most favorable available cost of money. Our position is consistent with D.92118, dated August 19, 1980 in A.59803 (PGandE), relating to pollution control financing by California utilities.

Edison's capital ratios as of March 31, 1981 and adjusted to give effect to:

1. The proposed issuance of up to $200,000,000 aggregate principal amount of First and Refunding Mortgage Bonds to be issued in regard to its subsidiary's New Mexico Indebtedness covering the construction of pollution control facilities;

2. The sale of 285,145 shares of Common Stock, $8-1/3 par value, under Edison's Employee Stock Purchase Plan, on April 1, 1981 (D.90059, dated March 13, 1979 in A.58606);

3. The sale of 515,672 shares of Common Stock, $8-1/3 par value, under Edison's Dividend Reinvestment and Stock Purchase Plan on May 1, 1981 (D.91434, dated March 18, 1980 in A.59441);

4. The sale of 89,276 shares of Common Stock, $8-1/3 par value, under Edison's Employee Stock Ownership Plan, on April 1 and May 1, 1981 (D.87785 and D.91198, dated August 30, 1977 and January 8, 1980 in A.57478 and A.59295, respectively);

5. The issuance of 9,378 shares of Common Stock, $8-1/3 par value, due to conversion of 12,015 shares of Preference Stock, 5.20% Convertible Series, between March 31, 1981 and April 30, 1981;

6. The sale of $200,000,000 principal amount of First and Refunding Mortgage Bonds, Series PP, due 1991 on May 27, 1981 (D.92875, dated April 7, 1981 in A.60300);

7. The authorized issuance of up to $150,000,000 Preference and/or Preferred Stock (D.92933, dated April 21, 1981 in A.60331);

8. The proposed issuance of up to $200,000,000 principal amount of First and Refunding Mortgage Bonds (of the $400,000,000 authorized in D.92875, dated April 7, 1981 in A.60300);

9. The issuance in April, 1981 of $50,000,000 of a 14% Promissory Note (of the $100,000,000 authority granted by D.92376 and D.92755 dated November 4, 1980 and March 3, 1981, respectively, in A.59939);

10. The retirement of $40,000,000 principal amount of First and Refunding Mortgage Bonds, Series G, which matured on April 15, 1981 (D.52836, April 3, 1956 in A.37846);

11. The retirement of $100,000,000 principal amount of First and Refunding Mortgage Bonds, Series EE, due November 1, 1981 (D.83680, dated October 16, 1974 in A.55175); and

12. The retirement of 5-1/2% Promissory Notes in the principal amount of $1,762,000, due in August, 1981

are as follows:

	March 31, 1981	Pro Forma
Long-Term Debt	46.1%	48.7%
Preferred/Preference Stock	13.1	13.9
Common Stock Equity	40.8	37.4
Total	100.0%	100.0%

The Commission's Revenue Requirements Division has reviewed Edison's application and has concluded that the proposed pollution control financing is reasonable; however, the Division reserves the right to reconsider the reasonableness of any construction expenditures in future rate proceedings.

Findings of Fact

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

2. The proposed Installment Sale Agreement, requiring Edison to provide security for the purchasers of the City Debt, would not be adverse to the public interest.

3. The proposed indebtedness would be for a proper purpose.

4. The proposed sale and delivery of the acquired or constructed facilities 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 sale of the proposed indebtedness should not be required to be through competitive bidding.

7. There is no known opposition 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.

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

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company may issue, sell, and deliver up to $200,000,000 aggregate principal amount of one or more series of its First and Refunding Mortgage Bonds, debentures, notes and/or other evidences of indebtedness, at the price and upon the terms and conditions as set forth in, or contemplated by, the application or, in the alternative, guarantee unconditionally obligations of the City of Farmington, New Mexico (City) in respect of the issuance of its Debt under the provisions of an installment sale agreement to be executed by Edison and the City in that connection. dl

2. Southern California Edison Company may sell and deliver to the City the acquired or constructed facilities under the terms and conditions set forth in, or contemplated by, the application.

SS

3. Southern California Edison Company shall issue the indebtedness authorized for the purpose of acquiring property and for the purpose of construction, completion, extension, or improvement of its facilities.

4. Southern California Edison Company shall file the reports required by General Order Series 24.

5. This order shall be effective upon payment of the $106,000 fee prescribed by Section 1904(b) of the Public Utilities Code.

Dated JUL 22 1981, at San Francisco, California.

President

Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
00461
JUL 30 1981
$106,000.00
By