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Decision 93486 SEP 1 1981

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 of 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; 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 60773 (Filed July 18, 1981; amended July 31, 1981)

OPINION

Southern California Edison Company (Edison), by amendment, 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, as amended July 31, 1981 (Bonds, debentures, convertible debentures, promissory notes, and other evidences of indebtedness hereafter referred to collectively as Edison 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 such conversions; and

5. To have each proposed issue of Edison's Debt Securities exempted from the requirements of the Commission's competitive bidding rule.

Notice of the filing of the application and the amendment appeared on the Commission's Daily Calendar of July 31 and August 4, 1981, respectively. No protests have been received.

Edison, a California corporation, engages 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 reports in its Statement of Income attached to the application as part of Exhibit A that it generated $3,764,685,000 and net income of $336,018,000.

Also shown as part of Exhibit A is Edison's Balance Sheet as of March 31, 1981 summarized as follows:

Assets	Amount
Net Utility Plant	$6,772,852,000
Other Property and Investment	110,700,000
Current Assets	1,045,606,000
Deferred Debts	44,149,000
Total	$7,973,307,000

Liabilities and Equity	
Common Equity	$3,632,725,000
Long-Term Debt	2,923,259,000
Current Liabilities	1,110,140,000
Reserves and Deferred Credits	307,183,000
Total	$7,973,307,000

Edison requests authorization to issue, sell, and deliver Edison's Debt Securities, in connection with Eurodollar offerings, to be issued at such times and upon such 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 evidences of promissory notes, and/or other 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 requests Commission authorization to issue Edison's Debt Securities in connection with one or more Eurodollar offerings by Finance on or before September 30, 1982. 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 the 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 the 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 the 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 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 its 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 its Debt Securities and/or an agreement to issue a series of its 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 indentures amendatory and supplemental thereto, the forms of which have been filed with the Commission, and a supplemental indenture which 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 such 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. The 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 our Decision (D.) 38614, as amended by D.49941 and D.75556.

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, the Commission stated that it will grant an exemption from the Commission's competitive bidding rule if a compelling showing is made that such an exemption would be in the best interest of Edison's ratepayers. We are satisfied that Edison has made such a compelling showing. The Commission believes that granting an exemption from the Commission's competitive bidding rule 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.

There are a number of reasons why this type of financing warrants an exemption from the Commission's competitive bidding rule. Edison is engaged in an extensive construction program and, as of March 31, 1981, Edison's uncapitalized construction expenditures amounted to about $1,705,216,000. Edison estimates that the gross expenditure required for its proposed construction program during the calendar years 1981 and 1982 will be about $1,802,000,000 as summarized below:

		(000 omitted)	
Purpose	1981	1982	Total
Electric Generating Plant	$ 864,000	697,000	$1,561,000
Electric Transmission Lines and Substations	110,000	63,000	173,000
Electric Distribution Lines and Substations	218,000	239,000	457,000
Other Expenditures	40,000	21,000	61,000
Total	$1,232,000	$1,020,000	$2,252,000
Less: Allowance for Funds used During Construction	230,000	220,000	450,000
Funds used or Required for Construction Expenditures	$1,002,000	$ 800,000	$1,802,000

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 1981 and 1982 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 construction expenditure in future rate proceedings.

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. These periods occur at uncertain intervals and may exist for only a few days or for several weeks. Edison contemplates causing a placement of Eurodollars during one of these periods. During these periods, cost of money to an AA-rated issuer, such as Edison, is lower in the Eurodollar market than in the domestic debt market. Granting Edison an exemption from the Commission's competitive bidding rule will give Edison the ability to place debt quickly in the European market during a future window period, which would allow Edison to lock in the favorable interest rates. Edison has participated in Eurodollar issues during two such window periods in 1981.

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 Edison's Debt Securities and Finance's Debt. Such call provisions can provide Edison with the flexibility to refund the debt with lower cost offerings in future periods when interest rates are lower. By contrast, the typical call provisions required in domestic debt 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 Eurodollar 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 the call provisions.

Edison's Debt Securities (other than Bonds) issued in connection with Eurodollars 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 these limitations placed upon it, Edison can take avantage of financing methods and opportunities from which it might otherwise be precluded because of the restrictions.

Finally, about $20 billion equivalent of new, internationally syndicated Eurodollar issues were completed in 1980, representing an increase of more than 42% over the volume of $14.1 billion equivalent in 1979. This volume indicates that Eurodollar 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 its competitive bidding rule to preclude proven methods of innovative 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 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.

Edison's capital ratios as of June 30, 1981 and adjusted to give effect to:

1. The proposed issuance of up to $200,000,000 aggregate principal amount (as amended) of Edison's Bonds through Eurobond financing;

2. The sale of 258,835 shares of Common Stock, $8-1/3 par value, producing net revenue of $6,608,868 under Edison's Employee Stock Purchase Plan on July 1, 1981 (D.90059, dated March 13, 1979 in Application (A.)58606);

3. The sale of 39,185 shares of Common Stock,$8-1/3 par value, producing net revenue of $1,035,464 under Edison's Employee Stock Ownership Plan on July 1, 1981 (D.87785, dated August 30, 1977 in A.57478 and D.91198, dated January 8, 1980 in A.59295);

4. The proposed issuance of up to $200,000,000 of New Mexico pollution control evidences of indebtedness (D.93319, dated July 22, 1981 in A.60652);

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

6. The proposed additional issuance of up to $100,000,000 of Edison's Bonds (D.92875, dated April 7, 1981 in A.60300);

7. The issuance in July of $50,000,000 of 14-3/4% Promissory Notes (D.92376 and D.92755, dated November 4, 1980 and March 3, 1981 in A.59939);

8. The proposed issuance of $14,625,000 of California Pollution Control Bonds (D.92412, dated November 18, 1980 in A.59966);

9. The retirement of $40,000,000 principal amount of Bonds, Series G, due 1981, which matured on April 15, 1981 (D.52836, dated April 3, 1956 in A.37846);

10. The retirement of $100,000,000 principal amount of Bonds, Series EE, due November 1, 1981 (D.83680, dated October 16, 1976 in A.55175); and

11. The retirement of 5-1/2% Promissory Notes, due August 31, 1981 in the amount of $1,762,000

are as follows:

	June 30, 1981	Pro Forma
Long-Term Debt	44.5%	47.0%
Short-Term Debt	3.9	2.8
Total Debt	48.4	49.8
Preferred/Preference Stock	12.3	13.4
Common Equity	39.3	36.8
Total	100.0%	100.0%

After payment and discharge of obligations incurred for expenses incidental to the issuance and sale of the Finance's Debt and Edison's 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 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 about $280,000,000 on July 20, 1981.

The Commission's Revenue Requirements Division has analyzed Edison's cash requirement forecast, attached to the application as Exhibit D, and concludes that internally generated funds will provide only 1% of capital expenditures for 1981 and only 12% for 1982. The Division has concluded that the proposed debt issue will be necessary to help meet forecasted cash requirements.

<u>Findings of Fact</u>

1. Edison, a California corporation,operates as a public utility 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 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 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 to enable Edison to issue its Debt Securities expeditiously.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company, on or after the effective date of this order and on or before September 30, 1982, 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, as amended, with all issues and sales of Edison's Debt Securities being upon terms and conditions substantially consistent with those set forth in or contemplated in the application.

2. Southern California Edison Company may guarantee unconditionally up to $200,000,000, as amended, of 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. Southern California Edison Company'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, as amended.

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

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

6. Within 30-days after the issuance and sale of the Debt Securities, Southern California Edison Company 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.

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

8. This order shall become effective upon payment of the $106,000 fee set by PU Code Section 1904(b).

Dated SEP 1 1981, at San Francisco, California.

President

Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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By